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G7 PILOT PROGRAM
TO CONSERVE THE BRAZILIAN RAINFOREST

**Report of the
International Advisory Group
(IAG)**

Twelfth Meeting

Brazil, 5-16 July, 1999

INTRODUCTION

The IAG met for the twelfth time in Brazil from 5-16 July, 1999. In addition to meetings in Brasilia, brief field trips to examine the integration of PPG7 projects within state environmental policy were undertaken by three sub-groups to Amazonas-Roraima, Tocantins-Maranhão and Mato Grosso-Acre.

This report of the IAG comes at a time of profound rethinking of the Pilot Program and of rapid changes in the economic, political and institutional context of Amazonian development. Unlike previous IAG reports, which were more project-focused, this document will address three sets of wider and more programmatic issues; (a) broad trends in Amazonian development, (b) the present situation of the Program, and (c) the recommendations of the *Review of Institutional Arrangements* (Final Report, July 1999).

PART I

DYNAMICS AND TRENDS IN BRAZIL'S AMAZON REGION

Since the Pilot Program was conceived in 1990, Amazon development has changed in a number of important ways, making it necessary for the Program to adapt its emphasis to this evolving situation. A growing lack of integration has been observed between two different dimensions of State action, one based on planning and facilitating new investments for economic growth and opening markets, the other focusing on sustainable development, local people's livelihoods and environmental protection.

Old occupation patterns coexist with a set of diverse and potentially conflicting new dynamics. These include such diverging driving forces as capital-intensive agriculture and related expansion of infrastructure, colonization and settlement through agrarian reform and through spontaneous invasions, and the practical demonstrations and environmental planning efforts of the experiments promoted through the Pilot Program. At the same time, the new Ministry of the Environment (MMA) has introduced a number of changes with the intention of improving environmental conditions in Amazonia. These dynamics have brought profound changes in social forces and land use.

Compared to the situation when the Pilot Program began, demographic trends in Amazonia show greater urban concentration (68% of the total population in 1996), reduced migration from other regions and increased migration within the region penetrating into new forest areas. A significant component of the migration is induced by the agrarian reform and constitutes a fundamental social force affecting deforestation and other land-use trends. The accelerated implementation of the agrarian reform constitutes a new element in Brazilian public policies. However, in spite of official policies, its implementation in the Amazon region still maintains the old patterns of settlement and colonization, with rapid deforestation, supply of valuable timber to sawmills located in

areas of primary forest, uncontrolled use of fire and a high index of plot abandonment, leaving behind new degraded areas.

Parallel with this, the continued expansion of 'mining' of timber (predatory selective logging) is, in a growing part of the Amazon region, the driving mechanism that precedes further land occupation. It also represents a factor in increased exposure of forest to fires originating in nearby pasture renovation and agricultural practices. This unprecedented phenomenon is introducing fire as an actor in the day-to-day evolution of the landscape in some parts of the Amazon.

A recent development with major potential impacts is the entry of soybeans into Amazonia and of major infrastructure projects such as waterways, roads and railways to carry soybeans both from plantations in *cerrado* areas outside of Amazonia and from new areas of expansion within the region. Much of the Brazil on the Move (*Brasil em Ação*) program in Amazonia is concerned with transporting soybeans and the inputs needed to grow them. In the Amazon, soybeans - also with substantial government subsidies - are expanding in vast areas of savannah and forest ecotones, and are now threatening to penetrate into the fragile ecosystems of the Amazon floodplain (*várzea*). In addition to soybeans, rice and maize are also expanding in capital-intensive plantations.

The experience of the Pilot Program reveals the existence of a demand for new patterns of land use. Despite having so far focused on local, grassroots projects, the PPG7 became an innovative learning process in the region, since it does relate only to planning in environmental conservation but also tries to attend the new demands on the part of the community-level rural producers, principally communication, extension and capacity-building. Global connectivity contributed to change the quality of expectations, the PPG7 being part of this process of social and cultural change. The aforementioned urbanization trend contributes to rising expectations and, in the meanwhile, it constitutes the basis of a potentially expanding local consumer market for regional products.

Government initiatives are currently guided by a number of considerations that were not evident when the Pilot Program began. Decentralization is a recurrent theme in government reorganization at both the federal and state level. Participation of civil society is a new feature of many government programs. A series of state-level 'positive agendas' have been and are being developed to coordinate federal and state government actions. A series of new priorities are being pursued by the federal Secretariat for Amazonia as alternatives to economic activities resulting in deforestation and degradation, such as bio-prospecting and the bio-technology industry, rehabilitation of degraded lands, sustainable forest management and urban development. This illustrates the urgent need for increased ownership of the Pilot Program, in order to guarantee adequate mutual consistency of these efforts.

Eventually, while the axes of integration and development can significantly affect the Amazon, especially through new links such as roads, waterways, railways and electrical transmission lines, the need for economic-ecological macro-zoning is increasingly acknowledged both by the Secretariat for Amazonia and a number of state

governments. Transboundary integration processes reflect the increased awareness of the new, larger regional scale on which Amazon policies are being conceived. In the future, other markets could have significant impacts on land-use decisions in Amazonia. These include as the increasing trade in socially and environmentally certified forest products and, on the longer term, possible market for carbon services from forests under the Kyoto Protocol.

Implications for the Pilot Program

The above-mentioned trends should be taken into account while developing strategies for the Pilot Program over the next decade. Such strategies are urgently needed in order to guarantee the cohesion of the Program and to ensure its influence on Amazonian ecological, economic and social conditions. These include:

- The Pilot Program will play a crucial and new role in contributing towards and assisting in the important task of the Amazon Secretariat in articulating the two aforementioned dimensions of government policy, also with the aim of assuring the adequate insertion of the Program itself in the larger context of government action.
- The Pilot Program should establish specific mechanisms in collaboration with the Ministry for Land Issues and the National Institute for Colonization and Agrarian Reform (INCRA) in order to integrate relevant actions, implement experimental activities and contribute to more sound policy formulation.
- New settlement projects should be planned and implemented only in altered areas which already have with basic infrastructure. These projects require the introduction of environmentally and socially sound economic activities. Within this framework, the establishment of adequate interaction between settlement production and the absorption capacity of local markets should be pursued by settling colonists into 'buffer zones' close to urban *nucleii*. This would be facilitated by a more adequate credit system based on productive units rather than on individual products.
- The definition and implementation of a consistent forest policy for the whole country has become imperative. This should happen through a participatory process and through focusing on critical issues such as effective prevention of predatory logging, forest zoning, a viable concession mechanism and the use of timber plantations. Such actions would support access to independent certification of Brazilian forest products
- Various factors, including recent normative developments related to rubber production as well as to more general economic and market trends, show the difficulty of guaranteeing the subsistence of many traditional forest dwellers. However, the continued presence of these groups in their customary territories represents an essential service for society as a whole and the most cost-effective method of conserving the forest. Remuneration for this service is both an issue for government policy and for Pilot Program action.

- Soybean expansion in the Amazon has been encouraged due to high international prices, increased demand and public subsidies. The resulting difficulty in controlling such a phenomenon can be mitigated by the early formulation of zoning along the relevant corridors where it is being expanded, especially with the aim of preventing conversion of forest and floodplain areas as well as impacts on fragile freshwater resources.
- The possible inclusion of forest resources in the Clean Development Mechanism (CDM) under the Kyoto Protocol represents, on the one hand, an important opportunity for Brazil to play a leading role in this new international process and, on the other, an opportunity to provide new and additional resources from which the local population should benefit.
- New dynamics and trends suggest two main complementary strategic options for action: (1) macro-zoning, concentrated on legal and effective protection of existing and new conservation areas, which should take into account limitations and opportunities offered by the urban network, and (2) negotiations and coalition building to alter current policies that have negative impacts.

PART II

THE PROGRAM

The following analysis of the state of the Program is based on its objectives as described in the Background Note and Agreement to the Rainforest Trust agreement and also in the Terms of Reference for the IAG:

‘The overall objective of the Pilot Program is to maximize the environmental benefits of Brazil’s rainforest consistent with Brazil’s developmental goals, through the implementation of a sustainable development approach that will contribute to a continuing reduction in the rate of deforestation. The attainment of this objective would:

- demonstrate the feasibility of harmonizing economic and environmental objectives;
- help preserve the huge genetic resources of the rain forests;
- reduce the contribution of Brazilian rain forests to global carbon emissions;
- provide another example of cooperation between developed and developing countries on global environmental issues.’

1. What is the ‘pilot’ nature of the PPG7?

Different meanings can be attributed to the term ‘Pilot’ Program:

- the Program may envisage experiments in pilot areas to be replicated in other parts of the Brazilian Amazon;
- the Brazilian Pilot Program might serve as an example for forest programs in other tropical countries;

- the Pilot Program might demonstrate promising methods or development paths and qualify actors to then identify their own development strategies and the necessary resources to execute them.

We consider all three definitions valid for the Brazilian Pilot Program and we strongly support much wider dissemination of its concepts, approaches and results both within and outside Brazil. The institutions involved in the Program should be aware of its demonstration character. It cannot solve problems as global carbon emissions, nor can it solve local development problems. However it can and, indeed, is demonstrating possible ways for dealing with such problems.

2. Does the PPG7 constitute a program?

Since the beginning, a major challenge for all participants has been to ensure that the PPG7 formed a program rather than simply a collection of projects. It was recognized that the effort to conserve the Brazilian rainforest required innovative efforts involving inter-sectoral actions at many levels. Linking these relatively small pilot efforts with other public and private initiatives was fundamental. The need to improve this aspect of component integration has been emphasized in almost all IAG reports. Decentralization of the RFT Unit to Brasilia, inclusion of the Pilot Program and the WWF/Bank alliance in country strategy discussions, as well as the current efforts of the Ministry of the Environment and Secretariat of the Legal Amazon to fashion a more integrated and strategic approach, augur well for better integration.

However, these progressive forces are weak when weighed against the sectoral divisions amongst governmental institutions in Brazil, as well as poor coordination within bilateral institutions, the World Bank and non-governmental organizations. Significant links among components of the Program are rare. The degree of local integration among PPG7 components through the state Working Groups (GTs) varies considerably. Furthermore, state-level Natural Resources Policy projects, in spite of their broad mandate, are not informed by Demonstration Projects or Directed Research efforts. Little effort has been made to inform participants in PPG7 projects of the larger Program objectives. The failure over the years to develop a high-quality, objective strategy for the PPG7 or a strategic, analytical unit has hampered efforts at better integration among Program elements and their integration with related actions in other parts of government, NGO and private sectors.

Major development programs are having a substantial impact on the Amazon. INCRA, for example, is establishing 90% of its agrarian reform settlements in the region. Subsidized soybean production in the Madeira valley is expanding, while infrastructure development under the government's *Brasil em Ação* ('Brazil on the Move') program will have far-reaching effects. The IAG has attempted to list and describe other government, multilateral, bilateral, NGO and private sector activities that are consistent with PPG7 objectives and which could be formally associated with the Program. Urgings in this regard at the Manaus participants meeting have produced little reaction, apparently because the Brazilian government wishes to list only activities that have gone through

official bilateral channels. Programmatically and in terms of results, this makes no sense. We have long agreed that these efforts should not count as a direct contribution to the PPG7 itself, but it should be possible to create a category of associated activities.

The uneven stage of implementation of different Program components is well known as one of the factors that makes the PPG7 less unified than would be ideal. However, the decision to go ahead with those parts of the Program that were ready to advance has always been a wise one, as the alternative of simply extinguishing more complicated and slow projects would be much worse. The new team at the MMA has been working hard to accelerate preparation of the projects that have not yet begun, including PRODESQUE, PROVARZEA, PD/I and others. The IAG applauds this effort, and emphasizes the importance of finding solutions to problems that still impede advances on such vital program components as the Central Amazon ecological corridor.

3. Is the Program consistent with Brazil's development goals?

The Program is basically consistent with some of Brazil's development goals and policies. However not all of these goals are internally consistent with each other. This question is addressed in Part I above.

4. Is the Program implementing a sustainable development approach?

The vision of sustainable development agreed upon by 178 countries at UNCED in Rio de Janeiro in 1992, implies: (i) that natural and economic resources as well as human resources and social capital should be used to ensure that the development opportunities of future generations are safeguarded; (ii) that natural, economic and social resources should be used in an economically efficient manner; (iii) that resources should be used in a socially just way; (iv) that a multi-institutional approach based on partnerships is required in order to promote sustainable development; (v) that development strategies should be consistent with their natural, socio-economic, political and cultural environment.

These are the basic criteria with which any sustainable development approach should seek to comply, notwithstanding the impossibility of meeting them all completely. The vision and the named guiding principles of sustainable development do not provide a blueprint for development. Rather, they orient the search for development alternatives in negotiations among actors and partners. It is, strictly speaking, impossible to state if an approach is really sustainable: Rather one should ask if highest possible efforts are being made to follow the principles of sustainable development.

(a) What innovative forms of natural resource use are being developed?

Substantial innovations have been developed, so far, mainly by the Extractive Reserves project (RESEX) and the Demonstration Project (PD/A) with regard to fish breeding in small tanks, agroforestry systems, perennial crop production, communal forest management and recuperation of degraded areas. Two expert groups have

published strategies and techniques for fire prevention and for agroforestry systems. The Emergency Fire Prevention and Control Project (PROARCO) and the Fire Prevention, Mobilization and Training Project (PROTEGER) contributed significantly to reduce losses of natural resources through fire. Further substantial innovations in resource use are expected soon from the Forest Resources Management Project (PROMANEJO) and the Floodplains Management Project (PROVARZEA). The NRPP project and the Rain Forest Corridors Project (ex-Parks and Reserves) will, it is hoped, soon contribute to improved conservation of the natural resource base.

With all these approaches the Program is contributing to conservation and efficient use of natural resources. One should, however, bear in mind, that changes in the use of natural resources frequently have consequences also for human resources and for social capital, i.e. the rules, collective arrangements and traditional knowledge. We, therefore, strongly recommend carefully monitoring the consequences of innovative use of natural resources on human health and education as well as on social capital.

The above list of scattered approaches to conservation and efficient use of natural resources illustrates the lack of a central strategy of natural resources management. Considering the objective of the Pilot Program, such strategy should be centered on forest resources, integrating six key strategic elements: (i) Preservation of forests; (ii) sustainable management of primary and secondary forests; (iii) protection of forests against illegal logging and fire (iv) prevention of large forest clearings (especially through INCRA) without environmental and social impact analyses; (v) strengthening the extractivist economy; (vi) restoration of degraded areas.

In order to integrate these strategic elements, existing and ongoing inventories of forest vegetation types should be complemented by mapping the properties and actors involved in timber extraction. This would facilitate the concentration of protective measures as well as incentives on strategic areas. In order to redirect the increasing pressure of timber extraction away from forest destruction to sustainable forest management, forest certification should be actively supported by the PROMANEJO as well as by the PD/A and NRPP projects. Forest certification should also be facilitated and encouraged by federal, state and municipal authorities. Special credit lines should be negotiated for certified timber extraction and processing activities. Existing credit lines for small farmers should be extended to economically enrich degraded areas, giving priority to managing improved secondary forest.

(b) Is the Program contributing to social equity?

The program is demonstrating that it has the potential to contribute significantly to social equity in the Amazon. Encouraging progress has been made, for example, in establishing income-generating measures for underprivileged groups through the PD/A and RESEX projects. The Program is contributing to fulfilling one of the highest expectations of an important segment of Amazonia's traditional population by securing property rights for the rubber tapper population. The Program's main contribution so far to social equity has, however, been the demarcation of 22 million hectares of indigenous

land. This major success would have been politically, technically and financially impossible without the support of the PPG7 .

(c) Are the main actors of Amazonian development involved in the Program?

The Program has successfully involved and strengthened many local groups as well as local and regional NGOs. Substantial efforts have also been made to involve municipalities and state governments as well as federal ministries and institutions. However some of the most important actors are not taking part in the Program, such as INCRA and the Ministry of Budget and Management (MOG), responsible for the 'Brazil on the Move' development program. Whereas the latter should be involved at the strategic level, INCRA should be integrated at the federal, state and municipal levels, notably in the NRPP working groups. The Ministry of Agriculture (MAG) and Ministry of Land Reform (especially INCRA) should join the PPG7 institutional structure. Their contribution is needed (i) to harmonize land reforms with the forest protection objectives of PPG7; (ii) to increase the MAG role in promoting multiplying effects based on PPG7 lessons learned, with special reference to the dissemination of more sustainable land use alternatives and practices in the Amazon and Atlantic Rainforest. There should be greater participation of the private sector, including discussions with large cattle-farming, timber and agribusiness interests as well as commercial and development banks.

(d) What new forms of communication, cooperation and partnership are being developed?

The cooperation of PD/A project with the *Banco do Brasil* is a unprecedented and very successful new form of partnership being replicated in the PROMANEJO project. At the state level some NRPP working groups are becoming more effective fora for communication, cooperation and alliance building. The appointment of a representative by the Secretariat for Amazonia (SCA) in each of the nine Amazon states to coordinate local PPG7 activities is a welcome development.

(e) What steps have been undertaken to increase the consistency of the PPG7 with its natural, socio-economic and political environment?

The consistency of the PPG7 with government programs for the Amazon is a question that has not yet been addressed systematically. There are evident conflicts between the land-reform policy and PPG7 and numerous indications of possible conflicts between the 'Brazil on the Move' program and PPG7. The lack of fora to harmonize conflicting policies and programs for the Amazon is putting at risk the effectiveness of PPG7.

Ecological and economic zoning (ZEE) undertaken by the NRPP project in pilot areas of all nine Amazon states is expected to contribute significantly to the consistency of the PPG7 with its natural, economic and political environment. IAG members have heard from various governors that they are awaiting anxiously the results of ZEE in order to better define their sectoral policies for these areas. On the other hand IAG members

have also seen examples of poor vertical consistency between the PD/A and PROTEGER projects on the one hand and their respective municipal authorities on the other, leading to serious conflicts which threaten their long-term effectiveness.

Ensuring the consistency of PPG7 projects with market conditions will become a key issue. Major efforts should be made to analyze and explore the demand for certified forest products for the benefit of communal forestry as well as of sustainable forest management practised by companies.

5. Is the Program contributing to a reduction in the rate of deforestation?

It is difficult to measure the direct effectiveness of the Pilot Program in reducing deforestation rate. Indeed, given the record high deforestation rate in recent years and the unprecedented fires in 1997, it would seem easy to conclude that there has been no effect. Although this effect has undoubtedly been small relative to the pace and overall level of destruction, the long-term potential of the Program is much more substantial. This includes the impact of government policies based on information generated by the Program on the causes and impacts of deforestation and on the practicality of alternative means of supporting the resident population. In a longer time-frame, the conservation units and indigenous areas protected created under the Program will set the limits to the advance of future deforestation, representing substantial stocks of stored carbon. Important Pilot Program contributions to date include a study of the advance of fire into standing forests (a major feature of forest degradation and destruction and in release of greenhouse gases), contributions to sustaining traditional populations in extractive reserves and other areas, introduction of agroforestry and other means of supporting agricultural populations, and the production of a number of research studies on carbon stocks and flows.

6. Is the Program contributing to the attainment of its four desired effects?

The PPG7 is beginning to demonstrate the potential for harmonizing economic and environmental objectives. To date, this has been limited to relatively small efforts supported by Demonstration Projects (PD/A), Extractive Reserves and Directed Research components. As the Review of Institutional Arrangements so correctly points out, a strategic centre to steer the PPG7 at the Program level has not so far been developed. For this same reason, while some promising alternatives have been developed and applied on a small scale, there is as yet no evidence of a wider impact on either Amazonian biodiversity or on global carbon emissions, for example. However, it is fair to say that the Extractive Reserve project as well as the successful demarcation of indigenous lands has strengthened the degree of protection of a number of large areas.

(a) harmonizing economic and environmental objectives.

This desired effect has been attained, especially with Extractive Reserves and PD/A projects. There should be a greater focus on (a) product processing and marketing, and (b) building local capacity such as strong farmers' associations. Many

projects/subprojects have promoted market-oriented agroforestry alternatives which are showing the potential for slowing down deforestation. Conversion of degraded pastures to forest plantation or agroforestry (including silvipastoral systems) should receive a much higher priority. Government subsidized credit mechanisms should more effectively target market-oriented agroforestry and degraded land restoration practices. PPG7 RESEX and PD/A projects should pay more attention to IBAMA's *simplified forest management plans* as a means of protecting native forests and increasing family income among local communities.

(b) preservation of the huge genetic resources of the rain forests.

The tropical rain forests of Brazil are among the richest sources of biodiversity in the planet. We believe that the PPG7 should help Brazil's conservation effort by establishing additional large protected areas (conservation units) in Amazonia and in the Atlantic Rainforest.

(c) reduction in the Brazilian rain forests' contribution to global carbon emissions

The Pilot Program is intended to reduce deforestation, which is by far the largest source of carbon emissions in Brazil. Deforestation in Brazilian Amazonia currently produces over 300 million tons of carbon annually. Each hectare of avoided deforestation in Brazilian Amazonia results in a net avoidance of approximately 200 t of carbon, after deducting the re-absorption of some of the initial emission by the replacement vegetation. Any reduction in current deforestation rates therefore translates into a *substantial effect* that the Pilot Program has had on global carbon emissions.

(d) provision of an example of cooperation between developed and developing countries on global environmental issues.

See Part III below.

7. What should be the geographical coverage of the program?

(a) Amazonia and the Atlantic Rain Forest

So far, PPG7 has been a largely Amazonian program. Atlantic Rainforest-based groups are demanding a larger share of PPG7 funds. The ideal solution would be to create a separate program for the Atlantic Rainforest. However, this solution has two defects: (a) the present lack of available funds for a separate program, and (b) a higher global administration cost. It therefore seems more prudent, for the time being, to maintain one PPG7 and conduct a strong, well-articulated campaign to raise additional support in favor of forest protection, biodiversity conservation and demonstrative restoration of degraded areas in the Atlantic rain forest region.

The IAG recommends that at least two Mata Atlantica states should have a seat on the PPG7 Coordinating Commission and that, in the future, the Government should build up and support a National Atlantic Rainforest Program.

(b) Greater Amazonia

The Amazon encompasses at least eight nations (signatories to the Amazon Cooperation Treaty). Some of the most important hotspots for biodiversity are outside Brazil, principally in the valleys of the Amazon slopes of the Andes. If the Amazon is to be developed in a sustainable manner, the headwaters of the tributaries need to be taken into account. In addition, maintaining the integrity of the hydrological cycle requires the collaboration of all Amazonian countries. Ideally therefore, the experience of the Pilot Program should be extended beyond Brazil to include the other Amazon nations. There is growing intent in collaboration as evidenced by the recent meeting of Amazon Environment ministers in Cochabamba and the meeting of the 'High Amazon' countries in Quito on better practices for oil and gas exploitation.

8. How can Program performance be assessed?

A learning process of the Program's performance is an essential precondition for strategy formulation. At this stage, it is not possible to further delay the definition of a set of adequate indicators to be used, in the future, for monitoring the Pilot Program's performance, to be primarily developed in the context of AMA implementation. However, ad-hoc, early collection of appropriate data should be planned and organized, since existing and available data are most often not suited to be used for this purpose. The peculiar conditions of the Amazon region, the diversity of its sub-regions, the innovative nature of the PP-G7 activities, as well as its scattered location and limited scale make necessary to start collecting relevant information in a way that can serve later as a reference for using indicators. For instance, biodiversity monitoring in the Amazon region can represent a huge challenge in both operational and financial terms.

In particular, attention should be given to (a) measuring and comparing potential developments with and without Pilot Program implementation, (b) selecting certain key local contexts to compare them with others where no other activities were undertaken, (c) involving local beneficiaries of projects in the collection of information and monitoring as part of the implementation of activities, (d) using a mix of social and environmental criteria and (e) establishing separate indicators at project and program level.

In conclusion, the following points may be highlighted:

- The Program contains many promising initiatives conducive towards a sustainable development approach.
- Considering the complex causes of deforestation and the limited resources of the PPG7, it could not realistically be expected to result in a measurable reduction of deforestation over the short term.

- However, the Program has succeeded in changing the institutional setting and in demonstrating promising approaches to natural resources management .
- The Program correctly took a multi-sectoral and broad-based approach to attacking the causes of deforestation. However, it should now focus more strongly on forest protection, including the establishment of conservation units, and sustainable forest management as key elements of an integrated strategy.
- The Program urgently needs to develop a learning and diffusion strategy.
- Major contradictions still exist between the sustainable development approach of the Pilot Program and mainstream development policy, which could compromise the effectiveness of the PPG7. These problems need to be addressed at the levels of regional and sectoral development planning.

PART III

INSTITUTIONAL ARRANGEMENTS

During the first phase of the PPG7, it became evident that poor definition of roles and responsibilities amongst Participants had led to inter-institutional conflict and tensions which were severely hampering implementation of the Program. The IAG had been increasingly called upon to act as a mediator in these situations. However it became clear to the advisory group that a fundamental re-examination of the Program's institutional structure and functioning was required. Accordingly, in its ninth report (March 1998), the IAG recommended that an in-depth, independent study be carried out of the roles, perceptions and responsibilities of participating institutions – donors, the World Bank and Brazilian government organizations.

The IAG provided comments on the first version of the evaluation report (April 1999) and received the final version of the *Review of Institutional Arrangements* towards the end of its July 1999 meeting in Brazil. The late arrival of the final report (on 14 July) meant that the IAG did not have as much time as it would have liked to comment in detail on its recommendations. However, it has been possible to reach some conclusions.

The report is a considerable improvement on the earlier version and has benefited from extensive feedback. It offers a broad and updated analysis of the current situation and problems within the Pilot Program institutional structure. Summarized from the discussion below, the IAG would like to highlight the following guiding principles for institutional restructuring:-

- Any solution should effectively translate the basic principle of enhanced Brazilian ownership into practical institutional arrangements.
- Before any institutional re-engineering takes place, roles and responsibilities of the main participants must be carefully defined.
- Steering and management roles must be clearly defined and separated, involving all participants in the former but restricting the latter to Brazilian government institutions.

- Pilot Program strategy and its links with broader development and environmental policy matters should remain the responsibility of the Brazilian government.
- Consideration should be given as to how the Bank's technical expertise can be better incorporated with the Brazilian government's own implementation structure rather than remaining totally separate.

The Managed Partnership Option

The 'Managed Partnership' proposed by the Institutional Review builds upon existing institutional arrangements and suggests modified roles for Program participants, 'creating an enabling framework for Brazilian ownership and leadership'. Of the three options proposed in the report, this seems to be the most viable. As a general observation, however, the IAG believes that there has to be a much clearer definition of roles and responsibilities than that offered in the report. The IAG would also like to underline the fact that, once new roles are clearly defined, if the proposed changes are not to become mere window-dressing there has to be a genuine predisposition and commitment to change on the part of all Participants.

Brazilian ownership.

There has been an emerging consensus amongst Program Participants that the time is now ripe for a strengthening of Brazilian 'ownership' and leadership of the PPG7. This implies a greater degree of authority and control over the Program on the part of the Brazilian government, alongside the assumption of more responsibility and for resulting impacts and integration with regional development policies in the Amazon and the Atlantic rainforest. Organizational restructuring within the Ministry of the Environment (MMA) and the Secretariat for Amazonia (SCA), including some decentralization of SCA activities to state level and the creation of a 'Positive Agenda' for Amazonia, indicate a new and vigorous government commitment towards achieving this goal. It is worth noting, however, that decentralization is no panacea and that its success depends very much on the quality of state-level administration of environmental management, which varies considerably within Amazonia. Consolidation of these initiatives is essential if the Program is to perform its central role of establishing 'pilot' experiments in conservation and sustainable development which link with and catalyze progressive changes in policies and practice for Amazonia.

The main vehicle in the suggested plan for strengthening Brazilian ownership is the Joint Program Steering Committee (JPSC), together with Project Management Group (PMG). The IAG has serious reservations whether, as proposed in the report, the JPSC would prove to be an effective tool for greater Brazilian ownership of the PPG7.

(1) Within the JPSC there should be a clearer definition of roles and responsibilities of the Brazilian government, donors and Bank. The steering and management functions attached to the JPSC need to be more clearly defined and separated. Since Program management will be the main vehicle for strengthened Brazilian ownership of the PPG7, clarification of these roles and responsibilities amongst Participants on the JPSC is vital.

In addition, since it is proposed that representation of Amazon states and NGOs on the JPSC should be selective, consideration should be given the introduction of revolving membership to ensure fairness.

- (2) Other key areas which require clarification are the roles of the Program Coordination Committee (PCC) and the Donor Coordination Committee in Brasilia (DCC-B) and their respective relationships with the JPSC. These do not appear to be well defined at present.
- (3) It is proposed in the report that policy coordination and lessons learned from the Pilot Program be channeled through the chairperson of the JPSC (the Executive Secretary of the MMA) to a new Inter-Sectoral Committee to be set up within the National Council for the Amazon (CONAMAZ). Grave doubts must be expressed over the effectiveness of this approach in view of the well-known fact that CONAMAZ has for some two years not been operational as a body and appears to lack credibility.
- (4) The creation of a proposed Ad Hoc Working Group as an advisory body to the JPSC creates an overlap with the roles of existing bodies concerned with policy matters and therefore seems unnecessary. In addition, it is questionable whether, through the Ad Hoc Working Group, the Bank as leader of the group should play such a dominant role in Program strategy definition. This relates to the more general need for a clearer definition of the future roles and responsibilities of the World Bank.
- (5) Participation by the Brazilian government in the PPG7 has to date involved, aside from the MMA itself, the Ministry of Science and Technology (MCT) and the Ministry of Justice (MJ). In order to better integrate the PPG7 within the mainstream of development activities, it is critical that other directly relevant ministries be incorporated into the organizational structure. The IAG thus agrees with the IR that the Ministries of Agriculture (through EMBRAPA), Agrarian Reform (via INCRA) as well as Budget and Management (MOG) should become members of the PPG7 Coordinating Commission.

The changing role of the World Bank.

Under the Rain Forest Trust Fund (RFT) resolution, the Bank has both a fiduciary and a coordination role. Under its *fiduciary* role the Bank is entrusted with managing the RFT and with project cycle responsibility for that minority of projects funded multilaterally through the RFT, based on well-established Bank technical procedures. In its *coordination* role, the Bank has been required by donors to act more broadly as what it calls an 'honest broker', becoming at once 'coordinator, facilitator and (periodically) leader'. For example, donors often delegate supervision responsibility for bilaterally funded projects to the Bank in view of its local presence and its technical expertise. These two roles have sometimes come into sharp conflict. In its broker capacity for donors, the Bank has exercised fiduciary responsibility by adhering to standard project cycle procedures. This has occasionally been resented by beneficiaries as constituting top-down 'interference' by the Bank, the Natural Resources Policy Project (NRPP) being a clear case in point.

The Bank has expressed its view that project management should eventually become an entirely Brazilian responsibility, while management of external funds should remain a fiduciary responsibility to shareholders. As its operational role at project level diminishes, the Bank sees itself as becoming more active in areas where it feels it has a comparative advantage, such as those of policy dialogue and lending. Policy-related activities suggested include economic and sector work as well as policy dialogue with the Brazilian government. In its more traditional lending role, the Bank would give more emphasis in its country assistance strategy to conservation and sustainable development. The Bank's comparative advantage lies rather in its technical strength, which could be more efficiently applied if donors re-examined their funding practices to simplify procedures. The balance of responsibilities in these areas must be clearly and carefully negotiated by the Bank, the Brazilian government and donors.

Donors' roles - bilateralism vs multilateralism

Under the Geneva agreement, foreign funding for the Pilot Program has been based on two distinct mechanisms. *Multilateral* funding through the RFT accounts for less than 20% of the total (US\$52 million), *bilateral* funding (parallel co-financing) provides the bulk (US\$260 million), and Brazilian counterpart funds a further US\$29 million. This dual multilateral/bilateral mode has exacerbated the complexity of the PPG7 due to the multiple appraisals and negotiations involved. Some components such as the NRPP, for example, have entailed as many as six different grant or technical cooperation agreements. Bilateral funding of some project or sub-components has sometimes been carried out directly between donor and Brazilian government without the involvement and, occasionally, even the knowledge of the Bank. Such procedures have detracted from a programmatic approach, have led to tensions within the PPG7 and have contributed in no uncertain measure to the slowing down disbursements (30% of allocated funds at the end of 1998) and implementation imbalances. Thus, while recognizing the desire of Donors for bilateral direct funding, the balance between multilateral and bilateral approaches must be re-thought in the interests of program and project efficiency and effectiveness

The IAG thus endorses the Institutional Review recommendation that donors should give careful and serious consideration to (a) shifting a greater proportion of project finance into project-specific trust funds or the central RFT and/or (b) the idea of single-donor project funding.

The role of NGOs

Non-governmental organizations (NGOs) have played a vital role in the Pilot Program as representatives of civil society as well as in executing technical and managerial activities. Reflecting wider changes, government and NGOs in the Amazon have moved away from outright confrontation and towards active cooperation, a process that the Pilot Program has helped to facilitate. NGO diversity is also an important factor to be taken into account and its potential value explored.

The IAG recommends that, in order to improve the quality of public participation in all PPG7 sub-components and to prevent it from becoming too bureaucratic, further steps should be taken to diversify the range of actors involved. This should be based on various criteria, such as their technical ability and expertise or their degree of representativeness.

Communication and dissemination

The IAG concurs with the IR that not enough has been achieved in terms of disseminating information either within the Pilot Program itself or from the PPG7 to society at large. Although there have been improvements in this respect, after six years the Program remains little known in Brazil and even Amazonia itself. It is evident that more effective means of communication and dissemination need to be developed. A closer association between the PPG7 and other key institutions could be forged; for example, with vocational training (SENAC, SENAI), small business promotion (SEBRAE) and small farmer development (PRONAF). Communication and dissemination should receive special emphasis within the AMA and NAPIA projects to undertake the task of transferring scientific knowledge, technologies, services and products generated by components such as the Directed Research Project (PPD), Demonstration projects (PD/A), PROMANEJO, PROVARZEA, etc.

The International Advisory Group (IAG)

In view of the key role played by the IAG since the inception of the Pilot Program, we would like to offer some observations and constructive suggestions regarding its future within a restructured PPG7. According to the original terms of reference, the IAG was appointed 'to provide an independent technical judgement on the design and implementation of individual projects, and on the effectiveness of the Pilot Program as a whole'.

It is critical to maintain a strong and independent IAG, characteristics which have enabled the group to play a central and critical role in the Pilot Program over the past six years, as acknowledged by the Institutional Review. This is reflected in the direct influence exercised by the IAG in helping to bring about several major changes within the Program. These include, for example: (a) decentralization of the Rain Forest Unit from Washington to Brasilia, (b) the integration of four separate environmental policy projects into one program-NRPP, (c) the conception of Integrated Environmental Management Projects-PGAs, involving municipal participation, in all nine Amazon states, (d) a major contribution towards a shift in the original PPG7 emphasis on conservation towards the notion of sustainable development, (d) the proposal that there should be a Monitoring and Analysis component, and (e) the suggestion that an Institutional Review of the Pilot Program be carried out.

In the past, the IAG has focused in some measure on project-related issues, as stipulated in its terms of reference and, in addition, has often been called upon to act as arbiter in conflicts within the program. In the modified PPG7 structure, the IAG would

justifiably move towards an emphasis on programmatic issues. In this evolution, the IAG wishes to stress the importance of the adhering to the following principles in its future work:

- (1) ***Independence and reporting.*** It has been commonly observed amongst PPG7 participants that the independence and proactive nature of the IAG, free of institutional constraints or obligations, has been one of its major assets, lending the groups wide-ranging credibility. We wish to underline the importance of maintaining this independence. More specifically, the IAG should always reserve the right to elect its own chairperson. Furthermore, it is important that the IAG retain the right to report directly to Participants rather than through the proposed JPSC, since it is felt that this might compromise the advisory group's independence.

- (2) ***Multi-disciplinarity and language.*** The IAG endorses the recommendation that the multi-disciplinary nature of the IAG be maintained, with a balance amongst ecological, social and economic skills. It is also important to have a cross-section of institutional representation from the academic and scientific community as well as NGO, public and business sectors. A variety of nationalities is also desirable. The internal and external business of the IAG has always been carried out in Portuguese, while knowledge of English is essential for consulting relevant documentation and report writing. It is thus crucial that new members have adequate command of both languages. It is paramount that all members have long-term and direct working experience in the Brazilian Amazon.

- (3) ***Continuity and rotation of membership.*** The IAG is the only group within the PPG7 whose membership has remained reasonably stable since the start of the Program. In order to preserve this institutional memory, it is important to carry out a phased renewal of group membership, as noted by the Institutional Review. The IAG therefore suggests that three existing members leave the group each year over the coming years, with whole or partial replacement by new members. Members should be appointed by the Participants (as under current practice), following consultation with the donors, government of Brazil and the World Bank. New members on the reformulated IAG should in our view be appointed for a five-year period, non-renewable. This would allow members to gain adequate experience and knowledge of the Program in view of its complexity.

As far as the existing nine founder members are concerned, in order to guarantee some continuity, we propose that an initial group of three would leave the IAG by 31 December 1999 on a voluntary basis, after the normal December meeting. Others would leave in groups of three over the following years, based on the group's internal decision-making process. Final group size should be about ten, as stipulated in the original IAG terms of reference.

- (4) ***Frequency of meetings.*** Experience has taught the IAG that, in order to keep abreast of events within Amazonia and the Pilot Program, it is necessary to have two meetings per year rather than just one. One of these should involve field trips to specific projects. First-hand knowledge of micro-level developments within the Programme is

essential to understand the linkages with the broader picture. The next meeting of the IAG is tentatively arranged for 29 November to 3 December 1999.

FINAL REMARKS

An institutionally reinforced PPG7 has the potential to contribute to a new model of decentralized regional development encompassing the participation of all relevant stakeholders with the shared goal of achieving environmentally sound development.

It is clear that Brazil must strengthen its leadership role within the Pilot Program and that circumstances for this transition are now more favourable than ever given its open and stated commitment to PPG7 principles. The IAG thoroughly endorses this principle and underlines the need for multi-institutional capacity-building within the Pilot Program in its various components to facilitate this process.

The IAG would like to thank the Brazilian government and World Bank for their support in Brasilia and on field trips. In particular, we would like to express our appreciation to Mary Allegretti, newly-appointed Secretary for the Amazon (and ex-IAG member) and Minister José Sarney Filho for their close interest in IAG activities. In their meetings with the IAG, they took pains to re-affirm the government's strong political commitment to the aims of the Pilot Program and their appreciation of the IAG's contribution to the PPG7.

Brasilia, 16 July, 1999.