

Senhor
Guido Mantega
Ministro
Ministério da Fazenda
Esplanada dos Ministérios, Bloco P
70048-900 Brasília, DF
Brasil

Ref.: ATN/FI-12559-BR. Cooperação Técnica Não-Reembolsável. Fortalecimento do planejamento orçamentário e administrativo fiscal de mudança climática no Brasil.

Prezado Senhor Ministro,

Esta carta-convênio (doravante denominada “Convênio”) entre a República Federativa do Brasil, por intermédio do Ministério da Fazenda, (doravante denominado “Beneficiário”) e o Banco Interamericano de Desenvolvimento (doravante denominado “Banco”), que submetemos à sua consideração, destina-se a formalizar os termos e as condições para a concessão de uma cooperação técnica não-reembolsável ao Beneficiário (doravante denominada “Cooperação Técnica”), para apoiá-lo na preparação de um programa de fortalecimento do planejamento orçamentário e administrativo fiscal de mudança climática no Brasil (doravante denominado “Programa”). Os termos da Cooperação Técnica estão incluídos na Proposta de KCP (*Knowledge and Capacity Building Products*) que está anexado à presente em seu idioma original, inglês, e é considerado parte integrante deste Convênio. Os aspectos principais da operação são os seguintes:

1. O montante dos fundos outorgados pelo Banco para a realização da Cooperação Técnica será de até US\$ 1.500.000,00 (um milhão e quinhentos mil dólares dos Estados Unidos da América, ou seu equivalente em outras moedas conversíveis), que serão desembolsados a débito dos recursos do Fundo Temático de Fortalecimento de Capacidade Institucional (doravante denominada “Contribuição”). A Contribuição é outorgada em caráter não-reembolsável.
2. O prazo para a execução do Programa será de 36 (trinta e seis) meses, contados a partir da data de entrada em vigência deste Convênio. O prazo para o desembolso dos recursos da Contribuição será de 40 (quarenta) meses, contados a partir de tal data. Qualquer parte da Contribuição não utilizada dentro de tal prazo será cancelada. Os prazos indicados acima e outros estabelecidos neste Convênio só poderão ser prorrogados por razões justificadas por escrito pelo Beneficiário e com o consentimento expresso e por escrito do Banco.

3. O Beneficiário acorda que o Banco utilizará os recursos da Contribuição exclusivamente para contratar e pagar diretamente os bens e serviços (inclusive de consultoria) necessários para o cumprimento dos objetivos da Cooperação Técnica.
4. O Beneficiário compromete-se a colaborar com os consultores na realização de suas tarefas e a fornecer o apoio técnico, logístico e de secretaria necessário para o desenvolvimento da Cooperação Técnica. Tal apoio é estimado como o equivalente a US\$ 50.000,00 (cinquenta mil dólares dos Estados Unidos da América), *in natura*.
5. O financiamento dos bens e serviços indicados neste Convênio não implica, de forma alguma, um compromisso por parte do Banco de financiar total ou parcialmente o programa, projeto ou qualquer serviço que direta ou indiretamente possa resultar da execução da Cooperação Técnica. As opiniões dos consultores não comprometerão o Banco, que se reserva o direito de formular a respeito as observações ou salvaguardas que considerar apropriadas.

Nestes termos, solicito a V. Exa., como representante do Beneficiário, a aceitação do mesmo aos termos deste Convênio, mediante a assinatura e entrega de uma das vias originais desta carta à Representação do Banco em Brasília.

Este Convênio, depois de assinado em 2 (duas) vias de igual teor, por representantes devidamente autorizados, entrará em vigor na data da sua assinatura pelo Beneficiário.

Atenciosamente,

/a/

Fernando Carrillo-Flórez
Representante do Banco no Brasil

De acordo:

REPÚBLICA FEDERATIVA DO BRASIL

/a/

Guido Mantega
Ministro da Fazenda

Data: 09/08/2011

ANEXO

Fortalecimento do planejamento orçamentário e administrativo fiscal de mudança climática no Brasil



Knowledge and Capacity Building Products (KCP) Proposal

Maximum 7 pages

I. KCP Type

- 1. Advisory Services
- 2. Policy and Capacity Development
- 3. Outreach and Dissemination
- 4. Research and Development

II. General Information

KCP Title: Strengthening Climate Change Budget Planning and Fiscal Management in Brazil

OPUS Number:

BR-T1183

Date of Proposal:

04/25/10

New KCP:

Yes No

Linked to project:

Team Leader / Unit:

Maria Netto/Maria Cristina Mac Dowell Dourado de Azevedo

INE/ECC

ICF/FMM

Joint Proposal:

Yes No

If yes, identify units: (1)

ICF/FMM

(2)

ICF/ICF

(3)

KNL/KNM

Proposed amount in USD equivalent (enter whole number only, ex. 99,800): USD

1,500,000

Unit of Technical Responsibility:

INE/ECC

Unit of Disbursement Responsibility:

CBR

Execution:

Bank-executed Recipient-executed

Letters of Request available
(or equivalent)

Yes No

Non-objection
available

Yes No

Execution period: 36 months

Disbursement period: 40 months

Executing Agency:

Executing Agency description and capacity:

Country of Origin of Executing Agency:

- SELECT -

Contact in the Executing Agency:

E-mail address:

Beneficiary Countries:

- | | | | |
|-------------------------------------|---|------------------------------------|--|
| <input type="checkbox"/> Argentina | <input type="checkbox"/> Bahamas | <input type="checkbox"/> Barbados | <input type="checkbox"/> Belize |
| <input type="checkbox"/> Bolivia | <input checked="" type="checkbox"/> Brazil | <input type="checkbox"/> Chile | <input type="checkbox"/> Colombia |
| <input type="checkbox"/> Costa Rica | <input type="checkbox"/> Dominican Republic | <input type="checkbox"/> Ecuador | <input type="checkbox"/> El Salvador |
| <input type="checkbox"/> Guatemala | <input type="checkbox"/> Guyana | <input type="checkbox"/> Haiti | <input type="checkbox"/> Honduras |
| <input type="checkbox"/> Jamaica | <input type="checkbox"/> Mexico | <input type="checkbox"/> Nicaragua | <input type="checkbox"/> Panama |
| <input type="checkbox"/> Paraguay | <input type="checkbox"/> Peru | <input type="checkbox"/> Suriname | <input type="checkbox"/> Trinidad & Tobago |
| <input type="checkbox"/> Uruguay | <input type="checkbox"/> Venezuela | | |

If ALL 26 borrowing member countries (LAC) will benefit from the project, check:

- All LAC
- CAN CCB CID CSC REGIONAL

Beneficiary entity:

Ministry of Finance - Brazil

Sector:

Environment and Natural Disasters

Reform / Modernization of the State

III. Relation to IDB's Institutional Priorities (GN-2518-20)

1. Social Policy for Equity and Productivity
 - Targeted Poverty Programs
 - Labor markets
 - Education
 - Health
 - Gender and Diversity
2. Infrastructure for Competitiveness and Social Welfare
 - Basic services: Access to water and sanitation
 - Energy
 - Transportation
3. Institutions for Growth and Social Welfare
 - Financial services
 - Fiscal efficiency and sustainability
 - Citizens security
 - Innovation
4. Competitive Regional and Global International Integration
 - Trade and Integration
 - Infrastructure
 - Health

5. Protecting the Environment and Responding to Climate Change ¹

- Environment
- Health
- Rural development and forestry

Cross-cutting

- Macroeconomic Analysis
- Learning and Capacity Building

3.1 For Advisory Services and Policy and Capacity KCPs, briefly explain how this KCP is aligned with the country or regional programming and client needs. For Outreach and Dissemination and Research and Development KCPs, briefly explain how this KCP is aligned with the need to deepen the Bank's knowledge in new areas or disseminates it in the region:

Brazil's current strategy emphasizes the importance of support to institutional strengthening, including a consolidated program to improve governance at a state and municipal levels (Fiscal management by states - Municipal management and training of municipal managers). Moreover, the upcoming country strategy for Brazil states and incorporates climate change as a priority. Additionally, these activities were identified in Brazil's programming by the Country Office in Brazil and the Planning Ministry and are aligned with the priorities established in PRODEV and SECCI. Additionally, the IDB Country Strategy in preparation for Brazil includes climate change as one key area in that strategy.

IV. OBJECTIVES, EXPECTED RESULTS AND ACTIVITIES

4.1 Briefly describe the knowledge gap that KCP intends to close; lessons learned from previous similar KCP; objectives and expected results.

In the Copenhagen Accord in early 2010, the Government of Brazil pledged to undertake several actions to reduce greenhouse gas (GHG) emissions. Brazil expects that these voluntary actions will reduce Brazil's projected emissions in 36-39% by 2020. These actions will have economic and fiscal impacts not only at the Federal level, but also at the State and Municipal level. There is a need to understand at several levels of government (Federal, State and municipal) what economic and fiscal impacts the reduction in GHG emissions pledged will have in Brazil, and what these pledges will mean both at the State and municipal levels. Capacity building is fundamental to prepare the finance area of the government of Brazil to meet their goals under the Copenhagen Accord. This is the first attempt by the IDB to address this issue, and will provide invaluable lessons on how to replicate this approach in other countries.

A range of fiscal instruments such as taxes, cap-and-trade or a combination of such measures can be used to reduce GHG emissions. International markets and instruments are also a potential source. These are built around the Clean Development Mechanism (CDM) of the UNFCCC. However, mitigation policies through carbon credit schemes or measures to reduce deforestation are still problematic given their early stage of development, but show potential. The design of mitigation instruments in Brazil will be affected by their impact on revenue and the wider tax system. Also, adaptation to climate change may need additional public spending to provide and strengthen public goods and to facilitate the adjustment of the private sector to new conditions under climate change.

Incorporating fiscal needs from climate adaptation and mitigation puts an additional burden on local governments. These governments often have low institutional capacity, which combined with the lack of trained technical personnel to develop and manage projects, create an environment that may not be able to face the challenges posed by climate change. Preparing Brazil's government, at the federal, state and municipal level, for both their mitigation goals under the Copenhagen Accord, as well as to incorporate the issue of adaptation in their fiscal and budget planning process will require the development of instruments and mechanisms at the State and Municipal level.

These elements are included in the IDB's PRODEV initiative main objective which is to improve public sector management through efficient allocation and use of public sector resources in central ministries and departments and sub national governments (State and municipal) and they are aligned with the pillars of SECCI.

This KCP has two main objectives: (1) to strengthen the capacity of institutions at the State and municipal level in Brazil in the economics of climate change and the options available at the local and international level (fiscal and economic policies, international markets, sources of finance for mitigation and adaptation) to achieve their emissions reduction goal; and (2) to increase the planning and management capacity of the state and municipal level budgets and fiscal policies under climate change, with focus on Managing for Results.

The expected results are: 1) Representatives of local governments (State and Municipalities) in Brazil with the capacity to understand the economic and fiscal implications in GHG emission reduction and the instruments available to achieve these emissions reduction goals. The specific deliverables are an E-learning tool and seven workshops on the economics of climate change, disaster risk management, and Financial Mechanisms for adaptation and mitigation. These products will establish a knowledge base and institutional capacity that assures

¹ This project corresponds also to climate change priority equally.

continuity of this process in the medium and long term. 2) Implementation, on a pilot basis, of state and municipal planning and financial execution models that address economic implications of climate change and that allow development and evaluation of projects addressing climate change. This includes the development of budgetary and planning instruments focused on results and incorporating in government action the economic and fiscal effects of climate change, as well as tools and mechanisms that enhance fiscal management regarding programmes and projects related to climate change adaptation and mitigation.

Components, Activities and Methodological Framework:

Provide a description of the main components and activities expected to be carried out:

4.2 Year One

Component 1: Development of workshops for technical personnel of finance and planning institutions in state and local governments (seven workshops total) on the following thematic areas:

- Fundamentals of the economics of mitigation and adaptation to climate change
- Strategies and financial instruments for disaster risk management
- Financial Mechanisms for adaptation and mitigation

Activities:

- 1.1 Two workshops on the fundamentals of economics of climate change and financing mechanisms addressed to planning and finance state secretariats (back to back with CONSEPLAN and CONFAB meetings).
- 1.2 One workshop on financial instruments to address and transfer risks relating to disasters and climate change impacts addressed to the finance ministry of Brazil.

4.3 Subsequent Years

Component 2: Development and dissemination of an e-learning training tool on the economics of climate change, climate finance and risk management.

Component 3: Develop and implement budgetary and planning instruments and mechanisms to incorporate into government action the economic and fiscal effects of climate change, with focus on Managing for Results.

Activities:

- 3.1 Theoretical framework for definition of indicators on how climate change considerations would be incorporated at state and municipal budgetary planning. Implementation on a pilot basis of those indicators.
- 3.2 Development of guidance and recommendations regarding the preparation of projects addressing climate change (adaptation and mitigation projects).
- 3.3 Guidelines, recommendations and indicators of results for sector strategies (energy, land-use change and forestry sector, waste treatment, transportation, etc.)
- 3.4 Guidelines and recommendations for risk management instruments such as catastrophe bonds and weather derivatives to manage climate related risks.
- 3.5 Identification of climate change-related funding sources, how they impact on budgets over time, and how they may be blended with other types of financial streams.

This activity will be completed during year 2:

- 1.3 Four workshops on economics of adaptation and mitigation and financial mechanisms for adaptation and mitigation

Component 4: Development and implementation of tools and mechanisms for enhancement of fiscal management regarding programmes and projects, with focus on results.

Activities:

- 4.1 Evaluate models of financial execution and revenue generation associated with the economic impacts of climate change in selected countries.
- 4.2 Theoretical framework to elaborate indicator systems for financial execution at the State and municipal level of the effects of climate change, and implementation on a pilot basis of those indicator systems
- 4.3 Guidelines and recommendations for the promotion of investment into carbon markets.
- 4.4 Guidelines for the creation of a capital market associated with carbon credits' projects.

Components 3 and 4 will be implemented through pilot cases in a selected number of states and/or municipalities.

4.4 If project execution spans more than one year, briefly describe how current year activities feed into the plan of activities for subsequent years:

The component of year 1 provides a knowledge base and institutional capacity on the economics of climate change, financial mechanisms, and risk management in Brazil. This knowledge of climate change will better prepare the Ministry of Finance of Brazil and its technical personnel for the development of budgetary and planning instruments to incorporate climate change into the fiscal planning of States and Municipalities in Brazil.

4.5 When warranted, describe the methodological approach to be used in the development of the activities and the type of data sources which might be used.

Regarding data and information the project will review economic analysis and modeling of impacts of climate change to serve as a basis for the information of workshops and the e-learning tool.

V. KCPs RESULTS FRAMEWORK. Main Deliverables (outputs) by component. When warranted, describe dissemination strategy:

List main deliverables 1) publications; 2) conferences, workshops, seminars; 3) training courses; 4) databases; 5) surveys; 6) other (specify); and dates for final completion.

5.1 For publication deliverables: Based on the taxonomy of the Bank's publication protocol (books, monographs, working papers, policy briefs, technical notes, newsletters, discussion papers and presentations or studies for conferences and technical meetings), list the specific types of publications as the deliverables.

Component I			
Deliverables Year 1	Intermediate Milestone (if applicable)	Milestone Date (if applicable)	Expected Completion Date
<u>Component 1:</u> Three workshops: Fundamentals of economics of climate change and financing mechanisms and financial instruments to address and transfer risks from disasters & climate change impacts	Presentations, materials, reports.	Nov. 2010	Jan 2011
Deliverables Subsequent Years	Intermediate Milestone	Milestone Date	Expected Completion Date
<u>Component 1:</u> Four workshops: Economics of adaptation and mitigation and financial mechanisms for adaptation and mitigation.	Presentations, materials, reports.	April. 2011	June 2011
<u>Component 2:</u> E learning training tool	Preliminary tool for testing	Sept. 2011	Nov. 2011
<u>Component 3:</u> Manual on budgetary and planning instruments focused on results and incorporating in government action the economic and fiscal effects of climate change	1. Theoretical framework for definition indicators; 2. Guidelines and Recommendations on preparation of projects 3. Guidelines, recommendations and indicators for results for sector strategies 4. Guidelines and Recommendations for risk management 5. Identification of climate change-related funding sources	Feb. 2012	April 2012
<u>Component 4:</u> Manual on tools and mechanisms, focused on results, for enhancement of fiscal management regarding programmes and projects	1. Theoretical framework to elaborate indicator systems for financial execution at the sub national level 2. Guidelines and recommendations for the promotion of investment into carbon markets 3. Guidelines for the creation of a capital market associated with carbon credits projects.	June 2012	Aug. 2012
<u>Components 3 & 4:</u> Implementation of pilots at the sub-national level (States and Municipalities)			June 2013

5.2 Dissemination plan: when warranted briefly describe dissemination plan of expected deliverables / results with a timeline for key activities, person/institution responsible for implementation:

The results under this KCP will be disseminated, in close coordination with KNL, as the KCP by itself is comprised of a number of workshops and trainings and the products. These will need to be disseminated in order to increase and share knowledge in a sub national, national and international level. KNL will provide methodologies to raise awareness and to support the preparation of knowledge products such as lessons learned notes, case studies and the creation and implementation of communities of practices and or knowledge portals. KNL will also provide expertise through methodologies that support the design, implementation and evaluation of workshops, courses, seminars and other types of knowledge sharing events. In addition, deliverables and the E-learning tool generated will be disseminated through the IDB PROFISCO Program, the Ministry of Finance of Brazil, internet portals, forums and any other visible mechanisms that will contribute to the diffusion of results and lessons learned. The IDB intends to translate to other languages all results and deliverables produced in this KCP in order for it to serve as a basis for replication in other countries.

5.3 Results Matrix:

Indicators	Baseline	Intermediate Targets		Final Target	Expected Completion Date
		Year 1	Year 2	Subseq. years	
Outcome Indicator					
Comp 1 & 2: Individuals/sub national representatives trained on economics of climate change, risk management and financial instruments	0	150	350	350	June 2013
Comp 3 & 4: Pilots at the sub national level	0	0	1	2	June 2013
Deliverables (outputs) Indicators					
Comp 1: Completion of 7 workshops	0	3	4	7	June 2011
Comp 2: Implementation of E-learning tool	0	0	1	1	March 2012
Comp 3 & 4: Elaboration of manuals with tools and mechanisms for enhancement of fiscal management	0	1	2	2	Nov 2011

VI. BUDGET:

6.1 Budget should be presented by deliverable (outputs) or groups of deliverables (for example: three publications, three conferences, seminars or workshops; one database; one survey; two training courses). Total available funds from counterpart sources should be reported. Use whole numbers only.

Costs	Project Cost						Counter-part Resources	Other Financing
	Year 1			Year 2	Subseq. years	Total request		
Component	Consult.	Travel (1)	Other					
1. E learning tool	50,000			50,000		100,000		
2. Workshops	120,000	10,000		120,000		250,000		
3. Knowledge Materials	50,000		20,000	30,000		100,000		
4. Tools and mechanisms (Planning, budgetary and Fiscal)	250,000			250,000	500,000	1,000,000	50,000	
Sub-total	470,000	10,000	20,000	450,000	500,000	1,450,000	50,000	
Monitoring and evaluation						50,000		
Total						1,500,000	50,000	

Approximate value of in-kind counterpart							50,000	
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(1) Consultant's travel only

6.2 Bank staff participation in KCP:

Staff Name	Bank Unit	FTEs
Maria Netto	INE/ECC	0.15
Carlos Ludena	INE/ECC	0.15
Maria Cristina Mac Dowell	FMM/CBR	0.10
Luiz Villela	ICF/FMM	0.02
Elcior Santana	ICF/ICF	0.02
Carlos Gerardo Molina	KNL/KNM	0.06

Note: FTE calculated as 206 days per year.

6.3 Types of Consultants: Firms or individuals and main activities/deliverables:

Type: Individual or Firm (if available)	Nationality (if available)	Estimated Cost	Main Activities / Deliverables
Firm / individual consultants		250,000	Materials, training, knowledge materials (workshops)
Firm / individual consultants		100,000	IT- e learning tool
Firm / individual consultants		250,000	Budgetary planning
Firm / individual consultants		250,000	Risk Management
Firm / individual consultants		325,000	Fiscal issues and Carbon finance
Individual consultants		100,000	Substantive support for project and content management
Individual consultants		75,000	Logistic support for workshops, formulation of materials, or any ongoing activities within the KCP.
Travel / logistic support		150,000	Travel of experts making presentations and supporting technically the project and participants from State and Municipalities to workshops, training seminars and events organized under the project. Renting of equipment and space.

6.4 Proposed administrative budget estimation required for the execution stages by year of execution (specify consulting, travel and other expenses)

Type	Year 1	Subsequent Years (two years)
Consultants	20,000	40,000
Travel	28,000	56,000
Other	2,000	4,000
Total	50,000	100,000

Note: 1) Consultants: Two thirds of ECC personnel are consultants and the budget reflects that; 2) Travel: Because ECC is not represented in Brazil we expect staff travel to Brazil to monitor the project.

VII. Risks and Coordination with other MDBs:

7.1 Implementation Risks: Risks of implementation are low. The IDB project team does not anticipate any risks that could impair the operations of the KCP. The project team will be directly involved in the project implementation and will oversee the work developed by the consultants. Risks regarding quality of materials will be overcome by continuous peer review and monitoring and evaluation of preparation of these.

7.2 Summarized collaboration or coordination with other MDBs and donors (if any): Activities like the ones described in this KCP have not been supported in Brazil by any MDB. Coordination of these KCP activities with other relevant international support will be insured through the Ministry of Finance in Brazil.

VIII. Monitoring and evaluation plan.

Fill-out the KCP's Development Effectiveness Matrix (DEM) using this link to the [DEM template](#). On Section 4.// *Quality Measurements at Completion*, fill-out only the portion that corresponds to the KCP type selected. Then save it in IDBDOCS and record its number immediately after the "equal" sign on the link below:

<http://idbdocs.iadb.org/wsdocs/getDocument.aspx?docnum=35152806>

8.1 Summarize the basic elements of the Monitoring and Evaluation plan, including key activities and associated budget:

The main responsibility of the monitoring of the KCP will be under the INE/ECC and FMM/CBR project team. If required, during the execution of the KCP, administrative and technical missions will take place with the purpose of evaluating the development of the outputs, in cooperation with the Ministry of Finance of Brazil. The following are the main evaluation and monitoring activities: a) Knowledge products developed under this KCP will be peer-reviewed by recognized international experts; b) Evaluation forms will be used to seek feedback from users of the tools developed (i.e. in the web platforms and communities of practice where they are made available); c) Evaluations forms will be used to seek feedback from participants in workshop and other events; and, d) The project team will continuously monitor work undertaken and will make reports of the KCP activities every 6 months, including an assessment of the delivery of products against the agreed delivery schedule.