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Pilot Program to Conserve the Brazilian Rain Forest

Progress Report

August 1996

The World Bank

Rain Forest Unit, Brasília

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Introduction

Significant progress has been made since the July 1995 Participants Meeting, both in implementation of ongoing projects and in preparation of new projects. Centers of Excellence, Directed Research, Demonstration Projects, and Extractive Reserves projects all made substantial implementation progress. The Indigenous Lands and Natural Resource Policy projects have since become effective, and implementation work is just beginning.

Rapid progress has been made in preparation of the Management of Forest Resources Project (formerly FLONAS), appraised in June 1996 and currently under negotiation. The Monitoring and Analytical Unit Project, which grew out of the July 1995 Participants Meeting, has also made strong progress. Both Parks and Reserves and Flood Plain Resources Management (formerly Natural Resources Management) are off to solid starts, largely due to well-structured and effective initial participatory workshops. A decision has recently been taken to redesign the Environmental Education Project as a competitive grants Demonstration Project, casting it as a separate subprogram under the existing Demonstration Projects.

Progress on Projects

Ongoing Projects

Science Centers and Directed Research

The challenge of INPA (Manaus) and the Goeldi Museum (Belém) is to undergo the necessary transformation so that they can conduct their missions effectively and meet changing expectations in science research (i.e. relevance to policy and development, multidisciplinary approaches, inter-institutional collaboration). At both Centers, the process of institutional transformation is slow and complex, but is happening. If allowed and encouraged to continue in a way consistent with expected high standards, this process can generate significant dividends and build the foundation for long-term success.

At Museu Goeldi (MPEG), strategic planning continues to progress and certain departments have consolidated and focused their research program and are initiating a

system of staff evaluation, performance criteria and rewards. There is a high degree of staff participation and enthusiasm, with working groups being formed and new institutional policies emerging.

At INPA, an improved institutional focus occurred earlier, helped by external evaluations that took place in 1993. This led to a strategic mission statement and a substantial reorganization of research lines in response to critical issues and needs. The institution decided to strengthen those areas that were strongly developed such as Ecology and Aquatic Biology. Other changes, such as the staff performance evaluation system, are taking more time at INPA, given the large size of the institution and varying degrees of participation in the institutional transformation. INPA needs to do more work on this front.

At both centers, project activities to improve the dissemination of research results have also been implemented. MPEG is currently defining its dissemination strategy and has published three issues of its environmental bulletin, provided staff training in dissemination techniques, and prepared a plan to remodel the museum's permanent exhibit. Particularly noteworthy are efforts to involve Belém's local youth in learning and research about biology and ecology at the Museum. INPA has published four issues of the in-house scientific journal, *Acta Amazônica*, as well as a volume on fish breeding. In addition, INPA is producing two videos focusing on regional ecological problems and solutions for presentation on television and in local schools.

Staff at both Centers have received and applied significant training in procurement and financial management.

The Evaluation Committee of the **Directed Research** program (PPD) met in October 1995, and recommended 22 proposals for funding, out of 116 submitted. The total amount of funding committed is US\$ 5.1 million, to be disbursed over two years. The approved first-round subprojects are in the following areas: (1) ecosystem studies (five out of 28 submitted), (2) sustainable management and technology development (14 out of 69); and (3) social and economic studies (three out of 19). The evaluation process, through the Advisory Committee and ad-hoc reviews, has been generally rigorous, if not overly exhaustive. A point system was used to select the winners. Forty-five proposals were disqualified on procedural or eligibility grounds. The next call for proposals should clarify the criteria used to evaluate proposals. Subgrants have been signed with the beneficiary institutions and disbursement of funds to them is beginning.

In addition to the 22 proposals selected for funding, 18 were identified as meritorious but could not be funded for lack of resources. The Superintendency for Development of the Amazon (SUDAM) selected ten of these for funding on the basis of criteria representing SUDAM's priorities, and not on the basis of the PPD point process. State agencies may be interested in funding the balance.

The flow of funds from the federal ministries through the financial intermediary, FINEP, to the Science Centers continues to cause delays. In addition, a recent audit of FINEP's project accounts and financial management identified various shortcomings in financial control. The World Bank and the Government are addressing this issue with priority.

An independent, in-depth mid-term review of the Science Centers and Directed Research Project will be conducted in the coming months. As progress of the projects (Science Centers and Directed Research) had been slow initially, the original closing date for one of the supporting emergency projects has been extended and the second grant agreement may have to be extended in December 1996.

Demonstration Projects

A total of 70 projects has so far been approved by the Executive Commission of the **Demonstration Projects**, with a total value of US\$ 8.9 million of subgrants. More than 260 proposals have been received and screened since May 1995. The Executive Commission (composed of NGO and Government members) has met seven times since April 1995, and is performing its role of evaluating the proposals presented to it in a serious, objective way.

In April 1996, Banco do Brasil made first disbursements to 29 projects. Further disbursements were made in the following months to ongoing and newly starting subprojects, bringing the total to 37 subprojects now under implementation. Supervision missions to subprojects in Maranhão and in southern Brazil have been launched by the Technical Secretariat.

The funds disbursed to subprojects still originate from the German KfW grant only, since in the case of the trust fund established for the project with EC resources, the issue of Banco do Brasil's liability for misuse of funds by subprojects and the tax financing issue have not yet been formally resolved. While language to address the issue

has been drafted by the Bank and discussed with the European Commission, the Bank has not yet received a letter of agreement from the EC on this matter.

A revised and much improved Operations Manual was agreed among MMA, KfW and the World Bank and distributed to field organizations. It is much clearer and simpler to use and has been well received by NGOs and grass roots organizations. To stimulate the widest possible range of innovations and facilitate subsequent analytical work, the manual will still require a better definition of themes and priority areas.

The management information system (MIS) for the project has been designed and installed for the most part, and the subproject data are being entered. A study analyzing the subprojects was begun by the World Bank but suspended upon advice of the IAG, leaving this task to the Technical Secretariat and the German technical assistance to the project. The data were turned over to the Technical Secretariat for use in their MIS and further analysis.

The Technical Secretariat of the project provides excellent services to the project, even under the enormous workload of processing the many proposals received. The filling of the position of a dissemination officer should result in increased efforts and new initiatives to make the project more widely known, and to disseminate first successful experiences. Four short, high quality videos with accompanying brochures about such experiences were produced with PD/A funds and presented to the public on Environment Day in Brasília. Training workshops based on the new Operations Manual were held in the Amazon and Atlantic forest regions and attended by many interested organizations.

The work of the Technical Secretariat -- involving project processing, supervision, training events, publicity and dissemination -- is now being funded from both the Rain Forest Trust Fund and the KfW, under a revised UNDP Technical Assistance Project.

Indigenous Lands Project

The grant agreements for the **Indigenous Lands Project** were finalized in December 1995, with funding from the Rain Forest Trust (US\$ 2.1 million) and the German KfW (DM\$ 30 million, about US\$ 20 million equivalent).

On January 8, 1996, the President of Brazil issued Decree 1775/96, replacing the earlier Decree 22/91 concerning the regularization of indigenous lands. Brazilian and international NGOs, indigenous organizations and other interested individuals immediately expressed concern about the new legislation, primarily because the new decree established an administrative mechanism by which state and local governments and private parties can contest indigenous land regularizations. Of great concern was the retroactivity of the new Decree, making it applicable also to indigenous lands already demarcated but not yet registered. Decree 1775 also specified a timetable for the completion of land regularization activities; introduced new requirements, such as an environmental assessment during the identification phase; and further clarified the roles of the National Indian Foundation (FUNAI) and the Ministry of Justice in the administrative appeal process. All of these changes required adjustments in the implementation of the Indigenous Lands Project.

The World Bank reviewed Decree 1775 and concluded that it does not contravene existing legal agreements with the Bank, including the grant agreement for the Indigenous Lands Project, but that its application has to be monitored closely. The World Bank, donors and the International Advisory Group (IAG) all received assurances from Government that the new Decree would make indigenous land regularization efforts more transparent, democratic and agile.

During the first 90-day period to file administrative claims against indigenous areas (January 8 to April 9, 1996) under Decree 1775, 14 indigenous lands included in the project were contested. On June 9, 1996, FUNAI recommended against all of these claims to the Ministry of Justice. In July 1996, the Ministry of Justice issued its initial decisions, which rejected claims against seven indigenous lands and requested further information from FUNAI on two others (Seruini-Mariene in Amazonas and Kampa de Envira in Acre). The remaining five areas are not yet subject to the 90-day period for processing claims since the identification of those areas is not yet completed.

Due to these circumstances, the 1996 Annual Operating Plan for the Indigenous Lands Project was not finalized until March 1996. Although the project's 1996 work program includes 14 identifications and 22 demarcations, during the contestation period it was difficult to proceed with the demarcations as all of those indigenous areas could have been contested. The World Bank reviewed and approved the annual work plan in March 1996 and concluded that, given the slow start-up and implications of the new regulations, the first supervision mission should be held in August 1996.

A World Bank and KfW supervision mission was carried out in August 1996. The mission noted that the project has generated some positive effects, particularly with respect to the inclusion of environmental assessments during identification and greater participation of indigenous people in the regularization process. However, the mission also noted that implementation progress to date has been incipient, largely because of an inadequately staffed project implementation unit in FUNAI, delays in budgetary transfers and legal changes that have directly and indirectly affected project activities. The project implementation unit is now being strengthened, and as of early August 1996, three identifications are in process and the demarcation of ten indigenous lands is about to start, while the bidding for the demarcation of an additional six other areas will commence shortly. As a result, the Bank is hopeful that the progress will now greatly accelerate. The project will continue to be closely monitored. Another supervision mission is preliminarily scheduled for December 1996.

Extractive Reserves Project

The Extractive Reserves Project, which had become effective in February 1995, is making good progress. In 1995, the project focused on: (1) strengthening local reserve associations and disseminating the project and each reserve's utilization plans; (2) clearing paths, building warehouses, schools and other basic infrastructure improvements with communal labor; (3) initial training for associations in administration; (4) hiring local staff and technical assistance for reserves (e.g., rural extension); (5) training in improved rubber collecting and processing techniques; (6) establishing rotating credit funds; (7) fine-tuning the environmental management component; (8) designing a participatory monitoring and evaluation system; (9) strengthening CNPT/IBAMA's central and regional offices; and (10) defining priorities for 1996. Initial bureaucratic delays, particularly with respect to disbursement, were largely resolved. Progress was less satisfactory in resolving land tenure disputes and finalizing the concession status of the reserves.

Implementation of the 1996 work program has also gone well, although there were again some bureaucratic delays pertaining to workplans, operating agreements and financial flows in the first quarter which adversely affected seasonal work in the reserves. The project is trying to find a solution to these common first quarter delays. A supervision mission in April 1996 reviewed project implementation, visited Cajari and Alto Juruá Extractive Reserves, and paid special attention to the production component.

It found that the performance of the executing agency, CNPT/IBAMA, and its collaboration with other parts of IBAMA (mainly at the State level), has been excellent. There is also close collaboration among the reserve associations, state and municipal officials, rural workers' unions and NGOs. Initial problems with the availability and flow of funds have been significantly reduced by the Bank's doubling the size of the Special Accounts for the project.

With respect to the production component, the activities planned will be strengthened partly by means of additional technical assistance to commercial enterprises of the reserves to improve economic and financial analysis and business skills. In addition, a set of criteria and a mechanism for selecting income generating alternatives to be funded by the project was approved. With respect to land tenure issues, which are not yet resolved, CNPT/IBAMA hired a full-time lawyer to speed up their resolution.

Natural Resources Policy Project

Implementation of the Natural Resources Policy Project (NRPP) has been slow during 1995 and the first half of 1996 for a number of reasons: (1) new state governments in the Amazon had to familiarize themselves with the project, (2) there were delays in meeting the conditions for effectiveness of the RFT and European Union grants (November 1995), and (3) concern over the possible lack of political support for projects such as the NRPP that might eventually impose restrictions on economic activities. These factors have led to a consensus that the project should be modified.

In early 1996, MMA and the World Bank visited the nine Amazonian states to discuss the preparing of comprehensive State Environmental Plans for each state and the five-year Action Plans for each implementing agencies. These plans were approved and submitted by the states by March 1996, with only a few exceptions. The GTTP - Permanent Technical Working Group (an inter-state body of consultation) and the Project Commission were established in April 1996. The GTTP is in charge, *inter alia*, of identifying common problems faced in project implementation by the participating states, of reviewing conflicts between state-level and federal environmental regulations and proposing relevant changes. The Project Commission is responsible for, *inter alia*, approving the annual budgetary allocations to the implementing agencies, approving all subprojects under the Project and recommending revisions to its norms. The Project Commission of the NRPP met three times and approved parts of the budget plans proposed by the state environmental agencies for 1996. Disbursements were made in

1995/96 for initial implementation of the Institutional Strengthening component in several states and for the project's Technical Secretariat in Brasilia. Part of the funds was used for contracting consultants services for training specialized staff in the implementing agencies and for establishing scientific research needs.¹ Most of the expenditure, however, was for purchasing laboratory equipment and vehicles. In December, a seminar on the environmental assessment of infrastructure projects, sponsored by Tocantins state government, the Norwegian Environmental Fund and the World Bank (NRPP) was held in Palmas, Tocantins.

The World Bank noted in its report to the IAG in February 1996 that it had become increasingly concerned over possible lack of political support for environmental policies (especially zoning) that might eventually impose restrictions on economic activities. Experience in the implementation of the Bank-funded PLANAFLORO project in Rondônia, a project that shares a number of characteristics with the NRPP, has heightened concerns over the advisability of charging with the implementation of restrictive environmental policies before local political support has been assured. The Brazilian government now shares these concerns and is fully involved in making the desired revisions in the project.²

The basic diagnosis of the problem appears to be the following: in the face of weak local political support the Government, the World Bank and the donors face serious problems to ensure that project inputs are directed towards concrete action in the field. For the states the project **inputs** (equipment, training, consultants, etc.) represent political benefits. The desired **output**, on the other hand, namely controls on environmentally-damaging activities, represents a clear political liability. In the absence of local incentives to produce the desired outputs with the inputs provided, the Bank and the Donors adopted cumbersome mechanisms to ensure that project resources are directed toward the desired ends.

The March 1996 report of the IAG reinforced the importance of finding a political basis for the project. It made the following specific recommendations:

¹ In August 1995, a productive seminar was held to discuss the methodology for economic-ecological zoning under the project, which resulted in a concrete proposal developed by consultants in November.

² As mentioned below, these changes involve reducing or eliminating free-standing institutional strengthening. This possibility was not explored during appraisal????

- *streamline the preconditions of the project without diminishing the commitment of the states to the preservation of the environment;*
- *reduce project complexity;*
- *treat the state environment agencies (OEMAS) on the same basis as other executing agencies; that is, they should receive funds in accordance with their involvement within competitive, state-level integrated sub-projects;*
- *reallocate the funds not yet used for institutional strengthening to the execution of integrated subprojects, to be chosen on a competitive basis; and*
- *loans should be made available only to economic activities complying with economic zoning.*

In accordance with these recommendations, the World Bank and MMA started discussing the adjustment of project design in a process that has involved the donors participating in the project, and, later, the implementing states. In its July 1996 meeting, the IAG welcomed the work made and proposed some further guidance. The key features of the proposed reformulation are:

- *transfer of most of the "free-standing" subcomponents of institutional strengthening into integrated (local) environmental management subprojects. The strengthening would occur within and for the specific purpose of the concrete tasks at hand in local subprojects;*
- *involvement of municipalities, or groups of municipalities, within priority areas in the planning and implementation of environmental management subprojects (zoning, monitoring and enforcement) at the local level, with full involvement of concerned state and federal agencies. The state environmental agencies would retain the lead in coordinating and planning such subprojects, but would actively seek the political dialogue with local stakeholders in zoning and environmental management.*
- *provision of incentives for municipalities to participate in environmental management, in the form of a "Sustainable Development Fund". The fund would support investments desired by the municipalities, but would only be accessible once the municipality has shown adequate performance in implementing zoning, monitoring and enforcement plans.*

A joint reformulation proposal of MMA and the World Bank is now being circulated among the state governments to initiate a reformulation, with a view to start the implementation of the reformulated project in January 1997. On August 27, a meeting

was held with the environmental Secretaries of the Amazon States, to discuss such proposal.

Project Disbursement

Disbursements for the ongoing projects increased substantially since July 1995. While through June 30, 1995, only about US\$ 0.9 million had been disbursed from the project-specific trust funds administered by the World Bank, during the period July 1, 1995 to June 30, 1996, about US\$ 9.2 million were disbursed, for a total of about US\$ 10.1 million since inception. This exceeded slightly the projections the Bank had made for Fiscal Year 1996 disbursements at the 1995 Participants Meeting (US\$ 8.5 million). (The disbursements by project and trust fund are detailed in Annex 2, Table 2. Other details about the trust funds set up within the World Bank for projects and their status are contained in Tables 1 and 3.) In addition, the German KfW disbursed by June 30, 1996 about US\$ 2.3 million³ for the Demonstration Projects and about US\$ 0.25 million for the Indigenous Lands Project.

GTA - Grupo de Trabalho Amazônico

The 1995 Participants Meeting in Belém recommended that **GTA, the Grupo de Trabalho Amazônico** (Amazon Working Group), the apex organization of NGOs in the Amazon, be assisted in re-establishing its functions which had been disrupted at the time due to lack of funds for its operations. A special grant of US\$ 178,000 was given to GTA under an agreement with the World Bank, part of which was used to reimburse UNDP for expenses it had incurred from its own funds in 1994 and 1995 to help keep GTA alive. The World Bank financed also a meeting of the GTA's directorate and a field visit of its new Executive Secretary and President to the various regional offices at a cost of US\$ 22,000. (This was funded from the Rain Forest Unit's administrative budget for reasons of expediency).

Since about October 1995, the GTA is functioning again, and the level of its internal communications and consultations, as well as its active participation in matters of the Pilot Program, have increased considerably. Further funding of the GTA will now

³ About US\$ 2.8 million by July 30, 1996.

come, as planned, from the allocation made for this purpose under the Demonstration Projects, under a work plan submitted by GTA and approved by the World Bank and the Technical Secretariat of the Demonstration Projects. These funds will be passed to GTA through Banco do Brasil under a new UNDP Technical Assistance Project. The corresponding NGO organization of the Atlantic rain forest region, **Rede Mata Atlântica**, has also submitted a work plan to access its allocation under the Demonstration Projects. The plan needs to be revised and resubmitted.

Preparation of New Projects

Forest Resources Management Project

Rapid progress has been made with the **Forest Resources Management Project** (formerly the National Forests Project). This project was prepared by a highly qualified team of experts, and in an exceptionally participatory way, through the realization of workshops and the establishment of a consultative commission (composed of local and national governments, private enterprises, researchers, NGOs and local communities). It was appraised in April 1996, and negotiations are currently being held. This participatory approach will continue during project implementation.

The overall objective of this 5-year project is to support the development and adoption of sustainable forest management systems in the Amazon through strategic actions and pilot experiences in priority areas. Despite the critical importance of the forestry sector in the Brazilian Amazon, there is a shortage of concrete experience in the sustainable management of natural forests. Most timber extraction is occurring in an unsustainable manner and has been a catalyst to deforestation. The scarcity of sustainable forestry initiatives in the Amazon is mainly due to (1) the presence of conflicting policies and a lack of incentives in the forestry sector, (2) excessively complex forestry regulations and ineffective enforcement, and (3) few initiatives demonstrating that sustainable forest management is feasible on a commercial scale.

This project will address the multiple causes for lack of sustainable forest management, through the following four components:

- strategic analysis and recommendations for reform of policies and incentives affecting the forestry sector;

- the promotion of innovative initiatives designed to test new approaches to sustainable forest management practices by individuals, firms and private organizations;
- the establishment of a system to monitor and control forest harvesting activities in two pilot areas; and
- the implementation of a participatory management and conservation plan for the Tapajós National Forest Reserve, with emphasis on social forestry activities.

The Ministry of the Environment and the Legal Amazon will be responsible for the overall project coordination, with IBAMA serving as the technical secretariat. Project activities would be implemented by a variety of local groups, including IBAMA, NGOs and community associations. A project Consultative Commission will be convened to supervise overall project implementation activities and to ensure the participation of the broad range of stakeholders in project management. The commission will be composed of representatives of IBAMA, private sector, NGOs, community organizations, state environmental agencies, and the coordinator for each component.

Apart from the series of workshops that created ownership of the project by stakeholders and allowed them to participate in this project since its conception, two pre-investment activities were financed during project preparation. In one, a group of experts identified (through consultations with key persons of the forestry sector, field visits and questionnaires) and pre-selected 21 promising initiatives to be supported by the project. To maximize learning, these sub-projects were selected from a range of situations representing various types of forests, models of extraction and land tenure arrangements in the Amazon region. The criteria for selection included innovativeness, potential for replicability, environmental sustainability, participation of the local population, technical capacity and leadership of the executing institution. The results of this selection process will be presented at the Bonn meeting. Another pre-investment activity was the preparation of a preliminary zoning and management plan for the Tapajós National Forest, with the participation of local communities.

The project is appraised to cost US\$ 20.6 million, including financial contributions from the German KfW, and technical cooperation from the British ODA and the German GTZ, as well as Brazilian counterpart funds.

Parks and Reserves Project

After a well-structured and participatory workshop earlier this year, an excellent team has been contracted in June 1996 to elaborate, in coordination with IBAMA, a definitive proposal for the **Parks and Reserves Project**. A first concept paper of the project will be available at the Bonn meeting, and the final proposal is expected in late 1996. The project is geared to test a new strategy of biodiversity conservation for Brazil's rain forest areas.

Traditional strategies for biodiversity conservation have focused on the creation of pristine protected areas, devoid of human interventions. While these areas have an enormous potential for protecting biodiversity, long-term conservation requires the adoption of **buffer zone and biological corridor** management approaches. Building on the "biological islands" paradigm, this project proposes to establish "biological corridors" connecting protected areas within regional biomes. These corridors contain a high concentration of biodiversity and could consequently provide a more cost-effective approach to conservation. Establishing rainforest corridors would be done by developing innovative management models that incorporate traditional communities, private landowners and other important stakeholders. During the first phase of the project, activities will focus on the Central Amazon Corridor and the Northern Atlantic Forest Corridor--areas of strategic importance for biodiversity conservation. During a second phase the groundwork could be laid for establishing an additional corridor in the Southern Atlantic Forest and four more corridors in the Amazon. Effective management of all seven corridors identified should conserve at least 75% of the biodiversity present in Brazil's rainforests.

The project provides a strategic, integrated and cost-effective approach to biodiversity conservation that will protect a maximum amount of biodiversity per unit area. A broadbased, decentralized approach to project implementation will be adopted. Public and private sector partners will be involved in the design of the Rainforest Corridors and, through reduced costs of implementation and maintenance, the project should enhance long-term financial sustainability. Local communities will become involved in the identification and design of pilot buffer zone management and participate in protected areas management. Finally, an open structure of governance will be adopted, encouraging active participation of federal, state and municipal government agencies, research institutions, NGOs, the private sector and local communities, thus building a solid constituency in support of this initiative.

The project counts so far with about US\$ 22 million of firm resources, but the proposal is being developed for a larger project, possibly US\$ 40 million, in the expectation of mobilizing additional resources for this innovative endeavor.

Flood Plain Resources Management Project

At the last Participants Meeting in Belém, it was decided that the Natural Resource Management Project (proposed in the original Geneva plan) should be dedicated to the management of aquatic resources. Preparation of this project has resulted in the proposal of a **Flood Plain (Várzea) Resources Management Project**. Two major workshops were held, one in Manaus in November 1995 and one in Belém in March 1996, with the participation of technical experts, donors, NGOs, state and federal government agencies, grassroots organizations and World Bank staff. The Belem workshop attempted to define the concrete project objectives and main lines of action. IBAMA then prepared a draft project concept paper in July 1996, incorporating the results of the workshop, which was subsequently reviewed by the Bank, IBAMA/MMA, the GTZ and KfW, with further clarification of the objectives and components and the preparation of terms of reference for a project design team. Discussions are now under way on the selection of the consultant team to be contracted to prepare the detailed project design. It is anticipated that the consultants will start work by mid-October. The bulk of project preparation will be completed by the end of the year and appraisal should take place in March 1997. The project could thus become operational in the third quarter of 1997.

The Flood Plain Management Project will focus on the interface between terrestrial and aquatic resources, the seasonally flooded forests. These forests represent a small portion of the area of the Amazon, but provide a source of livelihood to thousands of families of "ribeirinhos" whose main source of protein and cash income is derived from fish and other aquatic fauna. The flood plains are also one of the most threatened ecosystems of the Amazon, due to tree cutting and pasture establishment. There is very little appropriate and knowledge-based policy on the land use of the flood plains and the presence of the state in these areas is minimal.

The project will need to work very closely with all stakeholders, in particular the "ribeirinho" communities, who in many instances have independently taken management of the flood plains, especially lakes, into their own hands and worked out some interesting models.

The project has received pledges of US\$ 8.0 million so far, including Rain Forest Trust Fund, KfW and counterpart funds, but there is still a funding gap of US\$ 5.0 million.

Environmental Education Project

A decision was taken to redesign the **Environmental Education Project** as a competitive grants project. A revised project document has been produced, casting the project as a separate subprogram under the **Demonstration Projects**, which are similar in structure and procedures. Discussions about an amendment to the Demonstration Projects Grant Agreement, which would incorporate a new line of financing for Environmental Education into that Agreement, are expected to be held before the end of the calendar year.

The project has received pledges of US\$ 4.8 million so far, including Rain Forest Trust Fund and counterpart resources, but is expected to attract further resources from donors, bringing the total to about US\$ 8.0 million.

Degraded Areas Project

Progress was slower for the **Degraded Areas Project**, as there continue to be problems with the definition of the concept of the proposed project and its objectives. The first proposal for this project, prepared by IBAMA, was reviewed by the Bank in June 1996. This initial proposal focused on the identification and dissemination of technologies to recuperate lands degraded by several uses -- gold (placer) mining, cattle ranching, farming, and urban development. At a July 1996 meeting between the Bank, IBAMA and Ministério do Meio Ambiente, dos Recursos Hídricos e da Amazônia Legal, it was suggested that instead of focusing on the recuperation of areas already degraded, the project should focus on halting the processes that causes degradation. Promotion of sustainable land uses in already deforested areas, thus lessening pressure on virgin forests, may be considered as a guiding concept. It was also suggested that the project focus on a pressing issue, namely fire control and management in the Amazon.

The project has received pledges of US\$ 2.9 million so far, including Rain Forest Trust Fund and counterpart resources, but there is currently a funding gap of US\$ 6.1 million.

Monitoring, Analysis and Policy Formulation Project

A proposal for a Monitoring, Analysis and Policy Formulation Project, which grew out of the July 1996 Participants Meeting, has also made progress, with a participatory planning workshop held in April 1995. The European Union already approved a grant for this project, administered through UNDP, but due to a variety of factors, the definition of a project proposal that would include both the European grant and a grant from the RFT -- such proposal to be appraised by the World Bank -- has only recently been taken up. It is expected that the project would be operational with the RFT grant in early 1997.

This project will have five major components:

- strengthen the coordination and information flow among the individual projects;
- put in place a system for objective monitoring of each project within the Pilot Program, as well as other strategic initiatives taking place in Brazil's rain forest regions;
- monitor the major physical, demographic and economic trends in these regions, to better understand their overall context of our project-level lessons;
- based on selective analysis of the foregoing activities, distill key findings that provide critical insight for improved resource-use practices and policies in the regions; and
- disseminate these findings in diverse fora, to assure that they reach land-use practitioners, scientists and policymakers, as well as broad sectors of society in Brazil and internationally.

This project will be housed in the Ministry of the Environment's Secretariat for the Legal Amazon, and will involve the active participation by Brazilian and international scholars and World Bank staff.

The project has received pledges of US\$ 5.8 million, including funds from the European Union (which also support the management structure of the Pilot Program at the MMA), the Rain Forest Trust Fund and counterpart resources.

Learning Lessons

As part of the Pilot Program's learning strategy, a study was commissioned by the Bank and CNPT/IBAMA to construct a model to help analyze and strengthen the **economic viability of extractive reserves**. This model, a first of its kind as applied to extractive reserves, is based on earlier preinvestment studies and ongoing studies. It characterizes the human and physical resources of the reserve, as well as existing and planned economic activities, and analyzes family incomes under a range of assumptions regarding environmentally permissible activities and future prices. The study is being completely internalized within CNPT/IBAMA and the local rubber tapper associations.

A large number of **fires** detected by satellite in 1995 raised fears that the trend of deforestation in the Amazon may be reversing. New data on deforestation rates between 1991 and 1994 have recently been published, and confirm an increase in such rates during that period (but not yet for 1995). As the satellite imagery is severely limited for estimating the actual areal extent of burning and gives no information about the reasons for and conditions prior to burning (virgin forest or areas already deforested), the World Bank sought to make use of a new ground-based method for **determining trends in forest clearing, logging and burning in Amazonia**, developed by researchers in the region. The study is to determine whether or not the number of fires have, in fact, increased in the study areas, to identify the nature of land burned, to identify if fire was accidental or intentional, and if intentional, identify the motive for the burning. The study is being conducted in four critical states, covering deforestation and fire history in the selected sites over the last three years. First results of the study will also be presented at the Bonn meeting.

Agroforestry is widely touted as among the most environment-friendly ways to develop rural areas of the humid tropics. Yet there is a need for a clearer understanding of the impediments to its widespread adoption. An analysis of where and why agroforestry has paid off for some farmers and the environment, as well as where and why some agroforestry attempts have failed, is essential. Consequently, a team of specialists was contracted by the World Bank to visit a wide variety of farming situations

and urban markets, from Amapá and Pará in the Eastern Amazon to Acre in the West, to investigate key constraints to more widespread adoption of agroforestry practices, such as poorly-developed markets for agroforestry products, the relatively long economic gestation period for tree crops, and lack of infrastructure for supplying planting material. So far, important insights have been already gained with regard to the role of research and extension, the trends and importance of agroindustry, and the role of credit. Results of the investigation will, again, be presented at the Bonn meeting.

In the future it is the Bank's expectation that studies such as those mentioned above will be fully incorporated into the Monitoring, Analysis and Policy Unit discussed above. In view of the high priority that we give to learning lessons, the Bank has employed a senior environmental specialist who will be responsible for (1) ensuring that the factors that lead to project success and failure are systematically analyzed and disseminated, and (2) institutionalizing this capacity in the MMA.

Financial Aspects

Additional Resources

There have been no officially confirmed pledges for new funds to support the Pilot Program, except for the grant for the Monitoring and Policy Analysis Project in the Ministry of the Environment made by the European Union. The European Union has, however, announced unofficially that it would provide still in 1996 ECU 5.0 million for Directed Research, ECU 4.0 million for Environmental Education, and ECU 2.3 million for related technical assistance. The European has also advised that it is considering a contribution towards the Parks and Reserves Project in 1997.

It is understood that there may be further pledges forthcoming at the Bonn Participants Meeting from other donors. However, the recommendation of the Belém Participants meeting, that there be a more balanced distribution of the financing load across donor countries has not been realized so far.

The current status of actual and planned project costs and financing is given in Annex 2, Table 4.

The overall current financing situation of the Pilot Program (excluding bilateral associated projects) is given in the table below:

Pilot Program Financing* (millions of US dollars)			
Source	Rain Forest Trust Fund**	Cofinancing	Total
Germany	19.4	105.4	124.8
European Union	14.1	43.4	57.5
Brazil	-	26.9	26.9
United Kingdom	2.3	7.6	9.9
United States	5.5	2.0	7.5
Japan	6.8	-	6.8
Italy	3.9	-	3.9
Netherlands	3.2	-	3.2
Canada	0.7	-	.7
Not Yet Identified	-	9.3	9.3
Subtotal	55.9	194.6	250.5
Interest earned	9.1	-	9.1
Expenses***	-7.1	-	-7.1
Total (July 1996)	57.9	194.6	252.5

* Does not include financing for bilateral associated projects.
 ** Contributions as of July 22, 1996. The Netherlands has pledged about \$1.6 million more.
 *** Includes coordination, administrative, and International Advisory Group expenses and preinvestment studies (as of June 30, 1996).

The Rain Forest Trust Fund

An audited Statement of Receipts, Disbursements and Fund Balance for the period March 24, 1992 through June 30, 1995, is available in Annex 1A. A similar, but unaudited statement for the period through June 30, 1996, is given in Annex 1B.

The Rain Forest Trust Fund (RFT) received, in July 1996, the last installment of the European Union's pledged contribution. The only remaining contribution still to be paid in is the third installment from the Netherlands. This brings the total of paid-in contributions to about US\$ 55.8 million. With the outstanding pledge received, the total will be about US\$ 52.6 million. A listing of the contributions received, in original currency and US-Dollar value, is given in Annex 2, Table 6.

Investment income from RFT funds was still substantial in fiscal year 1995 (about US\$ 2.2 million), but less than last year's (about US\$ 3.5 million). Since its inception, the trust fund has earned about US\$ 9.0 million. For the first time, however, annual investment income could not fully cover annual administrative and preinvestment expenses. **Administrative expenses** amounted to about US\$ 2.2 million in fiscal 1996, as was projected at last year's meeting, and **preinvestment** expenses about US\$ 0.3 million, less than had been projected for the year. Preinvestment expenses were mainly for the preparation of the Forest Resources Management Project (US\$ 244,000), and the remainder for preparation of the Environmental Education, Flood Plain Management, Parks and Reserves, and Monitoring/Policy Analysis Projects.

Cumulative expenses for administration since inception in 1992 amount to about US\$ 6.1 million. This amount includes also the costs of Annual Participants Meetings and of IAG meetings. For preinvestment work, which also includes participatory project planning and design meetings held in Brasilia and the Amazon, about US\$ 1.1 million has been spent since inception. Mention needs to be made of the support by German and Canadian grant funds towards coordination of the Pilot Program and preparation work in earlier years. These trust funds have been fully used and closed.

After disbursements to projects (out of sub-trust funds set up specifically for each project) of about US\$ 5.1 million, the **balance** of the Rain Forest Trust Fund on June 30, 1996 amounted to about US\$ 47.1 million (unaudited).

The World Bank's **projections** for the cash flow of the Rain Forest Trust Fund for the fiscal years 1997 onwards are presented in Annex 2, Table 5. The last European Union contribution and the expected payment of the last Dutch contribution are counted in fiscal year 1997 (which began on July 1, 1996); no further contributions have been assumed thereafter. Investment income was assumed at 4% of a year's beginning balance, as was the about the case in FY 1996. Project disbursements were projected taking into account best estimates of Bank staff. Administrative expenses have been estimated carefully for FY 1997, on the basis of project-wise task budgets and taking into account all fixed costs of the Rain Forest Unit in Brasilia and Washington. The estimate for FY 97 of US\$ 2.6 million reflects the larger size of the staff at the Brasilia field office, including correspondingly larger space and office costs, and a larger project supervision and preparation load. This should be the peak year in terms of administrative expenses, as it is expected that due to less project preparation costs, the expenses in subsequent years can be reduced progressively, while still maintaining a sound capability for project supervision, overall coordination and learning. Preinvestment studies for FY 97 have

been estimated to cost about US\$ 0.4 million, mainly for commitments already made, and zero thereafter.

The projections result in a net availability of funds to be allocated to the various projects from the Rain Forest Trust Fund of about US\$ 52.3 million. (This includes the US\$ 37.3 million already allocated to ongoing projects and transferred to sub-trust funds). This is about 91% of the total of donor contributions by the donors (after full payment).

Organization

The World Bank's Rain Forest Unit increased in size and became fully functional at its new site, Brasilia, with a current staff of six officers (staff and consultants) in Brasilia and two more in Washington. An officer responsible for NGO liaison recently posted at the Bank's Resident Mission in Brazil assists the unit also part of his time. The full size of the unit (nine) will be reached in November 1996 with one new officer joining the unit in Brasilia from headquarters. It is felt that the composition and strength of the team will then be adequate to fulfill the Bank's role in the Pilot Program. The location of the Bank's unit in Brasilia has already proven to be highly beneficial to the dialogue with government at various levels in Brazil, with donor representatives, UNDP, NGOs and beneficiary communities, and to the day-to-day operational work with the various agencies involved.

The World Bank has also transferred the oversight about its own loans for environmental projects (National Environment Project, Mato Grosso Natural Resource Management Project, Rondônia Natural Resource Management Project) and for the National Biodiversity Project and Biodiversity Fund (funded by GEF) to its Brasilia office. This greatly helps internal coordination of work between the Rain Forest Unit and other Bank staff concerned on matters of "green issues", as there is a considerable overlap in project scopes.

The **Government's Coordinating Unit for the Pilot Program** in the Ministry for the Environment, Water Resources and Legal Amazon has also been strengthened. It works closely with the Bank's unit in Brasilia. The Technical Secretariats for some of the projects have been created or expanded. Some of these need further strengthening, not necessarily in numbers of staff, to be able to fulfill their functions adequately. The

services of the **United Nations Development Program (UNDP)**, through Technical Assistance or Preparatory Assistance Projects funded from grants under the Pilot Program, have been instrumental in establishing and maintaining the administrative and coordinating mechanisms of most of the ongoing projects.

The **International Advisory Group (IAG)** met twice since the last Participants Meeting in Belém, in March and July 1996. The report of the last meeting is attached. Due to the departure of two advisors, and the fact that one of the twelve members originally nominated had never participated, three new members were proposed by the World Bank in May 1996 (from Brazil, Belgium and the USA), and in the absence of an objection by the Participants, participated in the July meeting. Subsequently, some remaining doubts were expressed by some Participants as to the composition of the IAG by specialty and nationality, and as a consequence, the World Bank proposed three more members (from the United Kingdom, Italy and the Netherlands), bringing the total number up to fifteen. Any member departing from the IAG in the future would not be replaced until the number reaches twelve again. A list of the 15 members (current and nominated) is attached. **The Participants Meeting in Bonn is asked to ratify this new composition of the IAG.**