

## TC DOCUMENT

### I. Basic Information

▪ Country / Region:	Brazil / Southern Cone
▪ TC name:	Strengthening Funding for Mitigation in Brazil based on Results-oriented Management
▪ TC number:	BR-T1310
▪ Team leader/members:	Thiago Mendes (CCS/CBR, team leader), Hilen Meirovich (INE/CCS, alternate team leader), Anne Gander (CCS/CBR), Juan Gomez (INE/CCS), Karina Diaz (FMP)
▪ Taxonomy	Client Support
▪ Reference to request: (idbdocs #)	38963066
▪ Date of Abstract authorization:	September, 2014
▪ Beneficiary:	Republic of Brazil, through the Ministry of Environment (MMA)
▪ Executing agency and contact name:	IDB. (CCS/CBR; Thiago Mendes)
▪ Donors providing funding	Fund for the Sustainable Energy and Climate Change IDB Special Program (SCI)
▪ IDB funding requested:	US\$600,000
▪ Local counterpart funding:	US\$150,000 (in kind)
▪ Disbursement period:	27 months (24 months of execution)
▪ Required start date:	December, 2014
▪ Types of consultants:	Individuals
▪ Prepared by Unit:	CCS/CBR
▪ UDR:	CBR
▪ Included in Country Strategy:	Yes
▪ TC included in CPD:	No
▪ GCI-9 Sector Priority:	Protect the environment, respond to climate change, and promote renewable energy and food security

### II. OBJECTIVE AND JUSTIFICATION

- 2.1 The objective of this technical cooperation (TC) is to support the Brazilian Government, through the Ministry of Environment (MMA), to strengthen the efficiency and effectiveness of mitigation actions funding in Brazil.
- 2.2 This objective is expected to be achieved through the following activities: (i) assessing the current financial arrangements and measurement, reporting and verification (MRV) systems used by Brazil and *Fundo Clima* in comparison with international best practices and the United Nations Framework Convention on Climate Change (UNFCCC) MRV requirements; (ii) assessing needs and gaps from financial commitments, domestic mitigation actions and contributions managed by Brazil and by other relevant countries (pre- and post-2020); and (iii) preparing a full proposal to raise funds to carry out complementary actions to this technical cooperation (TC).
- 2.3 The rationale behind the project is to promote greenhouse gas (GHG) emissions reductions in Brazil by increasing the efficiency and effectiveness of the funding for mitigation actions in the country. The project will also support Brazil's climate finance

policy by integrating a performance-based results approach and other incentive mechanisms.

- 2.4 Efforts by the international community to address climate change have been insufficient to reverse or even stabilize GHG emissions in a timely manner. Given the magnitude and urgency of climate change challenges, mitigation efforts need to be scaled-up in every country. Support to developing countries to define and implement their contributions to global mitigation efforts is of particular relevance to enable its scale-up. In this context the availability of sustainable financing becomes an immediate need and a significant challenge.
- 2.5 Due to the global financial and economic crisis, access to capital became more difficult, discouraging investments in general, including investments in low-GHG emissions initiatives. In spite of that, and to prevent dangerous anthropogenic interference with the climate system, the UNFCCC agrees that actions should aim at keeping the global temperature rise below 2 degrees Celsius (2°C) above preindustrial levels. Meeting the 2°C target requires significant global efforts to reduce the GHG emissions that create the imperative need to implement appropriate mitigation policies in a constant and consistent manner<sup>1</sup>.
- 2.6 To contribute with the global efforts, Brazil has approved the Law 12.187/2009 that adopts a national voluntary commitment with a view to reduce by 36.1% and 38.9% its projected emissions by 2020. To achieve this, Brazil defined a series of actions and sectoral plans –such as the NAMAS<sup>2</sup> file, which have been submitted to the UNFCCC. In the context of the UNFCCC international negotiations it is expected that a new agreement will be reached in Paris (2015). In that regard, Brazil is preparing an Intended Nationally Determined Contribution (iNDC) to be submitted at such event. The iNDCs will be the new commitments presented by the parties under the new agreement. They will describe new mitigation, means of implementation and other details negotiated in Lima (2014). Execution of actions announced by the Brazilian government within the international scenario of climate change will demand a substantial amount of funding. In Brazil, the main fund to support mitigation actions is the National Fund on Climate Change (*Fundo Clima*).
- 2.7 The National Policy on Climate Change presented *Fundo Clima* as one of its instruments (art. 6). The fund acts as a tool not only to promote studies and projects focused on climate change, but to support the formulation of Climate Policy, its instruments and guidelines. Therefore, *Fundo Clima* offers financial support to create and enhance the guidelines and objectives of the National Policy on Climate Change. Although the challenge of creating public policies to address issues related to climate change is massive, and involves many public and private stakeholders, the contribution of *Fundo Clima* to enable innovative measures and actions can be significant.
- 2.8 When the fund was established (2009), its main source of funds was the financial compensation revenues from oil industry which legally-bounded a percentage to be transferred to the MMA, making *Fundo Clima* a pioneer case. However, after a long public debate, the rules about the transfers of oil industry revenues were changed and

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<sup>1</sup> <http://unfccc.int>

<sup>2</sup> <https://unfccc.int/files>

*Fundo Clima* will compete for resources of the new Oil Social Fund, and will have to seek for additional sources to fulfill its increasing demands for mitigation funding.

- 2.9 The Social Fund was created by the Brazilian Federal Law No. 12.351, dated of December 22nd 2010<sup>3</sup>, in order to provide resources for social and regional development, in the form of programs and projects focused on poverty alleviation and development, including mitigation and adaptation to climate change. The law provides a description of its structure and funding sources. However it does not stipulate how the funds will be distributed, and a decree from the Brazilian Government is still awaited with such a definition. Both the structure and the quality of the investments of *Fundo Clima* can be improved to position it better in terms of competing for resources of the Social Fund and other national and international sources.
- 2.10 Regarding grants, *Fundo Clima* has achieved high levels of disbursement and financial performance, but has a very precarious MRV system to monitor the mitigation results of its projects. In regards to loans, the MRV system issues persist and, additionally, the fund has a very poor record of levels of disbursement and financial performance. These institutional barriers must be overcome<sup>4</sup>.
- 2.11 In parallel, under UNFCCC (2012 and 2013) Brazil had agreed with international MRV frameworks to increase transparency on the implementation of its voluntary actions. During the last five years *Fundo Clima* was able to disburse over BRL\$600 million. However, it did so using a modest MRV system to monitor the mitigation results of the supported projects<sup>5</sup>.
- 2.12 The context considered above indicates an increasing need to integrate climate finance and mitigation performance-based results in Brazil to make low-emission investment decisions in a sustainable way.
- 2.13 Given that this TC is directly linked to climate change mitigation and adaptation, it is aligned with the objectives of the Report on the Ninth General Increase in the Resources of the IDB (GCI-9) (AB-2764), as one of the sector priorities is to “*protect the environment, respond to climate change, promote renewable energy, and ensure food security*”. This project is also aligned to the Bank’s Country Strategy with Brazil 2012-2014 (GN-2662-1).

### III. DESCRIPTION OF ACTIVITIES AND BUDGET

- 3.1 The execution of this TC will be divided into three components designed to lead to the development of a full proposal whose objective is to attract other potential sources of funds to ensure the implementation of actions that complement this TC. The proposal will be based on assessments and workshops carried out by individual consultants and through non-consulting services.
- 3.2 **Component 1. Assessment of current financial arrangements and MRV systems (US\$325,000).** This component will finance consultants that will assess existent

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<sup>3</sup> *Fundo Social*. <http://www.planalto.gov.br>.

<sup>4</sup> *Fundo Clima*. <http://www.mma.gov.br>. Information provided by *Fundo Clima*’s manager who contributed to the preparation of this document.

<sup>5</sup> *Fundo Clima*. <http://www.mma.gov.br>. Information provided by *Fundo Clima*’s manager who contributed to the preparation of this document.

financial arrangements and MRV systems currently used by the Government of Brazil and *Fundo Clima*, comparing them with best practices used in other countries and UNFCCC requirements. The assessment of current monitoring systems and financial arrangements used in Brazil and abroad will facilitate the identification of adjustments needed to strengthen relevant instruments at *Fundo Clima*, therefore positioning it to better support and assess its projects.

- 3.3 The consultants will carry out the first study, developing a baseline scenario for both the support MRV system and the mitigation actions MRV system, vis-à-vis the UNFCCC requirements. The second can be defined as an assessment of *Fundo Clima*'s 'cost-efficiency' in comparison with international best practices for climate finance. It will lead to the baseline of the financial arrangements under *Fundo Clima* including the assessment of mitigation results achieved since the creation and operationalization of the fund.
- 3.4 Component 1 will also finance, through non-consulting services, at least two international workshops, during the executing period of the TC. The workshops will serve as opportunities to share knowledge about international best practices on climate finance and MRV requirements respectively.
- 3.5 A performance-based results strategy is an emerging concept in the climate finance and MRV arena. Such concept and strategy will be developed for this TC through the activities of this component. International arrangements such as the UNFCCC Warsaw Framework on REDD+ defined rules and procedures on how to implement results-based payments to support actions that combat deforestation in developing countries. Similarly, this model could be applied to several different sectors beyond forestry and agriculture such as energy and industrial processes.
- 3.6 The outcomes will be short reports elaborated after each workshop by the consultants hired to carry out the thematic assessments and discussions held. Decisions will be made to support the publications of the final products prepared as a result from the activities of this component.
- 3.7 **Component 2. Assessment of needs and gaps of actions and contributions pre-2020 and post-2020 (US\$225,000).** This component will finance consultancies for the development of a study to identify the main gaps and needs of actions and contributions assumed by Brazil and also by other countries referring to the pre-2020 and post-2020 period. The results of this assessment, the comparison between real actions and committed ambitions, may be used to support the definition of a potential supportive policy framework to reduce the economic costs of mitigation policies.
- 3.8 In addition, Component 2 will also finance a workshop to gather national and international experts and relevant stakeholders to discuss the results of the study, including the identified challenges. Similarly to Component 1, the outcomes will be organized in a short report elaborated after the workshop by the consultant responsible for the assessments. A final publication that includes the results of the assessment and the workshop will comprise the final product of this component.
- 3.9 **Component 3. Preparation for long term funding achievement (US\$50,000).** This component will finance consultancies for the elaboration of a consistent proposal to be

submitted to potential funding agencies such as the Global Environment Facility<sup>6</sup> (GEF). It will be used as an instrument to apply for long-term resources which will contribute to strengthen the current knowledge base and gain access to the tools that will help make low-emission investment decisions in a sustainable direction in Brazil.

- 3.10 The elaboration of such proposal is based on the need to ensure the possibility of deepening and complementing the activities developed in this TC and, therefore, will greatly benefit from its outcomes in general. Documents produced and published that result from the activities of Components 1 and 2, will subsidize the justification for the preparation of a full project proposal that will include the development of robust financial and monitoring instruments for *Fundo Clima* and the definition of a policy framework that favors the reduction of the economic costs of mitigation in the country.
- 3.11 The results matrix for the operation is shown in table 1 below. It summarizes indicators, outcomes and means of verification for every subcomponent.

**Table 1. Indicative Results Matrix**

Component	Indicator	Baseline	Year 1	Year 2	End of TC	Means of verification
<b>Component 1. Assessment of current financial arrangements and MRV systems</b>						
Assessment of MRV systems used in Brazil and other countries vis-à-vis UNFCCC requirements	Literature reviewed, pertinent data collected, analyzed and systematized in a publication, including results of the workshop about MRV requirements.	0	50 %	100 %	100 %	Report on existent MRV system used in Brazil, compared with best practices of other countries, revised, approved and published, including results of the workshop.
Workshops on MRV requirements	Workshops for sharing knowledge opportunities about MRV requirements realized.	0	100 %	100 %	100 %	Compilation of results and outcomes of at least one workshop approved for the publication on MRV system.
Assessment of financial arrangements existent in Brazil and other countries	Literature reviewed, pertinent data collected, analyzed and systematized in a publication, including results of the workshop about Climate Finance.	0	50 %	100 %	100 %	Report on financial arrangements in Brazil and recommendations for, compared with best practices of other countries, revised, approved and published.
Workshops on Climate Finance best practices	Workshops for sharing knowledge opportunities about international best practices on Climate Finance realized.	0	50 %	100 %	100 %	Compilation of results and outcomes of at least one workshop approved and used in the publication about financial arrangements.

<sup>6</sup> Parallel to the preparation of this TC, an initial project proposal (Project Identification Form –PIF) was developed by the MMA/Fundo Clima team and submitted to the GEF to request US\$4.6 million in grants. The MMA requested the IDB as the corresponding GEF financial agency once the project is approved by the corresponding parties. *Fundo Clima* has pledged US\$28 million in co-financing for related projects as announced by the Vice-Minister of Environment –in his role as head of the fund. The mentioned project would facilitate the definition and implementation of supportive policy frameworks to reduce the economic costs of mitigation in Brazil. One of the outcomes of Component 3 will be the preparation of such full proposal to the GEF and the identification of additional grant resources to support the project.

Component	Indicator	Baseline	Year 1	Year 2	End of TC	Means of verification
<b>Component 2. Assessment of needs and gaps of actions and contributions pre- and post-2020</b>						
Assessment of gaps of actions and contributions assumed by Brazil and other countries referring to the pre- and post- 2020 period	Literature reviewed, pertinent data collected, analyzed and systematized in a publication, including results of the workshop about actions and contributions assumed by Brazil and other countries.	0	50 %	100 %	100 %	Report with comparison between real actions and committed ambitions, defining directions to a potential supportive policy framework to reduce the economic costs of mitigation policies, revised, approved and published.
International workshops about actions and contributions pre and post 2020	Workshops for sharing knowledge about actions and contributions assumed by Brazil and other countries, referring to the period of pre-2020 and post-2020, realized.	0%	50 %	100 %	100 %	Report about actions and contributions assumed by Brazil and other countries referring to the period of pre-2020 and post-2020, revised, approved and published.
<b>Component 3. Preparation for long term funding achievement</b>						
Preparation of a consistent proposal integrating TC's results, for long term funding achievement	TC outcomes summarized, proposal prepared and potential funding agencies approached for funding activities in the long-term.	0	50 %	100 %	100 %	Full TC project proposal forwarded to potential funding agencies.

3.12 The total budget for this TC is US\$600,000. The resources will finance consultancies and workshops (US\$390,000) for assessments and elaboration of the full proposal, and non-consulting services (US\$210,000) for the organization of relevant events.

**Table 2. Indicative Budget (US\$)**

Component/Activity		IDB	Counterpart <sup>a</sup>	Total
<b>Component 1. Assessment of current financial arrangements and MRV systems</b>		<b>325,000</b>	<b>50,000</b>	<b>375,000</b>
1.1	Assessment of MRV systems used in Brazil and other countries and per review of publication	92,500	12,500	105,000
1.2	International workshop on MRV requirements	70,000	12,500	82,500
1.3	Assessment of financial arrangements existent in Brazil and other countries and per review of publication	92,500	12,500	105,000
1.4	International workshop on Climate Finance best practices	70,000	12,500	82,500
<b>Component 2. Assessment of needs and gaps of actions and contributions pre-2020 and post-2020</b>		<b>225,000</b>	<b>50,000</b>	<b>275,000</b>
2.1	Assessment of gaps and needs assumed by Brazil and other countries and per review of the publication	155,000	25,000	180,000
2.2	International workshops about actions and contributions pre-2020 and post-2020	70,000	25,000	95,000
<b>Component 3. Preparation for long term funding achievement</b>		<b>50,000</b>	<b>50,000</b>	<b>100,000</b>
3.1	Preparation of a long term proposal for external funding achievement	50,000	50,000	100,000
<b>Total</b>		<b>600,000</b>	<b>150,000</b>	<b>750,000</b>

<sup>a</sup> In kind counterpart.

#### **IV. EXECUTING AGENCY AND EXECUTION STRUCTURE**

- 4.1 IDB will execute this TC upon request from the Brazilian Environment Ministry. This arrangement is justified given that the MMA currently faces difficulties due to the lack of staff compared to the increasing responsibility in regards to climate change issues. In addition, staff member's retention within the Ministry structure is a well-known problem. Taking into consideration that the TC's activities demand specialized skills (including knowledge about the Bank's operational procedures), and that the process of hiring and training new team members for the MMA could take a considerable amount of time given the execution period for this operation, it is considered that execution by the IDB would considerably reduce the associated risks. The Bank has extensive experience and a highly specialized technical team on climate change projects, which will contribute so that the expected results of the operation can be achieved. Furthermore, the Climate Change and Sustainability Division of the Bank (INE/CCS) has a Specialist in Brazil who is available to support the coordination of the operation's activities. Additionally, team members in the Bank's office in Brazil will have the principal technical and fiduciary responsibility.
- 4.2 For contracts with consulting firms; the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (GN-2350-9) will apply, for contracts with individual consultants, human resource standards (AM-650) will apply; and for the dissemination expenses and other services, corporate procurement policies will apply until the new Bank's policies in this area become effective.

#### **V. PROJECT RISKS AND ISSUES**

- 5.1 As the proposed activities consist basically on generating and sharing knowledge, the risks associated to this TC are low. The main risks related to the execution could relate to eventual delays and the quality of deliverables to be developed. This will be mitigated by peer review and close supervision of the activities by INE/CCS and the MMA.

#### **VI. EXCEPTIONS TO THE BANK'S POLICIES**

- 6.1 The operation does not take into consideration any exceptions to the Bank's policies.

#### **VII. ENVIRONMENTAL AND SOCIAL CLASSIFICATION**

- 7.1 This TC is classified as a low risk Category "C" operation (please refer to the [Safeguard Screening Form](#) and [Safeguard Policy Filter Report](#)).

#### **VIII. ANNEXES**

- Annex I: [Letter of Request](#)
- Annex II: [Terms of Reference](#)
- Annex III: [Procurement Plan](#)

**STRENGTHENING FUNDING FOR MITIGATION IN BRAZIL BASED ON RESULTS-  
ORIENTED MANAGEMENT**

**BR-T1310**

**CERTIFICATION**

I hereby certify that this operation was approved for financing under the Sustainable Energy and Climate Change Initiative (SECCI-SCI) through a communication dated October 29, 2014 and signed by Gerhard Lair (ORP/GCM). Also, I certify that resources from said fund are available for up to **US\$600,000** in order to finance the activities described and budgeted in this document. This certification reserves resources for the referenced project for a period of four (4) calendar months counted from the date of eligibility from the funding source. If the project is not approved by the IDB within that period, the reserve of resources will be cancelled, except in the case a new certification is granted. The commitment and disbursement of these resources shall be made only by the Bank in US dollars. The same currency shall be used to stipulate the remuneration and payments to consultants, except in the case of local consultants working in their own borrowing member country who shall have their remuneration defined and paid in the currency of such country. No resources of the Fund shall be made available to cover amounts greater than the amount certified herein above for the implementation of this operation. Amounts greater than the certified amount may arise from commitments on contracts denominated in a currency other than the Fund currency, resulting in currency exchange rate differences, for which the Fund is not at risk.

Original Signed

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01/07/2015

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Sonia M. Rivera  
Chief  
Grants and Cofinancing Management Unit  
ORP/GCM

Date

**APPROVAL**

Approved:

Original Signed

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01/09/2015

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David Wilk  
Division Chief a.i.  
Climate Change and Sustainability Division  
INE/CCS

Date