

SUPPORT PROGRAM FOR THE NATIONAL ENVIRONMENT FUND
(FUNDO NACIONAL DO MEIO AMBIENTE, FNMA) II

(BR-0262)

EXECUTIVE SUMMARY

BORROWER : Federative Republic of Brazil

EXECUTING AGENCY: Ministerio do Meio ambiente, dos Recursos Hídricos e da Amazônia Legal (MMA)

		<u>Millions</u>		
	<u>Stage I</u>		<u>Stage II</u>	<u>Total</u>
AMOUNT AND SOURCE:	IDB: US\$ 24.0	FSO	US\$ 21.0	US\$ 45.0
		Local		
		Currency		
	Local: <u>US\$ 16.0</u>		<u>US\$ 14.0</u>	<u>US\$ 30.0</u>
	Total: US\$ 40.0		US\$ 35.0	US\$ 75.0

FINANCIAL Amortization period: 20 years

TERMS AND Disbursement period: 3 years (Stage I)

CONDITIONS: Interest rate: 3%

Inspection and supervision: 1%

Credit fee: 0.0%

BACKGROUND: The Program has been designed and analyzed in its entirety with an aggregate cost of US\$ 75.0 million, of which the Bank will finance US\$ 45.0 million. The Program will be executed in two stages. Each stage will be financed by a separate Bank loan (US\$ 24.0 million and US\$ 21.0 million respectively). Stage I will finance project investments, institutional strengthening and environmental licensing over a three year period (see below). Stage II will continue financing for projects and institutional strengthening over a two year period. The two-loan structure is well-suited for the operation, allowing the inclusion of specific performance criteria while maintaining flexibility in execution.

The approval of the second stage will be conditioned on agreed-upon levels of disbursements, commitments, and achievements of goals for the first stage. The specific requirements are presented in Chapter III.

OBJECTIVES: The goal of the Program is to contribute to improving environmental quality, recovery and conservation of natural resources in Brazil through implementing the national environmental policy. The purpose is to

support locally developed environmental projects; strengthen the capacity of project executors to implement environmental projects, as well as the capacity of the Fund to mobilize investment resources; and strengthen the environmental licensing system as a preventive instrument of environmental control.

DESCRIPTION:

The proposed program has three related components: (i) investments in specific projects; (ii) institutional strengthening for the project proponents/beneficiaries and the FNMA; and (iii) support for strengthening the environmental licensing system.

1. Project investments (US\$ 22 million Stage I, US\$ 28.7 million Stage II)

The Program will finance projects to address key environmental problems and strategies. Types of projects will include: (i) conservation units; (ii) applied natural resource and environmental research and technology development; (iii) environmental education and outreach activities; (iv) sustainable natural resource management and conservation; (v) environmental control; and (vi) institutional strengthening of project proponents. Grants will be available through the following two windows.

Demand-driven Projects (US\$ 12.0 million Stage I, US\$ 13.7 million Stage II): Project proposals are presented to the FNMA on a first come, first served basis, subject to meeting eligibility and selection criteria. Project proponents must provide a minimum of 10% counterpart contribution to each project. Local community groups, NGOs and municipalities are the primary clients for this window.

Induced demand (US\$ 10.0 million Stage I, US\$ 15.0 million Stage II): The second window will be targeted to environmental issues of regional or national priority. Priorities for the second window will be targeted through Requests for Proposals (RFP) in priority areas, based on the National Environmental Policy. Projects will be ranked and funded according to rank until all resources for the RFP are allocated. Priority areas include local action for fire prevention in the Amazon, private conservation areas in the Mata Atlântica, and sustainable practices in the Caatinga and Cerrados regions.

2. Institutional strengthening ((US\$ 5.7 million Stage I, US\$ 4.2 million Stage II)

The component is intended to increase the institutional capacity of project sponsors, strengthen the FNMA as an executing agency, and widen the financial resource base of the Fund itself.

General outreach and training for project proponents (US\$ 800,000 Stage I, US\$ 530,000 Stage II): Project proponents--grass roots community organizations, NGOs, municipalities--will have access to general training in administrative, financial and technical areas, in order to increase their capacity to execute environmental projects through information brochures and training workshops.

Strengthening the FNMA Coordinating Unit (US\$ 4.7 million Stage I, 3.5 million Stage II): the Fund will receive support for the following activities: (i) improved operating procedures; and technical training for FNMA staff; (ii) project monitoring to review the procedures put in place by the FNMA after the second year of the project; information systems; and (iv) establishing a Technical Advisory Group and Technical Commissions for improved project review and selection for each of the proposed windows.

Financial sustainability of the fund (US\$ 240,000 Stage I, US\$ 140,000 Stage II): the component will include feasibility studies, development and implementation of a financial sustainability plan to widen the base of resources and support for the FNMA.

3. Environmental licensing (US\$ 7.9 million Stage I).

The Program will include a component to improve the effectiveness of environmental licensing at the federal and state levels.

Standardization of rules and procedures (\$ 1.6 million): The Program will finance a review of rules and procedures related to environmental licensing at the federal and state levels and the adoption of standards, guidelines and monitoring routines.

Information and monitoring system (\$ 1.2 million): The Program will finance the design of a national system of information and monitoring on licensed works and activities, pilot implementation in six regions of the country and a study on alternatives for financial sustainability and improvement of environmental licensing and monitoring activities.

Decentralization of federal licensing responsibilities (US\$ 5.1 million): The Program will permit the implementation of six (6) regional units of IBAMA in order to decentralize federal licensing. Each unit will be staffed with three (3) IBAMA officers and a coordinator. Training will be carried out through courses in principles of environmental licensing in Brazil, and through case studies.

**THE BANK'S
COUNTRY AND
SECTOR STRATEGY:**

The strategy of the Bank in Brazil emphasizes: (a) support for reform and modernization of the public sector at the Federal and State levels; (b) support for opening the economy through priority infrastructure investments and modernizing the private sector; and (c) reducing inequality and poverty through improving efficiency and an increased focus on social expenditures. The Bank's work in the environment and natural resources area has contributed to all three elements of the strategy. Through direct investments to improve the urban environment, the Bank has taken the opportunity to support and modernize state environmental agencies, principally in industrial pollution control. As environmental degradation disproportionately affects the poor in both urban and rural settings, the Bank projects that improve environmental quality help reduce the unequal burden of pollution and resource depletion.

The proposed program is consistent with the strategy. Direct investments in the environment will be made at the local level. Project sponsors will be strengthened to conceive, design and implement environmental investments. Environmental licensing and control will be decentralized, lowering costs and improving local participation. Increased public participation will improve public and private sector accountability for preventing environmental degradation.

**ENVIRONMENTAL AND
SOCIAL REVIEW:**

Due to the positive and pro-active approach of the Program, and the limited scale of each project investment, no significant negative environmental or social impacts are expected. As part of the project proposal, the proponent must identify probable negative environmental and social impacts, and include proposed mitigations.

BENEFITS:

The direct benefits of the program will be improved environmental quality and awareness at the local level, due to the nature of the projects financed by the FNMA and improved application of the environmental licensing system. The direct

beneficiaries will be the local citizenry. The grass roots organizations, community groups, NGOs, and small municipalities that comprise the majority of project proponents will also directly benefit from the strengthening and capacity-building activities of the Program. The private and public project proponents will benefit from improved, transparent application of existing law.

RISKS:

The primary risk for the Program as in many programs of this type, is the possible staff turnover in the future, which could weaken the leadership and effectiveness of the Coordinating Unit. The risk is mitigated by the inclusion of resources for technical staff training and the development of clear operational guidelines to minimize the impact of staff turnover, and the public outreach and fund-raising activities to maintain the profile of the Fund to its potential clients and donors.

A second risk to the Program is that the Fund will not be able to mobilize an additional 20 percent of investment resources necessary to trigger the presentation of the Stage II loan to the Board. The Program mitigates this risk by including resources specifically for evaluating alternatives and implementing a fund-raising program. The Environmental Crimes Law specifically directs some portion of the fines collected to the FNMA. In addition to the recently passed Environmental Crimes Law, there are a number of proposals in Congress that address improving environmental quality, as well as strengthening the Fund itself.

**SPECIAL
CONTRACTUAL
CONDITIONS:**

1. Conditions complied with

- approval and implementation of Operating Regulations (§ 3.11); and
- approval of draft agreement of resource transfer between MMA and IBAMA (§ 3.11)

2. Conditions prior to the first disbursement

The following conditions will be incorporated into the contract for Stage I:

a) Conditions prior to first disbursement:

- establishment of Program Management Unit (§ 3.13);

b) Conditions prior to first disbursement of component 3, environmental licensing:

- establishment of two IBAMA regional licensing centers and selection of personnel (§ 3.14).

c) Conditions during execution:

- broaden representativeness of the Deliberative Committee (§ 3.15);
- signature of agreement between MMA and IBAMA (§ 3.16); and
- establishment of four IBAMA regional licensing centers and selection of personnel (§ 3.17)

In addition to the special contractual conditions, the contract will include standard clauses regarding auditing, progress report monitoring and evaluation. The Program will include a mid-term evaluation of Stage I (§ 3.22).

For recognition of retroactive program costs, up to US\$ 3.0 million be approved for financing by loan resources and that up to US\$ 1.1 million be approved for financing by counterpart resources subject to compliance with Bank procedures.

**CONDITIONS PRIOR
TO BOARD
PRESENTATION OF
THE STAGE II LOAN:**

The Presentation of the Stage II loan to the Board will be conditioned on the following (§ 3.18):

- (a) fifty (50) percent of the Program resources has been disbursed;
- (b) an additional twenty-five (25) percent of Program resources have been committed;
- (c) The FNMA has raised an additional amount equal to twenty (20) percent of Program resources for Component I from sustainable sources other than ordinary budget allocations; and
- (d) the FNMA has included actions, as necessary, to improve targeting of benefits and beneficiaries in Stage II as identified in the midterm evaluation.

**POVERTY-TARGETING
AND SOCIAL SECTOR
CLASSIFICATION:**

The Program is not categorized as poverty targeted either geographically or towards low income groups per the guidelines set forth in AB-1704.

**EXCEPTIONS TO BANK
POLICY:**

None

PROCUREMENT:

The acquisition of goods and equipment and the contracting of consulting services financed by the resources of the Program shall be made in accordance

with the procedures of the Bank and to the extent that the Bank financing is in local currency, will be subject to local legislation and procedures. Public bidding will be used for consulting services greater than US\$ 200,000, and for goods for amounts greater than US\$ 350,000, and for public works greater than US\$ 5,000,000. Because the small size of projects and limited need for civil works, public bidding for works is not expected. Given the improved performance of the Fund over the last three years and the strengthening actions included in the proposed Program, ex-post review of local procurement is recommended.

I. FRAME OF REFERENCE

A. Problems and issues

- 1.1 Environmental degradation: In Brazil, environmental degradation is a significant obstacle to sustainable development. Productive sectors face rising costs for raw materials, fertilizers and other inputs. Society confronts increasing costs for pollution treatment and remediation, as well as for health care and loss of worker productivity. Social and cultural values suffer as natural environments and biodiversity are lost at both local and regional scales.
- 1.2 Degradation affects all the major ecosystems in Brazil. Fragmentation and loss of remnant Atlantic dry forest is evident in the Mata Atlântica Region, while soil erosion and water contamination affect the Pantanal. In the Cerrados Region, and the South, soil fertility is being lost. Degradation of marine resources, increased air and water pollution, crowding and other environmental problems associated with urban growth and tourism affect the coastal areas. Desertification threatens the Caatingas and deciduous forests in the Northeast. Amazonia faces deforestation from logging, fires and spontaneous settlement, uncontrolled mining and encroachment on indigenous community land. In addition to these threats to the natural patrimony of Brazil, the growing urban areas lack adequate access to potable water, sewage services and solid waste management. Local waterways have been polluted and urban green space is limited and in poor condition.
- 1.3 Civil society participation: At root, the environmental problems are the result of local actions, responding to local conditions. The broad-based support from civil society participation is indispensable for the long term solution of the environmental problems: environmental quality is demand-driven. Environmental awareness is growing in Brazil but public participation is still weak. Local organizations, Non-Governmental Organizations (NGOs) and communities often lack the capacity to organize effective action to remedy environmental problems, in particular to develop and implement project-based solutions. They lack the capacity to present projects, capture resources, and have difficulties executing projects. They also face bureaucratic hurdles to getting resources.
- 1.4 Access to investment resources: Another critical issue is the difficult access to and application of investment resources-- financial, human and institutional--at the local level, where it is most needed to effectively address environmental problems. Access has been complicated by geographic limitations for different programs; lack of information and awareness on the part of potential beneficiaries about the availability of resources; lack of coordination and communication between institutions that manage

the resources; dispersion of funding sources across agencies, NGOs and private sector; and difficult eligibility requirements, application and disbursement procedures.

- 1.5 Dispersion of effort: Even when financial resources are available, the aggregate positive impact of those resources is often dissipated. The goal of maximizing coverage to reach local communities, municipalities and NGOs, desirable from the point of view of increasing civil society participation over the long term, can find itself at odds with the need to concentrate limited investment resources in a specific geographic region, or in addressing a particular, widespread environmental problem.
- 1.6 Sustainability of financing: The sustainability of environmental financing over the long term is a concern. The sources of financing are largely external loans and grants, with relatively little financing generated from domestic sources. Yearly budget allocations must garner political support with the executive and legislative branches of government. The potential for using fines, penalties and revenue from other market-based instruments is just beginning. Voluntary citizen and private sector means, including philanthropy, tax check-offs, lotteries and others, have not been fully explored or developed.
- 1.7 Prevention and environmental licensing: Preventing environmental degradation is much less costly than remedial efforts to repair the damage. New environmental degradation resulting from new projects, initiatives and everyday human activities continues in Brazil, despite the existence of a complex legal and administrative basis for prevention that includes the federal and state level (see ¶ 1.13) licensing, monitoring and control. Application and enforcement of licensing has seen inconsistencies, as federal, and state agencies widely vary in rules and procedures and, especially, in capacity to apply them. As economic growth has spurred private investment, there is a growing concern that regions are competing for investment by relaxing environmental quality control.
- 1.8 Although federal environmental standards and licensing establishes a threshold for prevention, requirements at state levels vary above this threshold. The differences between federal and state licensing requirements and lack of awareness of the requirements by the private sector and public at large generates problems and delays. The lack of consistent systematic procedures and shared technical criteria has allowed inconsistent, often subjective and different requirements for similar projects. It has also made it more difficult for licensing staff to critically evaluate the quality and adequacy of studies performed by the private sector. Monitoring of compliance with license requirements is poor at the federal and state levels. There is no systematic information system to track requirements for individual licenses and to be alerted when key conditions are not met within the required time frames.

- 1.9 Federal licensing currently is centralized in Brasilia with the President of the Brazilian Institute of the Environment and Renewable Natural Resources (IBAMA) authorizing all federal licenses. Combined with the other factors mentioned above, this has led to excessively long time frames to obtain federal licenses. For example, the average time for obtaining the "licencia previa" is 8 months, and can exceed one year in some cases. This situation has led to a growing perception that the licensing system is overly bureaucratic and unaccountable, delaying important investments and unnecessarily increasing costs.

B. The strategy of Brazil

- 1.10 In recent years, the environmental strategy of Brazil has focused on the need for (a) direct investment in better conservation and recuperation of natural resources, including protection of the most vulnerable ecosystems; (b) strengthening the institutional framework the environmental licensing system and regulatory framework, particularly at the state level; and (c) greater involvement of civil society and the private sector in conservation activities. The National Environment Fund addresses the need for investments, and has as its clientele community groups, NGOs and local governments, while the role of IBAMA focuses on enforcement and regulation, primarily with the private sector.
- 1.11 The National Environment Fund: The National Environment Fund (FNMA) was established by law on July 10, 1989, as one of the instruments for implementing the environmental policies and strategies of Brazil. It specifically addresses the strategic goal of direct investments in environment and natural resources, as well as greater involvement of civil society. The Fund provides grant financing for a wide range of environmental projects (see ¶ 2.5). All geographic regions of the country are eligible. Eligible executors include non-profit private organizations, small municipalities and public sector entities. The FNMA is a public fund housed in the Ministry of the Environment, Water Resources and Legal Amazon (MMA). It has a Deliberative Committee composed of 8 representatives from the government and 5 from civil society, supported by a General Coordination Unit (CG-FNMA).
- 1.12 Initially, the Fund focused on financing small scale, individual projects on a demand-driven basis, largely through support from the Inter-American Development Bank (IADB). In the short to medium term the Fund is moving towards being more pro-active in focusing scarce resources on priority environmental problems, consistent with the national environmental strategy, and more responsive to the needs regarding diverse ecosystems in different regions. The Fund is taking more leadership as a clearinghouse for information about resources available to community groups, NGOs and municipalities for environmental projects. It will also serve as a primary conduit for various sources of external and internal funding directed at improving environmental quality, thus providing some coherence to the variety of programs and projects undertaken,

while taking advantage of the installed technical capacity of the Fund and its Coordinating Unit.

- 1.13 Licensing and the National System for the Environment: Environmental licensing was established in Brazil in 1981 as a key element of the new National Environment System (SISNAMA). The central body of the SISNAMA is a National Environmental Council (CONAMA), which includes participation of the private sector and non-governmental organizations. The MMA is currently the central policy, planning and coordinating element of the environmental sector and the Minister chairs the CONAMA. The Secretariat for Formulation of Environmental Policies and Norms (SFPN) and the Secretariat for Implementation of Environmental Policies and Norms (SIA) are in charge of environmental policies related to environmental licensing. IBAMA is the federal executive agency for licensing of projects that are of a national or supra-state significance. Most Brazilian states replicate the federal structure and have a state environmental system and council, and a State Environmental Agency (OEMA) in charge of licensing. The state agency (OEMA) also provides licensing for projects.
- 1.14 Law on Environmental Crimes: In February, 1998, the President signed a new law that will facilitate the application of environmental policy. The *Lei de Crimes Ambientais* (Law 9605 approved February 12, 1998) establishes a range of environmental crimes, from illegal logging to industrial pollution, and the authority and mechanisms for levying and collecting fines, and imposing jail sentences. Prior to the law, fines and other punishments were easily challenged and overturned in court. Estimates are that, until now, only six percent of the fines levied by IBAMA were actually being paid. The passage of the law, after seven years of debate, is an indication of the growing public awareness and support for environmental protection. Particularly noteworthy is the fact that the proceeds of the fines collected under the new law are, in part directed to the National Environment Fund, thereby closing the loop between prevention, payment for damages and investment in remediation and improvement. Regulations will establish the share destined for the Fund with at least 10% currently under discussion (see ¶ 5.8). The revenue from fines will also help broaden the financial base of the Fund (see ¶ 2.17, 3.18).

C. The strategy of the Bank

- 1.15 The strategy of the Bank in Brazil emphasizes: (a) support for reform and modernization of the public sector at the Federal and State levels; (b) support for opening the economy through priority infrastructure investments and modernizing the private sector; and (c) reducing inequality and poverty through improving efficiency and an increased focus on social expenditures. The Bank's work in the environment and natural resources area has contributed to all three elements of the strategy. Through direct investments to improve the urban environment, the Bank supports the modernization

of state environmental agencies, principally in industrial pollution control. As environmental degradation disproportionately affects the poor in both urban and rural settings, the Bank projects that improve environmental quality help reduce the unequal burden of pollution and resource depletion.

- 1.16 The proposed program is consistent with the strategy. Direct investments in the environment will be made at the local level. Project sponsors will be strengthened to conceive, design and implement environmental investments. Environmental licensing and control will be improved, lowering costs. Increased public participation will increase public and private sector accountability for preventing environmental degradation.

D. Experience with the FNMA: Lessons Learned

- 1.17 The Bank approved loan 883/SF-BR, Support Program for the National Environment Fund, in 1992, for US\$ 22 million. This loan represented the first, and to date only major support for the Fund, outside of the federal government budget. The Project Team conducted a review of this initial support, consisting of an ex-post review of administrative performance of the Fund itself, and an ex-post review of completed projects. The findings, and recommendations for improvement have been incorporated into the design of the second phase.
- 1.18 Early performance of the Fund was characterized by start-up difficulties, principally due to high inflation at the time. Poorly prepared project proposals, extensive delays in project review and approval, numerous changes in budgetary and financial procedures of the federal administration, and constant turnover at the Ministry of Environment compounded the problem. Because of lackluster performance, the Fund's reputation suffered. By and large, these issues have been resolved. For example, processing time for project proposals within the Fund has decreased from 20 months in 1993 to 8 months in 1997. Staff turnover has decreased significantly.
- 1.19 From 1992 to 1997, the Fund has financed 533 projects, primarily in environmental control, protected areas and environmental education. Over 70 percent of the projects were executed by NGOs, community groups and small municipalities. Counterpart levels have been increasing, as has the size of projects. Slightly over 60 percent of the funds have been with project executors located in the South and Southeast, reflecting the generally stronger NGO community in these regions, and the limited capacity of NGOs in the Northeast and Amazonia to develop sound project proposals. It should be noted, however, that some of the NGOs in the South actually execute projects in Amazonia and the Northeast.
- 1.20 Projects have addressed a number of concrete issues and arrived at innovative solutions. The Fund supported the NGO *Grupo de Estudos Espeleológicos do Paraná* to develop information about unique cave

formations in Paraná that were being exploited for raw materials and used for trash dumps, which has resulted in a law protecting the caverns and increased tourism. The FNMA also supported the *Núcleo de Educação e Monitoramento Ambiental*, for applied research in the *Arroio Lagoa do Bolaxa*, building on work previously financed by the *Fundação Boticário* and the municipality. Based on the results and the community participation and outreach that was included in the project, local interests including the municipality, are negotiating establishing a permanent local reserve. In the Amazon region, the Fund supported *Centro Ecumenico de Documentação e Informação* in boundary delineation that helped the Xikrin indigenous community win a favorable settlement of a boundary dispute with loggers and miners. The Fund has supported *Saude e Alegria*, an NGO, which works with 17 communities and 20,000 people along the Amazon, Arapuins and Tapajos rivers, teaching and training community leaders in health, environment and sustainable development activities. The municipality of Assis has begun a riparian restoration program, a primary school environmental education program and a municipal environmental management plan with FNMA assistance, to address their local environmental problems.

- 1.21 Projects have been able to meet their objectives in most instances. Independent evaluations by the Secretariat of Internal Control (CISSET) found that 86 percent of the projects audited met their objectives, as presented in the project proposals. Nevertheless, there is a need for better specification of benefits and beneficiaries of the proposed projects, since currently objectives and benefits are stated in general terms. This better specification is needed to improve project design as well as to ensure cost-effective use of resources provided by the fund.
- 1.22 Successful projects, such as the examples mentioned above, indicate substantial local community involvement. By the same token, those projects visited in the field that did not have such involvement were generally less successful. The field review underscores the need for on-site visits to corroborate what is presented in the proposal, especially regarding community participation and institutional capacity of the executing entity. Field observations corroborated the CISSET finding that roughly half of the 119 projects audited in 1996 experienced some administrative difficulties.
- 1.23 While the demand-driven approach has enabled the FNMA to meet the objective of increasing civil society participation, it has not fully mobilized effective response to priority problems or areas. More structured requests for proposals have been introduced to provide for strategic targeting of high priority conservation issues on the geographic areas. This innovation has led to the inclusion of a second window at FNMA to address those issues specifically.

- 1.24 The CG-FNMA has made substantial improvements in its operational procedures, yet there are a number of areas that can be improved. In addition to more effort placed on well-designed project proposals backed by field visits, the Fund can streamline its application requirements, improve technical review of project proposals, and simplify final approval procedures by the Deliberative Committee. The Committee itself has focused its attention on approval of specific projects, at the expense of addressing strategic issues such as overall impact of the Fund, and financial sustainability.
- 1.25 So far, the Fund has not expanded its financial resource base significantly beyond the IADB and the federal government, since most of its effort has been aimed at improving day-to-day performance. The success of the Fund, especially in attracting other financial resources, depends on continued high performance. Attracting other sources of funding will be critical for the Fund to meet its long-term strategic goals.

E. Complementary initiatives

- 1.26 FNMA is the first and oldest environmental fund established in Brazil. Since its establishment in 1989, two other funds have been proposed and are at different stages of preparation. These funds are complementary to the FNMA, focusing on different clientele and on larger projects. The Brazilian Biodiversity Fund (FUNBIO) is a private trust fund for financing the conservation of biodiversity through the private sector. It has been in existence since late 1996, and has selected ten projects, to date, for financing. A new profit-making environmental fund financed by the International Finance Corporation (IFC) is being established to provide venture capital for projects with positive environmental externalities. These three funds cover a range of environmental services, from pure public goods such as education furnished by the FNMA, to pure private goods such as low-pollution energy production through the venture capital fund of the IFC. Of these funds, only the FNMA is currently financing projects.
- 1.27 The lessons learned from the first Bank operation with the Fund mirror the lessons emerging from other environment funds in Latin America. First, projects must have the support and buy-in of the local population, thus the reliance on demand-driven means of eliciting project proposals. However, relying solely on demand does not guarantee that projects will be presented in priority policy areas, since many of these areas are public goods. Recently, funds and projects have been moving towards more structured requests for proposals for certain priority thematic areas. Administratively, the funds must have a transparent structure, broad representation of the public sector and civil society on the governing board, and clear criteria and procedures for project selection. There is a growing concern among donors and lenders about the quality and sustainability of the projects being financed, but information is anecdotal at this point.

- 1.28 Improving licensing procedures and making them more efficient has been a permanent interest of the environmental authorities of Brazil and most Brazilian states. However, the particular issue of licensing procedures has not been addressed through international funding support. The National Environment Program (PNMA), financed by the International Bank for Reconstruction and Development (IBRD) and approved in 1990, included support for IBAMA to consolidate its then-new structure, develop human resources, assist with developing new environmental legislation, provide more environmental information to the public, and access to remote sensing data. It also included a small component on licensing and related matters. The PNMA has had numerous difficulties in execution. The primary lesson learned is to minimize the complexity of the operation and to begin at a pilot scale.

II. THE PROGRAM

A. Introduction

- 2.1 The Program has been designed and analyzed in its entirety with an aggregate cost of US\$ 75.0 million, of which the Bank will finance US\$ 45.0 million. The Program will be executed in two stages. Each stage will be financed a by separate Bank loan (US\$ 24.0 million and US\$ 21.0 million respectively). Stage I will finance project investments, institutional strengthening and environmental licensing over a three year period (see below). The licensing component will be fully financed and completed in the first stage. Stage II will continue financing for projects and institutional strengthening over a two year period. The two-loan structure is well-suited for the operation, allowing the inclusion of specific performance criteria while maintaining flexibility in execution.
- 2.2 The approval of the second stage will be conditioned or agreed-upon levels of disbursements, commitments, and achievements of goals for the first stage. The specific requirements are presented in Chapter III.

B. Program objectives

- 2.3 The goal of the Program is to contribute to improve environmental quality, recovery and conservation of natural resources in Brazil through implementing the national environmental policy of Brazil. The purpose is to support locally developed environmental projects; strengthen the capacity of project execution to implement environmental projects, as well as the capacity of the Fund to mobilize investment resources; and to strengthen the environmental licensing system as a preventive instrument of environmental control.
- 2.4 The proposed program has three related components: (i) investments in specific projects; (ii) institutional strengthening for the project proponents/beneficiaries and the FNMA; and (iii) support for strengthening the environmental licensing system. The Program includes a number of significant improvements based on experience to date, including better targeting of national environmental priorities, a more active, general outreach and training program for potential project sponsors, and the development and implementation of a financial sustainability plan. The needs of improving and decentralizing the environmental licensing program are also addressed. Benchmarks have been established for each component and are presented in Annex II-1, Logical Framework. These benchmarks will be used to assess Program performance and development impact.

1. Project investments (US\$ 22.0 million Stage I, US\$ 28.7 million Stage II)
- 2.5 The Program will finance projects to address key environmental problems and strategies. Types of projects will include : (i) conservation units; (ii) applied natural resource and environmental research and technology development; (iii) environmental education and outreach activities; (iv) sustainable natural resource management and conservation; (v) environmental control; and (vi) institutional strengthening of project proponents. Specific project proposals will be selected on the basis of criteria that include eligibility of the sponsor, priority of environmental problem or issues addressed, technical viability of the proposed project, institutional capacity of the sponsor, and the size of the project. Grants will be available through two windows described below.
- 2.6 Demand-driven Projects (US\$ 12.0 million Stage I, US\$ 13.7 million Stage II): The first window will be demand-driven, continuing the modality now in use by the FNMA. Project proposals are presented to the FNMA on first come, first served basis, subject to meeting eligibility and selection criteria (see Chapter III). Projects can be up to two years in length. The maximum annual contribution by FNMA is US\$ 200,000, while the maximum annual project cost is US\$ 500,000. Project proponents are limited to a total of US\$ 800,000 for all projects financed by FNMA. Projects must be demonstrative in nature, with high probability of replication. Project proponents must provide a minimum of 10% counterpart contribution each project. Local community groups, NGOs and municipalities of less than 120,000 inhabitants are the primary clients for this window.
- 2.7 Induced demand (US\$ 10.0 million Stage I, US\$ 15.0 million Stage II): The second window targets environmental issues of regional or national priority through Requests for Proposals (RFP). Priority areas will be chosen by the Deliberative Committee of the FNMA, based on the National Environmental Policy and consultations with the environmental and natural resource management agencies at the federal and state level. Each request will set a total amount for financing projects in the selected theme, along with financial limits on projects. Project proposals will be reviewed and ranked, and funded according to rank until all resources for the RFP are allocated. Priority areas, in principle, include community actions for fire prevention in the Amazon, establishment of private conservation areas in the Mata Atlántica, and development and adoption of sustainable management practices in the Caatingas and Cerrados ecosystems. A Technical Commission will be formed for each RFP in order to develop the request for proposals, to review and rank submissions, and recommend projects for approval to the Committee.

2. Institutional strengthening (US\$ 5.7 million Stage I, US\$ 4.2 million Stage II)

- 2.8 The component is intended to strengthen the FNMA as an executing agency, improve outreach and provide general training for project proponents, and widen the financial resource base of the Fund itself.
- 2.9 General outreach and training for project proponents (US\$ 800,000 Stage I, US\$ 530,000 Stage II): Project proponents--grass roots community organizations, NGOs, municipalities--will have access to general training in administrative, financial and technical areas in order to increase their capacity to (i) conceptualize, design and analyze projects; (ii) identify additional resources for project execution; and (iii) implement internal administrative, financial and technical controls to ensure effective project implementation. Information brochures and training workshops will be provided, with specific focus on meeting the requirements of the FNMA. Strengthening individual sponsors or local groups will be available as part of specific project investments.
- 2.10 The Program includes a broad outreach program via informational brochures for potential clients and via the FNMA homepage. Fifteen (15) regional training workshops will be offered each year covering (i) project conceptualization, design and analysis; (ii) resource mobilization for project execution; (iii) design and implementation of internal administrative, financial and control measures for effective project implementation and follow-up. Ad hoc consultants in project development will be retained and assigned, as needed, to review institutional capacity, community participation, technical design (including potential negative environmental and social impacts) and probable benefits of project proposals.
- 2.11 Strengthening the FNMA General Coordination Unit (US\$ 4.7 million Stage I, US\$ 3.5 million Stage II): the Fund will receive support for the following activities:
- 2.12 Improved operating procedures and technical training: The Program includes consulting services for the CG/FNMA in reviewing its operating procedures for receiving, reviewing and analyzing projects, approval and supervision. Based on this review, the consultancy will provide suggestions for implementing improvements, and an updated set of operating procedures to be available on the Fund's website. The Program will also finance training for FNMA staff in project design, analysis and evaluation for project approval and supervision.
- 2.13 Project monitoring: The Program includes a review of a sample of completed projects as well as a review of the procedures put in place by the FNMA after the second and fourth year of the project, in order to adjust the use of project performance indicators and their application monitoring project.

- 2.14 Information systems: The Program includes computer equipment, software and a consultancy for programming to integrate performance indicators for individual projects (e.g. developmental success, benefits and beneficiaries), administrative performance indicators of the Fund (e.g. average time and costs of project approval, disbursements), and overall performance of the Fund (thematic areas of investment, regional coverage, aggregate benefits and beneficiaries) within a consistent and easily accessible database. The consultancy will also ensure that individual project information becomes publicly available via the Fund's website.
- 2.15 Technical Advisory Group (GAT): The Program will facilitate the establishment and operation of a new Technical Advisory Group (GAT) for demand-driven projects. The GAT will review project proposals based on the analysis of the Coordinating Unit of the FNMA, peer review and field visits, and recommend approval (or not) to the Deliberative Committee, simplifying approval procedures and allowing the Committee to focus on strategic issues.
- 2.16 Technical Commission: The Program will support technical commissions for developing specific requests for proposals, releasing submissions and recommending projects for approval to the Deliberative Committee.
- 2.17 Financial sustainability of the fund (US\$ 240,000 Stage I, US\$ 140,000 Stage II): The component includes studies, development and implementation of a financial sustainability plan to widen the base of resources and support for the FNMA. Options include linking the Fund to additional sources such as environmental license fees, fines, lotteries, tax check-offs, fund-raising campaigns, and partial or full cost recovery for certain types of projects. The Program will finance consultancies for the feasibility studies of various options and plans for increasing fund raising including a publicity and fund-raising information program presenting the performance and results of the FNMA in administering resources for project financing.
3. Environmental licensing (US\$ 7.9 million Stage I)
- 2.18 The Program includes actions for improving the effectiveness of environmental licensing at the federal and state levels.
- 2.19 Standardization of rules and procedures (US\$ 1.6 million): The Program will finance a review of rules and procedures related to environmental licensing at the federal and state levels and the adoption of standards, guidelines and monitoring routines, resulting in more consistent application of existing policy and minimum standards across states. The effort will be coordinated through an executing unit in the SIA, coordinating with the SFPN and IBAMA. Six specialized teams, with representation from all interested parties (licensing agencies, civil society, consulting firms, entrepreneurs, etc.) will be formed to develop specific aspects in need of harmonizing in licensing, initially for

transportation, energy, urban development, agriculture, industry and mining. Another team, with a similar composition, will be in charge of the technical coordination and harmonization of the results from the six groups. The National Environment Council (CONAMA) will review and approve manuals and General Terms of Reference for required studies for licenses which will then be published and implemented. Its divulgation and promotion will be made through six (6) regional seminars.

- 2.20 Information and monitoring system (US\$ 1.2 million): The executing unit of SIA will be responsible for the development of the concept and design of a national system of information and monitoring of state licensed works and activities, resulting in improved supervision and monitoring of the implementation of mitigation resources required under the terms of approved licenses. The system will be implemented in the same six (6) states where IBAMA will establish its decentralized licensing coordinations (see ¶ 2.21). The MMA will contract a study on alternatives for financial sustainability and improvement of environmental licensing and monitoring activities.
- 2.21 Decentralization of federal licensing responsibilities (US\$ 5.1 million): The Program will establish six (6) regional units of IBAMA (Amazonas, Goiás, Minas Gerais, Pará, Paraná, Pernambuco) in order to decentralize federal licensing. It is expected that the time required for obtaining a license will decrease to 4 months, and that eventually all federal licenses will be granted through the regional centers. Each unit will be staffed with three (3) IBAMA officers, recruited from the most qualified staff, and a coordinator with substantial experience in licensing activities. Training will be carried out through courses in principles of environmental licensing in Brazil, and studies of real cases. Participants for this training will be IBAMA staff assigned to licensing and OEMA staff that would also participate in federal licensing in their own states. The sub-component will also include development and implementation of an information and monitoring system for federally licensed projects.

C. Costs of program

- 2.22 The total cost of the program is estimated at US\$ 75.0 million, distributed as shown in the following illustrative budget. The program will recognize up to US\$ 2.4 million provided by project proponents as local counterpart.

Support Program for the National Environmental Fund
Project totals
(in thousands of US\$)

		Total-Stage I		Total-Stage II		TOTAL		TOTAL	Percent
		IADB	Local	IADB	Local	IADB	Local	Project	
I.	Program Administration	610	1,020	180	500	790	1,520	2,310	3.1
II.	Investments	22,570	13,120	20,350	12,600	42,920	25,720	68,640	91.5
	A. Projects	16,000	6,000	18,250	10,500	34,250	16,500	50,750	67.7
	Demand-driven	9,000	3,000	8,750	5,000	17,750	8,000	25,750	
	Induced Demand	7,000	3,000	9,500	5,500	16,500	8,500	25,000.0	
	B. Institutional Strengthening-FNMA	2,600	3,140	2,100	2,100	4,700	5,240	9,940	13.3
	Strengthening - FNMA	1,720	2,980	1,540	1,990	3,260	4,970	8,230	
	General outreach to projects								
	proponents	800	0	530	0	1,330	0	1,330	
	Financial Sustainability-FNMA	80	160	30	110	110	270	380	
	C. Environmental Licensing	3,970	3,980	0	0	3,970	3,980	7,950	10.6
	Environmental Licensing								
	Norms & Procedures	950	700	0	0	950	700	1,650	
	Tech.Strengthening-								
	Environmental Licensing	730	430	0	0	730	430	1,160	
	Decentralization of								
	Environmental Licensing	2,290	2,850	0	0	2,290	2,850	5,140	
III.	Unspecified Costs	580	730	260	180	840	910	1,750	2.3
	A. Contingency (5% of								
	I.&II.B.&II.C.)	320	440	170	100	490	540	1,030	
	B. Escalation (3.5% per year of								
	I.&II.B. & II.C.)	260	290	90	80	350	370	720	
	SUB-TOTAL	23,760	14,870	20,790	13,280	44,550	28,150	72,700	96.9
IV.	Financing Costs	240	1,130	210	720	450	1,850	2,300	3.1
	A. Interest (3.0%)	0	1,130	0	720	0	1,850	1,850	
	B. FIV (1.0%)	240	0	210	0	450	0	450	
	TOTAL	24,000	16,000	21,000	14,000	45,000	30,000	75,000	100.0
	Percent	32.0	21.3	28.0	18.7	60.0	40.0	100.0	

III. PROGRAM EXECUTION

A. Borrower and executing agency

- 3.1 The borrower for this Program is the Federative Republic of Brazil. The Executing Agency will be the Secretariat for Implementation of Environmental Policies and Norms (SIA) of the Ministry of the Environment, Water Resources and Legal Amazonia (MMA).

B. Executing units

- 3.2 The SIA will be responsible for the coordination of the execution of all three components and will be the principal point of liaison between the Program and the Bank. The SIA will establish a Program Management Unit (UGP), within the SIA to oversee the activities of the Program. The executing unit for Components 1 and 2 will be the General Coordination Unit of the National Environmental Fund (CG-FNMA). Component 3 will be executed by the SIA with assistance from SFPN and IBAMA.

C. Modality of execution

- 3.3 The Program will be executed in two stages, financed by two separate loans. The first stage includes financing for Components 1, 2 and 3 over a three year period. The second stage, a continuation of the financing for Components 1 and 2, will be presented for approval only after certain milestones have been met in the execution of Stage I (see ¶ 3.18). The second stage will be executed over a two year period.

1. Project investments

- 3.4 Component 1 of the Program consists of financing for environmental projects that will be executed by local community groups, NGOs and/or government entities. Financing of these projects will be available through two windows: demand-driven projects and induced demand projects. Projects proposals and applications will be received, evaluated approved and supervised in accordance with the Operating Regulations of the Fund (Annex III-1) as well as the FNMA's approved Application Procedures.
- 3.5 The Project Cycle for the demand-driven projects is basically the same as that which was used for the first Bank financed FNMA Program. Eligible entities apply to the CG-FNMA for non-reimbursable financing on first come, first served basis. All eligible and technically acceptable projects (see ¶ 1.11, 2.5, Annex III-1) are financed. Applications are received and screened to verify eligibility and technical requirements. Projects are then sent to independent reviewers for evaluation and comment and, when necessary, visited on site. Reviewers consider factors such as community participation, technical and financial capability of

the proponent, problem identification, and the technical effectiveness as well as the innovativeness and replicability of the proposed approach. Independent reviewer recommendations are presented to the GAT which performs a final screening and recommends approval to the Deliberative Committee (see ¶ 1.11, 2.15, 4.9).

- 3.6 Upon approval of a project, the Contracts Unit of FNMA negotiates and signs a project agreement with the proponent defining the specific activities and measurable, expected outcomes of the project. A project budget is finalized and a disbursement schedule is agreed upon. Disbursements are made in three tranches over the course of the project. The final payment is made upon completion of the project. Personnel from the FNMA's Technical Monitoring and Financial Monitoring Units make periodic oversight visits to the projects. Upon completion the project is audited by the Secretariat for Internal Control of the MMA. This audit reviews the technical accomplishments of the project as well as verifies the financial costs incurred. If the audit determines inappropriate expenditures or failure to achieve the expected outcomes of the project, the FNMA requires the project proponent to return some or all of the funds disbursed for the project.
- 3.7 Induced demand projects pass through similar eligibility criteria and technical requirements. However, for these projects the CG-FNMA will solicit Requests for Proposals within a specific technical and thematic area and proposals will be evaluated competitively. For each solicitation a fixed amount of funding will be available and qualified projects will be approved up to that funding level, in accordance with their competitive ranking. The thematic areas for which proposals will be solicited are determined by the Deliberative Committee on the basis of the national environmental priorities. For each RFP the FNMA will establish a Technical Commission to evaluate and rank the proposals. The final approval process, as well as the preparation of the agreement, disbursement schedule, execution oversight and end of project audit are the same as the processes established for the demand-driven window.
- 3.8 In order to address the evolving role of the fund and broaden representation, for FNMA II the composition of the Committee will be changed to include one representative of the state environmental interests, and one representative of the Academic Community (Centros de Excelencia). Representation by MMA and IBAMA will be reduced accordingly to maintain the size of the Committee.

2. Institutional strengthening

- 3.9 Component 2, institutional strengthening, will be financed in Stage I, and Stage II. The institutional strengthening includes the following activities: (i) contracting of regional project development specialists on a retainer basis to assist the NGOs and municipalities in the preparation of projects and to assist the

UC-FNMA with the assessment of project proponents through site visits; (ii) preparation of specific studies; (iii) technical assistance to improve the operations and fund raising capabilities of the FNMA; and (iv) purchase of computer equipment for financial, management and project related data systems. All of these activities will be competitively in accordance with established Bank procedures and with terms of reference agreed upon by the Bank.

3. Environmental licensing

- 3.10 Component 3, environmental licensing, will be executed by personnel of SMA and IBAMA, and supported by contracted services to be provided by individuals and consulting firms. The MMA will establish an executing unit directly associated with the Secretary of SMA, consisting of a technical coordinator and an administrative coordinator, with responsibilities for managing and implementing the project. The SDI, SMA and IBAMA will designate a coordinator to serve as the primary contact with the coordinating unit. IBAMA will establish the six decentralized, regional units and select qualified staff for the units.

D. General conditions for the program

- 3.11 During negotiations the Borrower presented the Operating Regulations approved and adopted for Component I, and the draft agreement to be signed between the MMA and IBAMA for transferring resources for component 3 and execution responsibilities of IBAMA. The Bank reviewed and approved these documents.
- 3.12 The Borrower, through the Executing Agency, will present to the Bank's approval, evidence that the following conditions have been met for the Stage I loan:

1. Conditions prior to the first disbursement

- 3.13 The Program Management Unit (UGP) is operating with adequate financial and accounting management systems adequate to maintain timely and accurate financial records of the project and to prepare integrated financial reports.

2. Prior to first disbursement of Component 3, Environmental Licensing

- 3.14 IBAMA has formally established two federal regional licensing centers and has selected three technicians for each center and one technical liaison for the respective state superintendencies.

3. Conditions during execution of the Stage I loan

- 3.15 Within six months of contract signature, the Borrower, through the Executing Agency, will present evidence that the composition of the

Deliberative Committee has been changed to increase representativeness.

- 3.16 Within six months of contract signature, the Borrower, through the Executing Agency, will present evidence that the agreement between the MMA and IBAMA to transfer resources for component 3, and the execution responsibilities of IBAMA, has been signed, in accordance with terms agreed upon by the Bank.
- 3.17 Within one year from the signing of the Contract the Borrower, through the Executing Agency, will present evidence of the establishment of the remaining four federal regional licensing centers and has selected three technicians for each center and one technical liaison for the respective state superintendencies.

4. Conditions prior to Board presentation of the Stage II loan

- 3.18 Prior to the Bank's consideration of the Stage II loan, the Borrower through the Executing Agency will demonstrate that, in relation to the US\$ 24 million of Bank financing for Stage I of the Program:
- (i) fifty (50) percent (US\$ 12.0 million) has been disbursed;
 - (ii) an addition twenty-five (25) percent (US\$ 6.0 million) have been committed;
 - (iii) in relation to the US\$ 22 million Bank financing and local counterpart for Component I, Project Investments, that the FNMA has raised additional financial resources equal to twenty (20) percent (US\$ 4.4 million) of Bank financing and local counterpart, from sustainable sources other than ordinary budget allocations from the National Treasury; and
 - (iv) the FNMA has submitted a detailed study describing the distribution of projects financed by executor, the benefits and beneficiaries, and the strategies to improve the targeting of benefits and beneficiaries in Stage II, to the satisfaction of the Bank.

E. Cost recovery

- 3.19 The FNMA has been established to finance, on a non-reimbursable basis, projects that conserve and improve environmental conditions throughout Brazil 1/. Proponents must be able to co-finance a portion of the project execution costs. Each project financed by the FNMA will include a local counterpart contribution from the executing entity equal to a minimum of 10% of the project costs.

1/ Note that the financing matrix for component 2 is 47% Bank, 53% counterpart, and for Component 3 it is 50% Bank, 50% counterpart.

Minimum and maximum counterpart levels for federal, state and municipal entities are established each year in the Federal Budget Law. For federal and state agencies and municipalities with population over 120,000 inhabitants, the maximum counterpart contribution will be required. Maximum counterpart levels currently are between 20% and 40% depending on geographic location. Historically, federal entities have provided on average 32% counterpart, state entities 24% and large municipalities 34%.

F. Sustainability of the FNMA

- 3.20 Because the FNMA finances projects through the use of its available principal, it will have a tendency to be self-liquidating. In order to support its sustainability, the Bank has conditioned the Stage II of the Program on the UC-FNMA's demonstrated success in raising non-traditional, non-budgetary resources. It is noted that the recent passage of the law governing federal environmental crimes, specifies that a portion of the fines collected for such infractions should be transferred to the FNMA. Such fines are currently collected and used by IBAMA. While the proportion that will be transferred to the FNMA has not yet been negotiated, it is noted that IBAMA collected between US\$ 10.0 million and US\$ 12.0 million in fines per year during 1996 and 1997. The transfer of a portion of these fines will reinforce the FNMA sustainability.

G. Reports and monitoring

- 3.21 The Representation of the Bank in Brazil will control and monitor of the execution of the Program. The first year Plan of Operations will address activities related to retroactive recognition of costs (§ 3.28). The MMA will present to the Bank semi-annual progress reports prepared by the executing units, consolidated by the UGP into one integrated report for the Program. The reports will include the level of Program resources executed by NGOs, community groups and municipalities with less than 120,000 inhabitants, as well as the level of resources executed by federal, state and municipalities with more than 120,000 inhabitants that included partnerships with NGOs and community groups. The reports will also detail progress in broadening of the financial base of the Fund, including the amount derived from fines for environmental crimes.
- 3.22 Monitoring of project implementation will be facilitated by the indicators presented in Annex II-1, Logical Framework. These indicators have been discussed and agreed with the Borrower and the Executing Agency. A joint mid-term evaluation will be performed by the Borrower and the Bank when fifty (50) percent of the resources for Stage I have been disbursed.
- 3.23 During the execution of the Program and for a period of two years after completion of each and both stages of them Program, the MMA will maintain the database of indicators used to evaluate the progress for each of the components of the Program.

- 3.24 For a period of two years after the completion of each and both stages of the Program, the MMA will present annual reports to the Bank on the FNMA's progress toward achieving financial sustainability.

H. Schedule of disbursements

- 3.25 The period of disbursements for this Program is three years for Stage I and two years for Stage II. The disbursements for the Program will be made periodically in accordance with the conditions set forth in this document, the loan agreement and the annual POAs. The following table summarizes the proposed disbursement schedule:

Table III-1 Schedule of Disbursements (in millions of US\$)				
Year	IADB-FSO	Local	Total	Percent
Stage I				
1	8.0	5.3	13.3	17.8
2	8.0	5.3	13.3	17.8
3	8.0	5.4	13.4	17.9
Stage I Total	24.0	16.0	40.0	
Stage II				
3	10.5	7.0	17.5	23.4
4	10.4	6.9	17.3	23.1
Stage II Total	21.0	14.0	35.0	
Program Total	45.0	30.0	75.0	100.0%

I. Inspection

- 3.26 The Bank will establish inspection procedures deemed necessary to assure the satisfactory execution of the Program. The MMA, its executing units and the beneficiary entities of the FNMA will cooperate with the performance of these procedures.

J. Auditing

- 3.27 The financial statements of the Program will be audited each year by the Secretaria Federal de Controle. The report of the auditors should be delivered to the Bank within 120 days after the close of the Government of Brazil's official budget year.

K. Retroactive recognition of program costs

- 3.28 Costs incurred up to eighteen months prior to board approval may be recognized as counterpart expenses and those incurred up to twelve months prior to approval may be recognized for loan financing. Such costs may be recognized only if they are incurred in accordance with Bank procurement procedures, as defined in the loan agreement for the Program. The executing units for the Program have incurred a series of costs associated with the start-up of the Program. These costs include consultant costs, administration,

fees and equipment associated with the preparation and execution of activities to be financed at the initiation of the Program. In addition, costs will be incurred for financing projects for Component I. It is estimated that the MMA will have incurred such costs in the amount of US\$ 4.1 million including financing for projects. It is recommended that, subject to verification of compliance with Bank procedures, up to US\$ 3.0 million be approved for financing by the loan resources and that up to US\$ 1.1 million be approved for financing by counterpart resources.

L. Disbursements

- 3.29 The Project Team has reviewed the financial management capabilities of the SMA and FNMA and recommends that ex-post review of disbursements be used for this operation. The Program includes a short-term consultancy to ensure that the capacity of SMA will be adequate. The FNMA is implementing changes to its procedures and will be able to properly account for Bank financing under ex-post review requirements. It is anticipated that these actions to improve the financial management capabilities of SMA and FNMA will be completed prior to first disbursement.

M. Acquisition of goods and services

- 3.30 The acquisition of goods and equipment and the contracting of consulting services financed by the resources of the Program shall be made in accordance with the procedures of the Bank and to the extent that the Bank financing is in local currency, it will be subject to local legislation and procedures. Public bidding will be used for consulting services greater than US\$ 200,000, and for goods in amounts greater than US\$ 350,000. Because of the small size of projects and limited need for civil works, public bidding for works is not expected. However, the requirement for public bidding for works over US\$ 5,000,000 will apply. The MMA has been utilizing a specialized agency to facilitate the administration of consulting services and acquisition of goods. Resources from this Program will not be used for financing the administrative costs of the specialized agency.

N. Ex-post evaluation

- 3.31 In accordance with the policy of the Bank and consultation with the Borrower and the Executing Unit, it has been decided to include an ex-post evaluation of the Program 6 months after the last disbursement of Stage II. The borrower will assign resources for the evaluation at the end of the second Stage.

IV. EXECUTING AGENCIES

A. Executing entity

- 4.1 The Overall responsibility for the execution of this Program is assigned the Ministry of the Environment, Water Resources and Legal Amazonas (MMA).

B. The Ministry of the Environment, Water Resources and Legal Amazonas (MMA)

- 4.2 The MMA was established by Law N° 8.490, dated November 19, 1992. The primary responsibilities and functions of MMA include developing and executing national environmental policy, environmental policy for the Legal Amazon, and implementing programs for watershed management and water resources.
- 4.3 The SIA is responsible for the coordination of environmental affairs between the Federal Government, the state governments, IBAMA and other entities involved in environmental activities. The SIA coordinates the management of international cooperation programs, and currently supervises two internationally funded programs: The National Environmental Fund (FNMA) and the National Environmental Program (PNMA). In addition, the SIA serves as the secretariat for the National Environmental Council (CONAMA).
- 4.4 Excluding the FNMA and the PNMA, the SIA has a staff of 69 permanent employees, of which 17 hold supervisory positions and the balance are technical and administrative staff. The personnel assigned to the FNMA and PNMA are predominantly technical staff contracted specifically for the execution of these programs. Through its oversight of the execution of the FNMA and the PNMA programs, the SIA has demonstrated its ability to effectively administer internationally funded programs without increasing the permanent structure of the Ministry.
- 4.5 The FNMA I Program was coordinated and executed directly by the CG-FNMA, which had a direct liaison relationship with the Bank. The structure for the FNMA II Program differs from this by establishing a Program Management Unit (UGP) within the SIA as well as assigning execution oversight responsibilities to SIA. This structure is required due to the inclusion of the Environmental Licensing Component (component 3) which will be executed by SIA, SFPN and IBAMA.
- 4.6 The combined operational and investment budget for the MMA, including the FNMA and excluding other autonomous entities, has grown steadily from US\$ 260 million in 1995 to US\$ 515 million in 1997. This growth has occurred primarily in 1997 (up approximately 38% from 1996 levels) and the projected growth for 1998 is similar. This large growth in 1997 and 1998 is due to the transfer of water resources responsibility from the Ministry of Agriculture to the

MMA in 1997. Along with the responsibility, the MMA also incorporated into its structure the Secretariat for Water Resources including its personnel and budget. The MMA also experienced a significant growth in its investment budget during 1997 and 1998, largely due to the inclusion of water resources investment projects financed with local resources.

C. General Coordination Unit of the National Environmental Fund

- 4.7 The National Environmental Fund was created by Law N° 7.797, dated July 10, 1989 and its administrative structure was established by Decree N° 98.161, dated September 21, 1989 (see ¶ 1.11). The law specifies that the FNMA may receive financing through the Federal Budget; endowments and donations in the form of cash, securities or property from entities or people; income resulting from the use of its resources; and other sources to be defined by law.
- 4.8 Decree N° 98.161 established a Deliberative Committee to oversee the administration of the Fund. The current composition of the Committee includes four representatives of the MMA, one representative of the Ministry of Planning and Budget, three representatives of IBAMA and five representatives of the environmental NGOs. The Minister of the MMA currently presides over the Committee and the Coordinator of the FNMA is a member of the Committee. The NGO representatives, one from each of the five environmental regions of the country, are selected by vote of environmental NGOs.
- 4.9 Although the Committee is required to meet a minimum of three times per year, it may have additional meetings as may be necessary to adequately oversee the Program. In 1997, the Committee met a total of eight times to consider the approval of projects, the revision of the Fund's operating regulation as well as other operational issues. For the execution of FNMA II the Committee will be supported by a Technical Advisory Group composed of competitively selected technical specialists representing the same entities and maintaining the same proportional representation as the Committee. The GAT will meet more frequently and will be primarily responsible for the technical review of projects proposed for funding under the new FNMA II financing. The GAT will recommend to the Committee the approval of financing for projects that meet the technical, institutional and financial criteria of the FNMA II Program.
- 4.10 The CG-FNMA is organized into two operating areas: the Technical Coordination Area and the Administrative and Financial Area. The CG-FNMA has a staff of 36, of which 6 are direct employees of the MMA and 30 are contracted for the execution of the Program. The personnel of the Coordinating Unit includes 16 professional employees, 9 technical staff and 11 administrative support staff. The Coordinator of the CG-FNMA as well as the staff involved in the technical coordination functions all have degrees in relevant professional fields such as ecology, biology and agricultural sciences. The financial and administrative staff are predominantly

graduates with degrees in accounting and business administration. Given the Fund's current level of operations (approximately 415 project proposals received and analyzed per year of which approximately 100 projects are approved at a total volume of US\$ 7 to 8 million) the number of personnel working at the CG-FNMA is slightly below an adequate level. The FNMA has doubled its level of operations since 1994 and only increased its staff level by 30%. At this level of operations (which will continue during the first stage of the FNMA II Program) the Fund requires additional technical personnel, to receive and process project proposal, monitor projects in execution, and to evaluate the completed projects. The Program design has taken these personnel requirements into account and includes counterpart financing for additional personnel for the CG-FNMA.

- 4.11 The FNMA maintains accounting records of the projects that it finances. The entities that execute these projects maintain detailed records of all financial transactions as well as the documentary evidence of all expenditures. The FNMA authorizes periodic payments to project execution entities on the basis of pre-negotiated disbursement schedules and periodic progress reports. Disbursements are made by the MMA through the Integrated Federal Financial System (SIAFI). Upon completion of each project, the official government internal control agency, Secretariat for Internal Control (CISER), conducts a final audit of the project. If it is determined that less than 80% of the project objectives were met, or that any of the expenditures were either not budgeted or not substantiated, FNMA requests the return of all or a portion of the funds that had been disbursed. Over the last two years, funds have been returned to the FNMA from approximately 20 projects, generally projects that were executed prior to 1995. Since that time FNMA's project oversight capabilities have improved, reducing the occurrence of post-project requests for the return of funds. The CISER audit of each project assures an independent monitoring of the financial control of the FNMA program.
- 4.12 From 1995 through 1997, the FNMA has achieved a positive operating balance each year, varying between a high of US\$ 4.9 million in 1995 and US\$ 0.5 million in 1996 (see Table IV-1). In terms of operating efficiency, the lower the operating balance, the more efficient the FNMA is operating. The lower operating balance indicates that a greater proportion of its income was used to finance projects (its primary responsibility). In 1995, only 58% of its income was used to finance projects while in 1996 the level of project financing increased to 88%. In 1997 the level dropped back to 69%. The current program will use 85% as a benchmark for operating efficiency (see Annex II-1).

Table IV-1. FNMA Operating Budget, 1995-1997. (US\$ millions)

Item	1995	1996	1997
Current Budgetary Receipts	1.622	0.757	1.479
Capital Receipts	11.243	8.112	5.668
Operating Expenses	0.400	0.571	0.878
Balance Available for Projects	12.465	8.298	6.269
Project Financing	7.546	7.825	4.907
Operating Balance	4.919	0.473	1.362

D. Brazilian Institute of the Environment and Renewable Natural Resources

- 4.13 IBAMA, an autonomous public entity affiliated with the MMA, was established by Law N° 7.735 dated February 22, 1989 for the purpose of formulating, coordinating and executing of the national environmental policy and for the preservation, conservation, rational use, control and development of renewable natural resources. IBAMA is responsible for the granting and control of permits for development projects for those cases not under the jurisdiction of the state and municipal authorities. Subsequent to its establishment, a Federal court ruled that IBAMA should delegate environmental protection responsibilities to state agencies.
- 4.14 To finance its operating costs, IBAMA is authorized to receive budget allocations from the Federal budget as well as income from licensing the exploitation and sale of forest products and other assets under its control, from fines and permit fees, and from agreements with national and international entities. During the period 1995 through 1997, the IBAMA budget has varied from a high of US\$ 327.4 million in 1995 to a low of US\$ 305.2 million in 1996. IBAMA's 1997 budget was US\$ 316.1 million. In 1997, IBAMA normal operating expenses, including personnel, were US\$ 195.7 million. Its operating and capital expenses were also augmented by the US\$ 54 million of income from its own sources: licensing fees, permits and fines. The value of the fines collected in 1997 was approximately US\$ 11 million. IBAMA's 1998 budget is estimated to be US\$ 350 million, which includes US\$ 80.5 million of income from fees, fines, etc. It is anticipated that the income from fees and fine will go up substantially because IBAMA recently raised its fees and because the new Environmental Crimes Law will facilitate IBAMA's collection of fines. IBAMA will be responsible for US\$ 2.8 million of counterpart resources over two years, which can be financed by its income from fees and fines.

- 4.15 The organizational structure of IBAMA was established by Decree N^o 97.948 dated July 10, 1989. The operating units of IBAMA include: the Directorate of Control and Inspection, the Directorate of Renewable Natural Resources, the Directorate of Ecosystems, the Directorate of Promotion and Dissemination of Research and the Directorate of Finance and Administration.
- 4.16 The Directorate of Promotion and Dissemination of Research will be responsible for the execution of the activities to decentralize IBAMA's environmental licensing. Within the Directorate, the Department of Registration and Licensing is responsible for processing the licensing of all federal projects. Currently, the Department has 55 employees, all located in the IBAMA headquarters in Brasilia. The highly centralized structure is one of the causes of poor execution in federal environmental licensing (see ¶ 1.7 - 1.9). This staff receives requests for environmental licenses and supporting environmental impact assessments. On the basis of their evaluation of these materials, the Department issues environmental licenses. The Directorate of Control and Inspection performs the enforcement inspections associated with the licenses that are issued. This assures an appropriate separation of licensing and enforcement responsibilities.
- 4.17 The objective of Component 3 is to decentralize the activities of the Department of Registration and Licensing. Regional licensing units will be established in six states to perform the evaluation and approval of environmental licenses in the surrounding region. These units will be staffed primarily with existing personnel from the Department as well as from IBAMA's state offices. IBAMA has adequate personnel resources to staff these regional units.

V. PROGRAM FEASIBILITY

A. Technical feasibility

1. Program design and structure

- 5.1 The program is considered a feasible and justifiable response to the problems of environmental degradation, the need to include civil society in positive solutions to the degradation problem, and the importance of improving prevention of degradation as a more effective approach over the long term. The size and scope of the Program responds to the tremendous investment needs for environment in Brazil, balanced against the absorptive capacity of clients and the demonstrated capacity of the UC-FNMA to review, approve and monitor the execution of projects.
- 5.2 The Program provides resources for investments in practical solutions to concrete problems at the local level, with local community participation. The two windows provide the flexibility to meet emerging local demands for environmental improvement as well as address priorities of the national environmental strategy. By strengthening the ability of project proponents to design and execute projects, as well as the ability of the FNMA to effectively administer and obtain more resources in order to broaden its financial base, the Program contributes to a long term solution that will continue beyond the term of the Program itself. Finally, the Program addresses the need to standardize environmental guidelines and procedures between the federal and state levels, and decentralize federal environmental licensing in order to make it more responsive.

2. Individual projects

- 5.3 The projects financed by the Fund are generally simple in technical design and small scale. No particular technical problems are expected in the projects to be financed under the proposed Program. Projects financed in the past by the Fund have had an acceptable average rate of success, based on a number of reviews. In 1996, CISET, the independent federal control agency, found that 104 of the 119 completed projects reviewed in the field satisfied their technical objectives. The project team reviewed the individual CISET reports and corroborated the quality of the reviews and validity of the conclusions. The Project Team also visited 26 different completed projects, and 20 completed projects were field visited as part of the ex-post analysis of the first phase. The majority of problems encountered are related to institutional weakness in the project proponents and in overly general objectives or goals, such as in environmental education and applied research projects. These weaknesses are addressed in the Program.

- 5.4 The Coordinating Unit has been improving its technical review of project screening, and as part of the Program the UC will receive additional technical training. The selection criteria (see Annex III-1) are being improved and a process for yearly review of the adequacy of the technical selection criteria will be implemented. The inclusion of field visits for projects over US\$ 150,000 and with new clients in the proposed Program will also screen out potentially non-viable projects. In the past very few projects were visited prior to approval.

3. Environmental licensing

- 5.5 The component on environmental licensing may be technically more difficult to achieve, as it implies an ambitious exercise of coordination at the federal and state levels in such a large country that is also very diversified in social, economical, political and ecological terms. However, the MMA and the IBAMA have experience in equivalent national exercises and, considering the interest of all parties in developing a more efficient and expedited licensing, no major difficulties should occur. It is important to ensure, regarding IBAMA's participation, the effective nomination of full time staff for the six regional licensing units. This need is addressed in the condition prior to first disbursement of Component 3.

B. Financial and institutional feasibility

- 5.6 The resources for local counterpart will be provided by the federal government of Brazil. The federal budget has included sufficient counterpart resources for the FNMA in its 1998 budget. In addition to the official counterpart resources, the proponents of FNMA funded projects co-finance a legally set minimum of 10% of the project costs. Ciset audits all projects upon completion, including a verification of the project proponent's co-financing. If a project does not meet 80 percent of its stated objectives or if any costs are not substantiated, Ciset requires repayment of all or a portion of the resources provided by the Fund.
- 5.7 In addition to federal budget allocations, the Fund can legally receive donations, monetary contributions, monetary instruments, and other forms of contributions. There are no legal or procedural impediments to access or use of non-budgetary sources of support. Budget and other financial surpluses are carried over from year to year.
- 5.8 The recently passed Environmental Crimes Law specifically mentions the FNMA (Article 73) as one of the recipients of the proceeds of fines collected under the new law. Analysis indicates that 10 percent of the current level of fines levied, currently under discussion, would contribute significantly to meet the conditions for presentation of the Stage II loan proposal to the Bank, and collection levels can be expected to increase. The draft

regulation was sent to the Presidency on April 30 and is expected to be signed soon.

- 5.9 The FNMA has demonstrated its ability to improve its internal performance in both project review, approval and supervision, and in disbursements. The Program includes resources for technical training, manuals and equipment to maintain and improve internal administrative performance. The expected annual disbursements for Stage I are in line with its current level of operations, and the program includes sufficient counterpart resources to meet this sustained level of disbursements. The proposed changes in the Committee, including screening and approval procedures, will increase transparency and streamline the entire process. Additional counterpart personnel are included in the Program in order to improve the FNMA's current level of efficiency and to introduce new functions. The Program also includes specific resources for strengthening the project proponents in both technical and administrative areas. Implementing these changes and maintaining high performance will add to the Fund's reputation and ability to attract outside sources of funding.
- 5.10 The environmental licensing component of the Program is financially and institutionally viable. The counterpart resources required for this component (US\$ 4.0 million) will be jointly financed over a two year period by the MMA and IBAMA. The MMA has resources allocated to its 1998 budget for this component and IBAMA receives an annual income from non-budgetary sources (fees, fines, etc.) of approximately US\$ 54.0 million. SMA, SDI and IBAMA already have most of the personnel necessary for the execution of this component. This personnel will be augmented by a limited number of incremental supervisory and technical specialists.

C. Environmental and social feasibility

1. Consultations with affected communities

- 5.11 The investment component is designed to require local community participation in project design and execution. The implementation of improved selection criteria and the systematic use of site visits will ensure that proposed projects do, in fact, have local participation and buy-in, and provide locally important benefits. The Deliberative Committee currently includes five representatives from NGOs (one from each region). As part of the proposed Program, Committee representation will be expanded to include state environmental agencies, municipalities and the academic community. This level of representation from civil society ensures that local concerns are expressed at the highest level of the FNMA management, and, especially in the case of the NGOs, that their constituencies are made aware of decisions and directions the Committee takes.
- 5.12 In the preparation of the current Program, consultations were held with the Deliberative Committee and with the NGO community. Their comments and suggestions were received by the Team and the

Coordinating Unit and taken into account in the design of this operation.

2. Environmental and social impacts

- 5.13 By financing small environmental projects, the Program will convey substantial positive environmental and social impacts. Projects are intended to result in increased area managed for conservation of biodiversity, forest cover, and soil conservation; improved local water and air quality; increased scientific and technical information regarding baseline conditions and environmental management practices; and increased urban green space. These positive impacts will result from both active investment as well as better prevention through improvements in the environmental licensing system at the federal and state levels. Indigenous and extremely impoverished communities, particularly in Amazonia, will benefit from support for demarcation of reserves, environmental awareness and public health programs, as well as specific workshops with indigenous communities in designing and presenting projects to the Fund. All projects involving indigenous communities and intermediaries are reviewed by an anthropologist.
- 5.14 Due to the essentially positive and pro-active approach of the Program, and limited scale of project investments, no significant negative environmental or social impacts are expected. As part of the project proposal, the proponent must identify probable negative environmental and social impacts, and proposed mitigations, the adequacy of which will be reviewed by the FNMA technical staff during site visits. The effectiveness and adequacy of the environmental review will be evaluated after the first year of implementation, with recommendations made for improvements that can be incorporated in the Operating Regulations of the Fund.
- 5.15 The Fund does not finance traditional water, sewage treatment plants or solid waste disposal or recycling facilities. The Fund will finance studies related to innovative solutions, such as constructed wetlands, composing of animal waste, and the implementation of riparian zone recovery projects.
- 5.16 The environmental licensing component is especially designed to improve efficiency and quality of licensing at the federal and state level, thus no negative environmental consequence should be expected. However, there is a small risk that an eventual intention of simplification of rules and procedures may result in a relaxed approach to licensing. The Bank will follow progresses being made during project implementation to be alert on any such trend.

D. Socio-economic viability

- 5.17 The Program is considered viable from a socio-economic perspective. With the emphasis on improving the environment and management of natural resources, FNMA projects provide a substantial amount of

non-market benefits. Given the difficulty of establishing the value of such benefits, as well as the small size and diversity of projects financed by FNMA, the socio-economic viability analysis was designed to establish if projects are well-targeted, if costs are reasonable, and if project benefits are sustainable. The analysis did not attempt to calculate traditional, quantitative cost-efficiency or cost-benefit measures. Results of these studies are presented in Annex V-1 and summarized below.

1. Field visits by project team

- 5.18 Twenty-six completed projects were visited during the Orientation mission in November 1997. Three important conclusions emerged: first, that there exist economies of scale in applying for FNMA financing. Institutions that are too small or lack a minimum of infrastructure cannot cope with federally-mandated application requirements, whereas for larger groups the marginal cost of assembling the required documentation is close to zero. To lower the risk of project failure and reduce the administrative burden on FNMA, minimum requirements for years of existence (1 for registered environmental NGOs, 2 for NGOs not registered with the national survey) and demonstrated financial capacity are now required for project eligibility. At the same time, to prevent large organizations from flooding the Fund with proposals, limits have been established on the total volume of financing available (US\$ 800,000) at which point it is expected that larger groups will "graduate" from the Fund. The regional workshops will provide general orientation and training to NGOs and other clientele, while site visits and specific activities within projects provide the opportunity to address the individual needs of project proponents.
- 5.19 Second, the visits underlined the role of the Fund in promoting the sustainability of projects after FNMA support. Based the results of a questionnaire, the FNMA estimates that over half (57 percent) of the projects continued and captured additional resources after FNMA funding. The field observations of projects corroborated this rough estimation. The percentage would likely be higher if the sample excluded projects financed in the first years of the Fund, which are generally agreed to be of lower quality than more recent projects. The survey also did not control for "stand alone" projects that end and do not require continued funding to operate.
- 5.20 Third, field observation indicates that the ability to secure support after Fund financing directly depends on the strength and capacity of the project proponent. Notably, it is worth mentioning that FNMA financing acts as a "seal of authenticity" for organizations, which can be used to leverage other resources. The Program now requires a minimum of 10% counterpart contribution in order to demonstrate the capacity to mobilize other resources. To further develop institutional capacity, the topic of project sustainability and fund raising will be included in the regional seminars designed to strengthen potential clients.

2. Ex-post review of FNMA administrative performance

- 5.21 This study, executed in 1997 and subsequently published as an RE1 Discussion Paper, produced six major findings. Of these, the most significant in operational terms was that although FNMA's early years were plagued by start-up costs and macro-economic instability, the Fund has subsequently improved its efficiency in selecting technically viable and cost-efficient projects. An important indicator of this change is processing time for applications, which dropped from an average of 20 months in 1993 to less than 8 months in 1997. The Program will consolidate and solidify these gains by streamlining operating procedures, training, and the incorporation of the GTA to simplify project approval while maintaining the quality of the projects themselves.

3. Ex-post analysis of projects

- 5.22 A substantial portion of benefits produced by FNMA projects are public goods. These projects have also included a strong social component, fostering local participation and technical capacity. The analysis of 20 completed projects financed during the first Bank operation focused on reviewing the participation of the local community; the institutional capacity of the project proponents; and an examination of cost-effectiveness for producing identifiable benefits. It should be noted that all projects reviewed were well-targeted and in accordance with the Operating Regulations in effect.
- 5.23 Local participation. Results indicate that over 65 percent of the projects visited achieved local participation in the project execution. Those projects that did not achieve their objectives generally did not have active local participation. As a result of this finding, additional weight in selecting new projects will be given those identified as meeting local demand for environmental improvements and significantly involving the community in project execution. Local participation for projects over US\$ 150,000 will be corroborated by field visits prior to approval by the Deliberative Committee.
- 5.24 Institutional capacity. Institutional capacity is often directly linked to the experience of the institution. Of the projects visited, 65 percent of the proponents had three or more years experience in the environmental area. Unfortunately, 21 percent had no experience or capacity for executing environmental projects. This was particularly the case with small municipalities. Partnerships between municipalities and NGOs and/or universities will be given high consideration in future selection criteria. Large projects above US\$ 150,000 will receive on-site visits to assess institutional capacity and strengthening needs.
- 5.25 Cost-effectiveness. Because of the manner in which project proposals were presented in the past -- in terms of allocating costs and specifying direct and indirect benefits -- estimating the

cost per unit of output or benefit was extremely difficult for the review of ex-post projects. The estimation of benefits, particularly in education and applied research projects, has tended to be inflated or too general to measure. The Fund is adopting new application procedures that require specifically identifying project benefits and beneficiaries, specifying proposed actions and ecosystems being treated, and itemizing cost per project output.

- 5.26 For the purposes of the ex-post evaluation the following classification was developed: projects that met their stated objectives using least cost solutions were ranked as being highly cost-effective; projects that met their objective but which in the opinion of the consultants could have done so at a lower cost were ranked as being medium cost-effective; and those which for whatever reason failed to meet their objectives were ranked not cost-effective. Using this classification, the study found that 75% of projects in the sample were cost effective (with 55% being highly cost-effective).

4. Ex-ante analysis of projects:

- 5.27 To determine likely benefits and costs of projects eligible for financing under FNMA II, a sample of 30 were drawn from the population of 109 currently awaiting review by the Deliberating Committee. The total value of this sample is US\$ 2.6 million, or about 25% of the value of the projects awaiting approval by the Committee.
- 5.28 The principal finding is that FNMA is able to select a majority of viable projects. Of the thirty projects reviewed, two-thirds provide a concrete solution to a tangible environmental problem or provide methods or information needed to derive solutions. Of the ten projects which lacked focus, several had received unfavorable reviews from the external specialists, indicating that defects in projects are being detected and provide a basis for screening out weak proposals. With the GTA recommending approval or denial to the Committee, final project selection and processing efficiency will increase.
- 5.29 The Program improves the information required for project proposals. These changes include the addition of technical briefs that will be used to rank project proposals using quantitative indicators of institutional and financial capacity, technical merit, ability to meet local demand, form workable partnerships, and specify expected benefits. Based on an initial review of 30 ex-ante projects, the following benefits have been identified:

Theme	Avg. Cost	Direct Benefits	Indirect Benefits
Conservation	\$ 145,600	increased knowledge of status of endangered species, habitats and protected areas	increased popular awareness of conservation issues; increased potential for eco-tourism through species and habitat conservation
Environmental Control	\$ 184,684	studies, maps and environmental quality data; areas recovered	reduced levels of contamination; reduced downstream costs
Environmental Education	\$ 132,579	Books, pamphlets, other materials, workshops	increased awareness and long-run demand for environmental quality
Management of natural resources	\$ 85,500	reforestation and recuperation of degraded areas	increased or maintained levels of biological diversity
Applied research	\$ 147,167	information on water quality, resource use	reduced levels of contamination; lower health costs
Institutional Strengthening	\$ 35,640	trained participants from workshop	increased community participation in solving environmental problems

E. Benefits and Beneficiaries

- 5.30 The direct benefits of the program will be improved environmental quality and awareness at the local level, due to the nature of the projects financed by the FNMA and improved application of the environmental licensing system. The environmental licensing component will minimize the possibility of states competing for economic development through lax enforcement of environmental standards, by the adoption of standard guidelines and procedures for all states. The direct beneficiaries will be the local citizenry. The grass roots organizations, community groups, NGOs, and small municipalities that comprise the majority of project proponents will also directly benefit from the strengthening and capacity-building activities of the Program. The private and public project proponents for large projects requiring federal licenses will directly benefit from improved, transparent application of existing law.

F. Risks

- 5.31 The primary risk for the Program as in many programs of this type, is the possible staff turnover in the future, which could weaken the leadership and effectiveness of the Coordinating Unit. The risk is mitigated by the inclusion of resources for technical staff training and the development of clear operational guidelines to minimize the impact of staff turnover, and the public outreach and fund-raising activities to maintain the profile of the Fund to its potential clients and donors which should provide incentives to the MMA to maintain strong leadership in the coordinating unit.

- 5.32 A second risk to the Program is that the Fund will not be able to mobilize an additional 20 percent of investment resources necessary to trigger the presentation of the Stage II loan to the Board. The Program mitigates this risk by including resources specifically for evaluating alternatives and implementing a fund-raising program. The Environmental Crimes Law specifically directs some portion of the fines collected to the FNMA. In addition to the recently passed Environmental Crimes Law, there are a number of proposals in Congress that address improving environmental quality, as well as strengthening the Fund itself.

LOGICAL FRAMEWORK NATIONAL ENVIRONMENT FUND II (BR-0262)			
Objective	Indicators	Means of Verification	Assumptions
<p>Goal:</p> <p>Contribute to implementation of the National Environmental Policy of Brazil in protection, rehabilitation, natural resources management, education and environmental management</p>	<p>Increase in number of environmental problems resolved/mitigated in the area of influence</p>	<p>FNMA reports</p>	
<p>Purpose:</p> <p>Solve/mitigate local environmental problems, by increasing the amount and better targeting of resources invested by society</p> <p>Improve the application of the environmental licensing policies and legislation at the national and state level</p>	<p>Proportion of projects that have met their stated objectives</p> <p>Estimated 100% of Federal licenses approved in regional centers by year 3</p>	<p>Monitoring and ex-post evaluation of specific projects</p> <p>Execution reports for Component 3</p>	<p>Ministry of Environment continues supporting participation of civil society via FNMA</p> <p>Committee continues to screen and select high quality projects</p> <p>Sources of funding in addition to FNMA are available to NGOs, etc.</p> <p>Public support for environmental quality grows</p>

LOGICAL FRAMEWORK NATIONAL ENVIRONMENT FUND II (BR-0262)			
Components/Outputs			
Objective	Indicators	Means of Verification	Assumptions
Participatory, demand-driven projects are implemented	<p>US\$ 5.50 million or more executed annually by NGOs and municipalities with less than 120.000 inhabitants in years 1, 2 and 3. US\$ 6.50 million or more executed by NGOs and municipalities with less than 120.000 inhabitants in years 4 and 5</p> <p>Proportion of sustainable projects implemented increases</p> <p>Proportion of demonstration projects implemented increases</p> <p>Number and proportion of sustainable projects, by type, completed</p>	<p>Administrative records and reports from FNMA</p>	<p>Projects are well-designed and executed</p> <p>Sustainable projects are presented</p> <p>NGO's and municipalities under 120.000 inhabitants have capacity to propose and execute projects in quantity and quality</p>
Induced demand projects are implemented	<p>Relationship between resources available and resources requested by proponents approximates 1</p> <p>Number of projects, by type, completed in priority areas</p> <p>Amount of resources invested in priority areas</p>	<p>Administrative records and reports from FNMA</p>	<p>Projects are well-designed and executed</p> <p>Thematic areas chosen by Committee address priority issues</p> <p>Clients propose high quality projects</p> <p>FNMA is flexible enough to adapt to new situations</p>
Clients have increased capacity to design projects, mobilize resources for execution and implement internal controls for effective project implementation	<p>Proportion of good projects received increases</p> <p>Beneficiary counterpart resources increases</p> <p>Financial, administrative problems w/ clients decreases</p> <p>Number of clients that have attended or received workshops, training and successfully develop projects increases</p> <p>Proportion of projects with partnerships increases</p>	<p>Administrative records and reports from FNMA</p> <p>Sampling of clients</p> <p>Mid-Term review</p>	<p>Other sources of financing become available</p> <p>Clients have capacity to take advantage of training</p>

LOGICAL FRAMEWORK NATIONAL ENVIRONMENT FUND II (BR-0262)			
Components/Outputs			
Objective	Indicators	Means of Verification	Assumptions
FNMA is efficient and effective in program management	<p>Operating costs of the Fund as a proportion of total available project funds does not exceed 20%</p> <p>Proportion of resources committed to resources available for projects exceeds 85%</p> <p>Average time for project processing decreases</p> <p>Database for providing above information is in place, functioning and dependable</p> <p>Performance information of FNMA and projects available, for example, on the INTERNET</p> <p>Client satisfaction increases</p>	<p>Project Reports</p> <p>Internal semester reports</p> <p>Customer satisfaction questionnaire</p>	<p>MMA continues to support UC-FNMA</p> <p>Deliberative Committee approves projects in a timely manner</p>
FNMA is capturing additional resources for project finance	<p>US\$ 4.4 million from other sources are available for projects at year 3</p> <p>Fund Raising program has been established</p>	<p>Administrative reports</p> <p>Budget reviews</p>	<p>Alternative funding sources are sustainable</p> <p>Fund raising program is effective</p> <p>FNMA is respected as an efficient entity</p>

LOGICAL FRAMEWORK NATIONAL ENVIRONMENT FUND II (BR-0262)			
Components/Outputs			
Objective	Indicators	Means of Verification	Assumptions
Rules and procedures for environmental licensing at federal, state level have been standardized	5 working groups implemented in first 3 months of year 1 6 procedural manuals and norms published, one every six months	Project reports Published manuals Minutes of group meetings	Proposed procedures adequate for existing institutional structure Proposals are general norms, with flexibility to define regional specifications
National system for the follow up and monitoring of licensed works and activities designed and implemented on pilot basis	Proposal for system is completed in 6 months. Alternatives for sustainability proposed in month 8 Follow-up system implemented in month 10	progress reports, end of project report field visits and reports	Information gathered from monitoring system is used for improving compliance, implementing rules & procedures
Federal licensing responsibilities decentralized a study on alternatives for financing environmental licensing activities	6 regional coordinating units established and functioning in year 1 Approximately 24 federal licenses granted through regional centers by end of project Average time for obtaining permits decreases to 4 months Approximately 100 technicians trained by end of project Information available and monitoring system functioning	progress reports field visits and reports	Monitoring information is used for follow-up enforcement

LOGICAL FRAMEWORK NATIONAL ENVIRONMENT FUND II (BR-0262)			
Activities			
Objective	Indicators	Means of Verification	Assumptions
Resources available for projects	Project Budget Amounts: \$22 million Stage I \$28.7 million Stage II	project reports	UC-FNMA is able to administer resources
Resources for strengthening clients: Regional workshops Broad outreach and information campaigns Local consultants on retainer to do site visits, help in analysis Specific assistance to project proponents Consultants to provide training, etc. in the workshops themselves, and to set them up	Project Budget Amounts: \$ 1.3 million	Project reports	Client groups take advantage of support for strengthening Strengthening is effective Client groups are satisfied with FNMA services and support Qualified consultants are available
Resources for strengthening FNMA Internal operating procedures and guidelines Staff training project monitoring and mid-term review Information systems Publications Incremental staff	Project Budget Amounts \$ 8.2 million	Project reports	Technical staff are qualified Training is effective FNMA is flexible enough to incorporate changes to improve performance Information systems are maintained and incorporate needs for new information easily
Sustainability of FNMA Studies for alternative funding sources Consultant for Fund raising program Publications, bulletins, campaigns	Project Budget Amounts: \$ 385,000	Project reports	Alternative funding sources are available FNMA establishes and maintains reputation, performance necessary to attract funds

LOGICAL FRAMEWORK NATIONAL ENVIRONMENT FUND II (BR-0262)			
Activities			
Objective	Indicators	Means of Verification	Assumptions
Standardization of norms and procedures	Project Budget Amounts: \$ 1.6 million	Project records	Political support at federal and state levels exist for standardizing procedures, norms, etc.
Technical Strengthening for follow-up and monitoring	Project Budget Amounts: \$ 1.2 million	Project records	
Decentralization of federal licensing activities	Project Budget Amounts: \$ 5.1 million	Project records	

AQUISIÇÕES E LICITAÇÕES
COMPONENTES 1 & 2 E COORDENAÇÃO CENTRAL E DO FNMA

(em US\$)

DISCRIMINAÇÃO DE AQUISIÇÕES	VALOR DE AQUISIÇÃO	FONTE DE FINANCIAMENTO EM US\$		TIPO DE AQUISIÇÃO	PROCEDIMENTO DE AQUISIÇÃO	TR. PUB.
		BID	RECURSOS			
TOTAL	215,100	215,100	0			
de Equipamentos de Informática - Coord. Cent.	27,600	27,600		Bens	Lic. Nacional	
de Equipamentos - FNMA	187,500	187,500		Bens	Lic. Nacional	1/99; 1/2000
TOTAL	1,200,000	1,200,000	0			
ento para os proponentes de projetos						
inários Regionais por ano	1,200,000	1,200,000		Serviços	Lic. Nacional	1/99; 1/2000
	8,452,700	1,936,700	6,516,000			
de Serviços	904,500	904,500				
o de Publicações	244,500	244,500		Serviços	Lic. Nacional	1/99; 1/2000
o de Boletins Informativos	104,000	104,000		Serviços	Lic. Nacional	1/99; 1/2000
volvimento da Pág Web Site (software)	20,000	20,000		Serviços	Lic. Nacional	
ção da página Web	36,000	36,000		Serviços	Lic. Nacional	1/99; 1/2000
o de Vídeos (01 por ano)	500,000	500,000		Serviços	Lic. Nacional	1/99; 1/2000
rias	7,548,200	1,032,200	6,516,000			
toria em Organização e Gerenciamento	200,000	200,000		Serviços	Lic. Nacional	1/99; 1/2000
toria para Avaliação de Meio Termo e Final	260,000	260,000		Serviços	Lic. Nacional	I
toria em Sistema de Informação	50,000	50,000		Serviços	Lic. Nacional	1/99; 1/2000
toria em Sustentabilidade Financeira	75,000	75,000		Serviços	Lic. Nacional	1/99;
toria em Sistema de Admin. Fin. - Coord. Cent.	20,000	20,000		Serviços	Lic. Nacional	
tores Individuais (1 técnico, 1 admin) - Coord. Cent.	342,000	270,000	72,000	Cons. Individual	Carta Convite	1/99; 1/2000
tores Individuais (30 técnico, 12 admin) - FNMA	6,444,000		6,444,000	Cons. Individual	Carta Convite	1/99; 1/2000
tores Regionais (varios)	157,200	157,200		Cons. Individual	Carta Convite	1/99; 1/2000
TOTAL	9,867,800	3,351,800	6,516,000			

AQUISIÇÕES E LICITAÇÕES COMPONENTE 3

(em US\$)

Annex III-3

Page 2 of 2

DISCRIMINAÇÃO DE AQUISIÇÕES	VALOR DE AQUISIÇÃO	FONTES DE FINANCIAMENTO EM US\$		TIPO DE AQUISIÇÃO	PROCEDIMENTO DE AQUISIÇÃO	TRIMESTRE POR LICITAÇÃO
		BID	LOCAL			
AMONTOS	870,720	234,920	635,800			
Adquisição de Equipamentos de Informática						
MA (SMA/SDI)	64,725	63,900	825	Bens	Lic. Nacional	I/1999
MA	249,300	133,950	115,350	Bens	Lic. Internacional	I/1999
Adquisição de Móveis de Escritório						
MA	4,675	3,850	825	Bens	Lic. Nacional	I/1999
MA	42,820	33,220	9,600	Bens	Lic. Nacional	I/1999
Adquisição veículos (utilitários e barcos)	509,200		509,200	Bens	Lic. Nacional	II/1999
LICITAÇÃO	911,860	526,020	385,840			
Cursos de Treinamento para os OEMAs (SMA)	21,900	21,900		Serviços	Carta Convite	I/99 a II/99
Cursos Básico (IBAMA)	267,520	81,880	185,640	Serviços	Carta Convite	I/99 a IV/99
Cursos Temáticos	273,000	72,800	200,200	Serviços	Carta Convite	I/99 a IV/99
Treinamento em Serviço	349,440	349,440		Serviços	Carta Convite	I/99 a IV/2000
SERVIÇOS	2,995,400	2,060,600	934,800			
Contratos de Serviços	668,000	668,000	0			
Eventos de Divulgação (SDI)	54,600	54,600		Serviços	Lic. Nacional	I/99; III/99
Cadastro Técnico Federal/Banco de Dados Georeferenciados (IBAMA)	345,500	345,500		Serviços	Lic. Nacional	III/1999
Desenvolvimento de Software Aplicativo (SMA)	227,300	227,300		Serviços	Lic. Nacional	II/1999
Publicações - SDI	27,000	27,000		Serviços	Lic. Nacional	IV/99; IV/2000
Publicações - IBAMA	13,600	13,600		Serviços	Lic. Nacional	III/1999
CONSULTORIAS	2,327,400	1,392,600	934,800			
Consultores Individuais (3 técnico, 3 admin) - SMA	448,320	216,000	232,320	Cons. Individuais	Carta Convite	I/99 a IV/2000
Consultores Individuais (2 técnico) - SMA	63,000	63,000		Cons. Individuais	Carta Convite	I/99 a IV/2000
Consultores Individuais (21 técnico, 2 admin) - SDI	391,680	240,000	151,680	Cons. Individuais	Carta Convite	I/99 a IV/2000
Consultores Individuais (36 técnico, 6 admin) - IBAMA	1,424,400	873,600	550,800	Cons. Individuais	Carta Convite	I/99 a IV/2000
TOTAL	4,777,980	2,821,540	1,956,440			

PROPOSED RESOLUTION

BRASIL. LOAN ___/SF-BR TO THE REPUBLICA FEDERATIVA DO BRASIL

SUPPORT PROGRAM FOR THE NATIONAL
ENVIRONMENT FUND, II

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf the Bank, to enter into such contract or contracts as may be necessary with the República Federativa do Brasil, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a Support Program for the National Environment Fund, II. Such financing will be for up to the equivalent of US\$24,000,000, in reais, which are part of the resources of the Fund for Special Operations, and it will be subject to the "Special Contractual Conditions" and the "Terms and Financial Conditions" of the Executive Summary of the Loan Proposal.