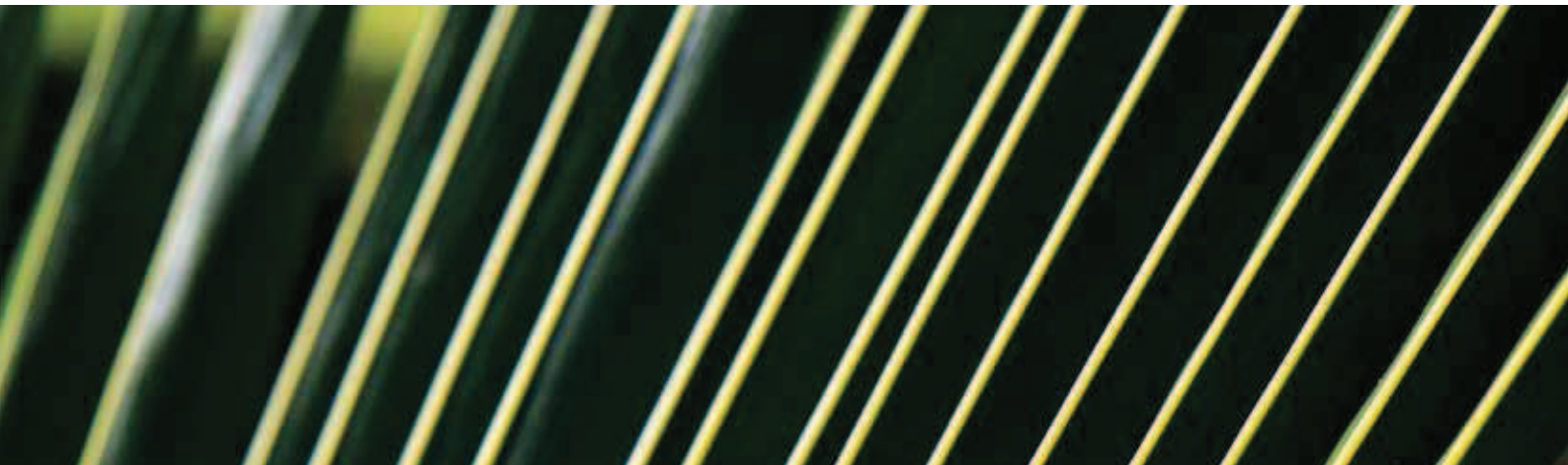




# AMAZON FUND

**ANNUAL REPORT 2010**



Brazil protects it. The world supports it. Everybody wins.





# AMAZON FUND

**ANNUAL REPORT 2010**



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## Message from the Minister of the Environment

Readers will find in this report, put together by the BNDES' team, a record of the progress made up to December 2010 by the Amazon Fund since its launch with the signing of Decree N°. 6,527, in August 2008.

The Fund, as shown in this document, is an initiative of the government and Brazilian society, dedicated to complementing national efforts to reduce deforestation in the world's largest rainforest. The decrease in forest clear-cutting has not been a simple task although it has been successful in recent years. We are talking about an area of more than five million km<sup>2</sup> (larger than many European countries put together), with a population close to 25 million people with legitimate demands for access to development policies. It is, therefore, necessary to rely on the cooperation of those who understand that the forest is a fundamental heritage of the Brazilian people.

And, for this reason, the Fund is open to receive donations from countries, people, or organizations.

Norway, in synch with our government, was the first to believe in this new form of cooperation and committed significant donations – and has continued to do so. And, in 2010, the Fund also started to receive donations from the German government, a traditional and vigorous cooperator with Brazil, particularly in the task of protecting our forests.

The Fund's slogan properly sums up its purpose: "Brazil protects it. The world supports it. Everybody wins". This is also its challenge. With the raising of new funds, based on the results of reduced deforestation achieved by the government with its own resources, the central task now is to disburse them into structuring initiatives and projects that, effectively and in keeping with the national policy, combat illegal logging of forests.

# Izabella Teixeira

If the Fund's initial years were devoted to preparing its structure, the time has come to accelerate procedures, increase their scope, and guarantee that good projects, whether they are they small, medium, or large, have the necessary support.

And society must be a partner in this, participating and exerting social control both in the Fund's own governance and in each of the contracted projects. Every penny invested must signify less deforestation, more conservation, and a better standard of living. And the transactional costs must be subordinated to this guideline. That is what we all expect.

The Ministry of the Environment and all members of the Fund's Guidance Committee have been working together with the BNDES to further the progress of this innovative initiative.

I hope you enjoy the report.

*Brasília, October 2011.*

Izabella Teixeira

MINISTER OF THE ENVIRONMENT

**President of the Guidance Committee of the Amazon Fund**



## Message from the President of the BNDES

Created by the decree issued by the Brazilian President on August 1, 2008, under the leadership and coordination of the Ministry of the Environment, the Amazon Fund was designed with the objective to diligently work towards continuous voluntary reductions in greenhouse gas emissions caused by deforestation and degradation of Brazilian forests and specifically of the Amazon Biome. The BNDES took on the honorable task of managing these resources, supporting sustainable projects that create employment and income alternatives as well as foster the conservation of forest and river basins.

Our premise is the guidance provided by the Ministry of the Environment, which understands that development of the region will not be possible without conservation of the forest. Besides this, it also establishes that the wealth of the environment – embodied in the extraordinary genetic diversity – will only be preserved if the Brazilians living there are able to make a living from the sustainable management of rivers and forests in the region.

A pioneer project, the Amazon Fund is one of the first REDD mechanisms (Reduction of Emissions from Deforestation and Degradation) in the world. It has an inclusive governance structure, which hosts representatives of the federal government, the government of the Legal Amazon states in Brazil that are involved in combating deforestation, civil society, and the scientific community.

The year 2009 was marked by the successful efforts to make the Amazon Fund operational. The important incentive came in the form of the first donation received from the Norwegian government, a demonstration of confidence in the work Brazil is to carry out.

The first activity report has records on the structuring of the Bank's Management Department of the Amazon Fund, the full operation of its Technical and Guidance Committees, the donation contract with the Norwegian government, and the first five

# Luciano Coutinho

projects approved, totaling R\$ 70.3 million. This amount will be disbursed throughout the period these projects are implemented, ranging from three to five years.

If in 2009 the challenge was to make the Fund an effective operational mechanism, the Fund received an even greater responsibility: that to strengthen and expand operations, in the second year of its operation.

In 2010, the Amazon Fund received its second donation, made by another European country, Germany, during the 16th Conference of the Parties in November, held by the Framework Convention of the Parties of the United Nations (UNFCCC) in Cancun.

The donation from the German government reaffirmed the positive endorsement of efforts that last year approved eight new projects. When added to the five projects approved in 2009, the result was a total of 13 projects supported by the Amazon Fund, amounting to R\$ 190.2 million.

Throughout 2010, the Guidance Committee held four meetings, while committees established to examine specific issues carried out workshops and other meetings. This intense debate, in which actors from different segments present their demands and their points of view, is a source not only of learning for all those involved but also of progress in the Fund's work, structured by efforts for better governance practices, in constant dialogue with its interlocutors.

Beginning with the set of efforts aimed at contributing to voluntary reductions in greenhouse gas emissions resulting from forest deforestation and degradation, the Amazon Fund is now a benchmark. May the 2010 Annual Report be useful in disseminating such learning.

Luciano Coutinho  
PRESIDENT OF THE BNDES

# Introduction





The Amazon Fund is considered a pioneer initiative in financing efforts for Reducing Emissions from Deforestation and Degradation (REDD). In this context, its history, learning process and results are relevant aspects to be shared.

Aimed at the general public, publishing annual reports is one of its instruments for accountability and transparency of information. This report also includes the results from a financial and compliance audit, both external and independent.

The first report on the activities of the Amazon Fund, for the year 2009, described its initial implementation period, in which the main task was to transform an idea into a reality.

This document addresses information from the Amazon Fund for the year 2010, the second year of its effective operation.

The 2010 Annual Report is structured similarly to the 2009 Annual Report, and organizes information using the following topics:

- what is the Amazon Fund, its objectives, context for its creation, and public policies that outline its guidelines;
- fundraising rules, volume of contracted donations and payments effectively made;
- attributions linked to its governance, with the main referrals from meetings of the Amazon Fund's Guidance Committee (COFA) and Technical Committee (CTFA);
- the BNDES' management of the Fund, its operational structure and communication efforts, institutional coordination, and its relation with the general public;
- the financial and operational performance of the Fund, accountability, audits;
- detailed description of supported projects and the monitoring system for physical and financial implementation of projects;
- the development of methodology to monitor and assess results; and,
- the list of the remaining connected activities and events, such as the development of communication tools, participation and promotion of meetings and seminars.

#### **THE AMAZON FUND:**

BRAZIL PROTECTS IT. THE WORLD SUPPORTS IT. EVERYBODY WINS.

## Main factors for deforestation

Considered the world's largest reserve of biodiversity, the Amazon is also the largest Brazilian biome in size, occupying almost half of the country (49.29%).

The Amazon Basin is two-fifths of the South American territory and 5% of the Earth's surface. Its area, of approximately seven million square kilometers, is home to the largest river system on the planet, through approximately one fifth of the world's volume of surface freshwater flows.

Sixty percent of the Amazon Basin is in Brazilian territory, where the Amazon Biome occupies five federation units (the states of Acre, Amapá, Amazonas, Pará and Roraima), a large part of the state of Rondônia (98.8%), more than half of the state of Mato Grosso (54%), and part of the state of Maranhão (34%) and the state of Tocantins (9%).<sup>1</sup>

FIGURA 1: AMAZÔNIA LEGAL



Source: Brazilian Institute of Geography and Statistics (IBGE).

<sup>1</sup> Source: Brazilian Institute of Geography and Statistics (IBGE).

TABLE 1: AMAZON, SOME CONCEPTS

AMAZON BASIN
Where it is located: Peru, Colombia, Ecuador, Venezuela, Guiana, Bolívia and Brazil (the states of Acre, Amazonas, Roraima, Rondônia, Mato Grosso, Pará and Amapá).
Area: <b>6,5 million km<sup>2</sup></b>
What it is: an array of water resources that converge into the Amazon River, occupying 2/5 of South America and 5% of the earth's surface. It is the greatest hydrographic network on the planet, responsible for draining around 1/5 of the volume of freshwater in the world. Of its total area, around 3.8 million km <sup>2</sup> are in Brazil.
AMAZON BIOME (BRAZIL)
Where it is located: In the states of Acre, Amapá, Amazonas, Pará and Roraima and part of Rondônia, Mato Grosso, Maranhão and Tocantins.
Area: <b>4,2 million km<sup>2</sup></b>
What it is: the Amazon Biome is made up of regions that have similar climates, forest vegetation, fauna and dynamics as well as ecological processes.
LEGAL AMAZON
Where it is located: In the states of Acre, Amapá, Amazonas, Mato Grosso, Pará, Roraima, Rondônia, Tocantins and part of Maranhão.
Area: <b>5,2 million km<sup>2</sup></b>
What it is: an area instituted by the Brazilian government which includes regions with identical economic, political and social problems. It covers nine Brazilian states which belong to the Amazon Basin, i.e., which have stretches of the Amazon Forest in their territory, as well as other biomes.

Source: IBGE.

The Amazon is considered one of the largest genetic stockpiles in the world; it is a singular natural heritage, of unique dimensions, with large rivers and several ecosystems on its plains, plateaus and mountains. It has natural gas and oil reserves, and it is also one of the most substantial mineral provinces in the world. Its known natural resources are vast, especially its hydrographic potential.



The region's population comprises approximately 25 million inhabitants,<sup>2</sup> in contrast to 3.8 million in 1950, representing an increase of twice the national average. Despite the high urban population, indigenous people – sometimes in inaccessible places, *quilombola* communities – formed by descendants of black slaves, and several communities of forest people live in the region.

Deforestation in the Brazilian Amazon is associated with the occupation of the region, especially from the second half of the twentieth century, which saw the opening of roads through the forest, increased by active settlement policies aimed at occupying the Brazilian territory, attracting immigrants from other parts of the country in search of better standards of living.

Considering the diagnosis that integrates the Sustainable Amazon Plan (PAS), released in May 2008, this process of occupation did not occur in a harmonic, balanced and sustainable way. Cities grew because of the significant number of people attracted, and, although the economy has expanded, this expansion was based mainly on the supply of raw materials with low added-value. The services provided by the State did not follow the fast pace of growth in the region, and this drawback contributed to the socio-economic indicators in the region becoming among the lowest in the country.<sup>3</sup>

One of the consequences of this occupation and growth model was deforestation. According to the Plan for Prevention and Control of the Legal Amazon Deforestation (PPCDAM) Phase 2 (2009-2011),

regarding the strictly environmental aspect, a significant part of the natural heritage that constitutes the forest was affected. Estimates from the National Institute for Spatial Research (INPE) from the Amazon Deforestation Calculation Program (PRODES) show that about 18% of forests in the Legal Amazon have been removed. This percentage is concentrated especially in an area called the Deforestation Belt (or, in another perspective, the Dense Population Belt), which extends from the west of the state of Maranhão, through Tocantins, part of Pará and Mato Grosso, the entire state of Rondônia, southern Amazon, up to the state of Acre (page 9).

<sup>2</sup> According to the IBGE, in 2008 the population of the Legal Amazon was 24,256,129 inhabitants.  
<sup>3</sup> Chapter 1 of the Diagnosis of the Sustainable Amazon Plan (PAS), May 2008.

Deforestation has many negative effects, among which the following stand apart:

- greenhouse gas emissions;
- climatic imbalances associated with the water cycle (reduced evapotranspiration<sup>4</sup> in the forest);
- loss of biodiversity; and
- reduction of territories of populations that traditionally inhabit the forest.

The Plan for Prevention and Control of the Legal Amazon Deforestation (PPCDAM) is a federal government plan that has been underway since 2004 and brings together efforts of more than 13 ministries to contain deforestation in the region and to enable protection alternatives and sustainable forest use.

The PPCDAM Logic Model, used to define strategic macro-efforts, outlined a vast network of cause and effect and pointed to seven leading critical causes for deforestation:

- practice of illegal appropriation of public land;
- impunity of environmental offenses;
- fragility of the National Environment System (Sisnama) agencies;
- public land with no planned use;
- fragility in the process to ascertain the legitimacy of land titles;
- expansion of extensive cattle-raising due to the implementation of pastures by large and medium-sized farmers; and
- initial stages of sustainable economic activities.

Despite recent advances – which resulted in a drop of approximately 76% in the deforestation rate registered between 2003 (25,396 km<sup>2</sup>) and 2010 (7,000 km<sup>2</sup>), reducing deforestation remains an urgent and highly complex task, given the numerous associations between economic, social, legal, political and cultural factors that need to be simultaneously and firmly confronted.

<sup>4</sup> A phenomenon that arises from the combination of water evaporation from soil and liquid surfaces with the transpiration of plants.

Occupancy of land in the Amazon is an extremely serious matter, and, also, the cause of frequent and violent social conflicts, in spite of the efforts and public policies for land-title regularization conducted by the Legal Land Program, coordinated by the Ministry of Agrarian Development.

In turn, the illegal appropriation of public lands is related to the processes of land speculation, occupation and abandonment, the irregular practices of purchase and sale of properties and the existence of public land with no planned use.

The challenge posed by the supervision of the Brazilian Amazon in its entire length is significant. Within this context, illegal logging and the subsequent opening of roads by illegal loggers in isolated areas of the Amazon do indeed occur.

Among the factors responsible for deforestation is the extensive cattle farming.

According the PPCDAM, Phase 2 (2009-2011):

especially in establishing grazing pastures, the first years show good productivity. However, with the decrease in nutrients over the years, the areas lose their strength and recovery implies proper treatment of the soil with fertilization, use of machinery, equipment and chemicals and appropriate technical assistance. Due to these difficulties and the prices charged, the owner currently chooses to carry out new clearings or acquire new areas, thereby advancing the deforestation rate. It is estimated that about 25% of the total area deforested in the Amazon region is at varying stages of degradation (page 34).

Settlements, in their different modalities, welcomed large numbers of families in the Brazilian Amazon. However, many of them also represent pressure on deforestation, where the lack of technical assistance and unregulated environmental besides the occupancy of land in these territories are identified as critical factors.

Several factors contribute to new and inadequate exploration of sustainable economic activities in the region:

- limited knowledge on the benefits of forest management;
- low-skilled labor;
- insufficient technical assistance for agroextractive production and establishing agroforestry and agroecology systems;
- low added-value of agroextractivist products; and
- absence of structured production chains and limited logistics infrastructure.



While the new economically viable forest industry, of a sustainable and competitive nature and with an appreciation of environmental assets, is being fostered, it still does not have enough of what is required for its development, especially in terms of access to logistics infrastructure for production, marketing and distribution. However, several advances have already been made towards promoting sustainable production: Act N°. 11,284/06 on Public Forest Management; the implementation of the Brazilian Forest Service, the creation of the BR-163 Sustainable Forest District; the indirect management of public forests via procurement of forest concessions; the creation of credit lines to recover permanent preservation areas and the Legal reserve; using management plans for extraction reserves; and support to commercialize extraction products by including them in the Minimum Price Guarantee Policy of the federal government.

Intertwined with the critical causes of deforestation, to a greater or lesser extent, is the research and innovation system in the Brazilian Amazon, which should be emphasized. Further development of this system will require not only finding answers to existing problems, but also discovering opportunities, especially given the wealth still unknown related to the extraordinary biodiversity in this region.

## Prospects and challenges

In 2010, one of the many important environmental events was the Conference of the Parties of the Framework Convention on Climate Change of the United Nations (UN) which furthered discussions on regulating instruments to reduce emissions from deforestation and degradation (REDD+), including the creation of a global fund.

It is worth bearing in mind the regulation of the National Fund on Climate Change by the Brazilian government, with the publication of Decree N°. 7,343 of October 26, 2010, to support projects, studies and undertakings aimed at mitigating and adapting to the effects of climate change. The regulation of Act n°. 12,187, of December 29,

2009, also took place in 2010, establishing the National Policy on Climate Change by Decree N°. 7,390, of December 9, 2010.

This Decree covers the sector plans, among other things, with emphasis on the Action Plan for Prevention and Control of Deforestation and Burn-Offs in the Brazilian Cerrado (PPCerrado – hinterland region).<sup>5</sup> There are 151 planned efforts to reduce loss of plant coverage and promote the protection and sustainable use of the Cerrado. By 2020, the country aims to reduce deforestation by 40% in this biome, as well as increase the number of protected areas and carry out the Ecological-Economic Macrozonning, planned in the National Climate Policy.

In 2010, decreasing deforestation rates in the Amazon were also announced: 14% lower than the rates from 2009; this was also the year of the second inventory publication of greenhouse gases emissions in Brazil, covering the period from 1995 to 2005. This document, which follows the technical guidance of the Intergovernmental Panel on Climate Change (IPCC), indicates an increase of 57.8% in emissions from 1990 to 2005, where the sector of the Change in Land and Forestry Use accounts for 61% of emissions, followed by Agriculture (19%), Energy (15%), Industrial Processes (3%) and Waste Treatment (2%). In 2005, according to the data presented, the country issued approximately 2.2 billion tons of equivalent carbon dioxide (GtCO<sub>2</sub>eq).

Analysis of the deforestation data, according to a diagnosis contained in the PPCDAM – Phase 2 (2009-2011), indicates that, between 2002 and 2008, there was a reduction of large-scale deforestation (over one hundred hectares). This increased the relative importance of deforestation under fifty hectares, which remained practically stable.

These facts add to the complexity of monitoring, surveillance and curbing environmental crimes, implemented in recent years. Such efforts, to a great extent, are reflected in the rapid and severe drop in deforestation rates. The continuity of such integrated efforts by government agencies has become increasingly important to achieve the desired goals.

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<sup>5</sup> The full text can be found on the Ministry of the Environment's website: <[www.mma.gov.br](http://www.mma.gov.br)>.

The Amazon Fund is one of the instruments that comprise the strategy of the Brazilian government and society to face these challenges. It was created within the reference context of the PAS and PPCDAM guidelines, which also define its goal, its strategic target.

It is important to mention that the Amazon Fund has no precedence in the scale of international fundraising to combat deforestation and forest degradation. The scale at which these resources will be used in future years is also pioneer.

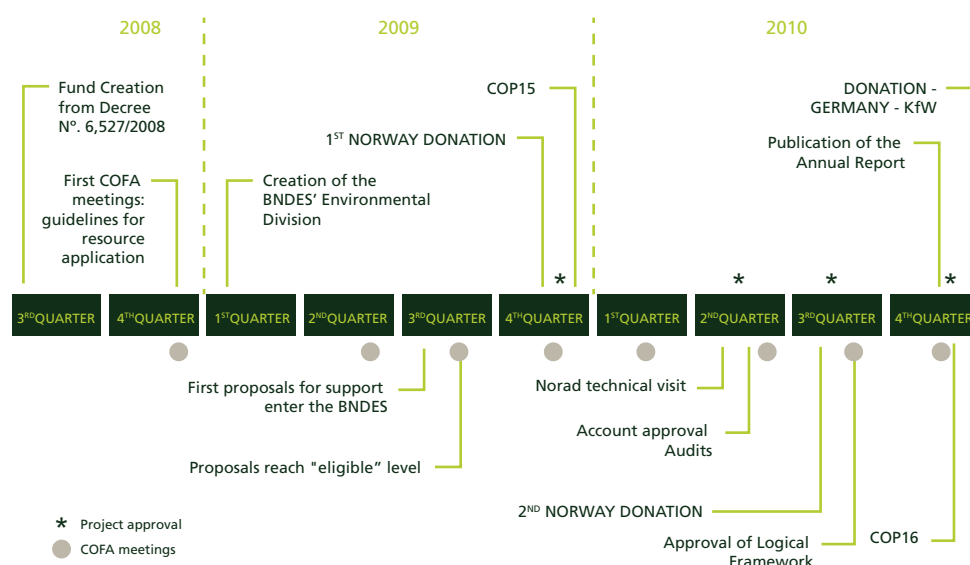
This is a task of historic proportions, involving Brazilian society as a whole, with international cooperation from nations that are aware of the collective responsibility towards future generations and varied forms of life on the planet.



## The Amazon Fund experience – 2009-2010

History of the Fund's implementation, with its main achievements and events, can be viewed in the following figure:

FIGURE 2: AMAZON FUND TIMELINE



As shown in Figure 2, among the achievements in the history of the Fund, which was created in August 2008, the first meetings of the committees that are part of its governance – the Amazon Fund Technical Committee (CTFA) and the Amazon Fund Guidance Committee (COFA) – stand out. Chaired by the Ministry of the Environment, COFA defined key guidelines and priorities for the application of resources in areas defined by Presidential Decree N°. 6,527/2008.

Responsible for the management of the Fund, it was the BNDES' responsibility to establish itself as financial and operational mechanism, with the corresponding legal, administrative, fiscal and tax measures required for its operation.

In early 2009, the creation of the Environmental Division at the BNDES provided the minimum requirements to organize the foundations of the technical and administrative structure, allocated to a specific operating unit – the Amazon Fund Management Department.

In this pre-operational stage, besides establishing the conceptual, regulatory and organizational groundwork, the main communication tools for the Fund activities were developed, which include a website, a trademark, brochures and other promotional materials, such as the monthly Newsletter and the Portfolio Report.

Also at this stage, three debates were organized aimed at providing knowledge and dialogue with society. The results were published in a book entitled *The Amazon in debate: opportunities, challenges and solutions*. It was also during this period that the Amazon Fund team, in partnership with the Forest Service team and the Ministry of the Environment, participated in a round of presentations to the Legal Amazon states in order to provide guidance on the Amazon Fund and its access mechanisms to foster potential proposals of projects.

Officially, the first consultations for project support were received by the BNDES in July 2009. Since then, the average number of consultations was high and relatively constant.

The donation agreement was signed with the government of Norway in the last quarter of 2009. This was a clear demonstration of support and collaboration with the Fund and its objectives, which provided a guarantee of monetary resources for financial support operations.

Thus, in late 2009, six months after the effective start of operations, the Amazon Fund already had the approval to support five projects in its portfolio, in an amount equivalent to R\$ 70,339,010.00 in disbursements. This result was announced during the 15th Conference of the Parties (COP15). More details on the Amazon Fund's portfolio are in Part 4 of this report.



Throughout 2010, the Fund's portfolio was expanded with the submission of diversified and eligible proposals. By December, another eight new projects were approved, bringing the number of projects approved to 13 for the one and a half year period since the beginning of its operations.

In terms of financial volume, the approval of the 13 projects amounted to R\$ 190,230,714.43. The contracted resources will be disbursed according to each physical and financial schedule established in the projects, whose implementation deadlines vary from three to five years.

The Amazon Fund's support, together with the involved financial counterparts, will provide an investment in the Amazon Biome of up to R\$ 360,257,656.73.

It is worth emphasizing the intense work in 2010 dedicated to detailing the Amazon Fund's Logical Framework and the several workshops and meetings with nonprofit organizations, which forwarded their main suggestions and expectations by means of their representation on the COFA. In this respect, support for small projects and understanding the BNDES' contractual procedures are predominant issues in COFA meetings.

With regard to attracting new resources to the Amazon Fund, the partnership started with Germany was of great importance, which has involved a series of meetings and visits for analysis between the teams to identify opportunities to work together. This effort by all involved parties resulted in the technical cooperation agreement with the German Technical Cooperation Agency (GIZ, formerly GTZ) and in a donation agreement for new funding for the Amazon Fund.

In December 2010, at the 16th Conference of the Parties of the United Nations Framework Convention on Climate Change (COP16), in Cancun, Mexico, the German government's contribution to the Amazon Fund was formalized, through the Kreditanstalt für Wiederaufbau (KfW), German development bank, at a ceremony presided over by Environment Minister, Izabella Teixeira, German State Secretary for Economic Cooperation and Development, Grudun Kopp, and KfW director, Rudiger Hartmann.



It is worth emphasizing the continuous encouragement of the Norwegian government, not only with the donation of resources, but also with constant monitoring of the developed work. In addition to the regular work meetings with members of the Norwegian Embassy, the Amazon Fund team was visited by members of the parliamentary Standing Committee on Energy and Environment from that country; representatives responsible for assessing Norway's International Climate and Forest Initiative; as well as experts from the Norwegian Agency for International Development Cooperation (Norad), with whom the construction of the Amazon Fund Logical Framework was discussed.

Throughout 2010, the Amazon Fund team received a delegation of 24 members from the Indonesian government, whose mission was to seek know-how already acquired by the BNDES regarding the Amazon Fund administration. They were also

visited by representatives of the Ecuadorian government, where the operational modalities of the Fund were presented.

The evolution of the Amazon Fund can be analyzed in light of the experience of other similar national and international funds, whose investments are focused on initiatives and projects of an environmental nature.

Generally, the implementation and development of these funds, with similar characteristics to the Amazon Fund, have three main evolutionary stages.

In each one of these phases and their associated deadlines, expectations are for the adoption of measures and the implementation of initiatives, aimed at achieving the best practices recommended to such funds, according to a study presented to the BNDES' Board of Directors by McKinsey & Company international consulting firm.

Briefly, these phases are ranked as follows:

- an early stage (one to two years), to learn and experiment;
- an intermediate stage (three to five years), to expand programs and replicate the successful pilot projects; and,
- an advanced stage (more than five years), to innovate, expand the scale and consolidate operations.

Comparatively, and based on the previously mentioned timeline, it can be inferred that the Amazon Fund, still in its initial phase, succeeded in anticipating the implementation of efforts that, in other funds, are only adopted at later stages.

In this sense, this analysis points to the intense learning process experienced in a participative manner by all agents and institutions of public interest and parties related to the Amazon Fund, in search for increased efficiency and immediate results, but, above all, consistent and sustainable efforts.

As for lessons learned, the experience that most closely matches the objectives, the operations and the size of the Fund was the Pilot Program to Conserve the Brazilian Rain Forest (PPG7). It was an initiative of the Brazilian government and society in partnership with the international community, whose purpose was to develop innovative strategies for the protection and sustainable use of the Amazon Forest and the Atlantic Forest, focusing on improvements in the living standards of local people.

As the Amazon Fund is the largest program of multilateral cooperation focused on environmental issues and in terms of global importance, assessment of its results is an important source of learning. Through it, approximately US\$ 460 million was invested over 17 years, including technical cooperation resources and local financial counterparts from governments and other partners. With funding from international donations, its structuring period was two years, during which there were no disbursements.

It is worth remembering that, in the Amazon Fund case, disbursements of its resources are directly put into effect for carrying out projects, according to a physical and financial schedule, to enable monitoring of its implementation “step by step”, quantitatively and qualitatively.

The implementation of typical projects in the seven areas of the Amazon Fund involves certain prerequisites that directly influence the pace of its physical and financial implementation and, hence, the speed with which contracted resources of the Fund are disbursed.

These requirements range from, primarily, the demonstration of compliance with applicable and specific law in each project, depending on its focus; to the minimum requirements set forth in the COFA guidelines; to the BNDES’ standards and procedures; as well as to governance, management and good technical practices.

Examples of requirements that are currently slow or difficult include land-title regularization for properties where projects will be developed; the acquirement of environmental licenses or clearance from the competent authorities, when applicable; formalization of partnerships between spheres of the government, and between public and private nonprofit initiatives; as well as the consent from beneficiary communities or their legal representatives.

The fragility of some state environmental and land agencies as well as the need and the lack of even minimal structure in municipalities located in the support area of the Amazon Fund to handle basic tasks, such as: environmental license, including forest management plans; deforestation monitoring; deterrence and control of environmental offenses; as well as poor cross-border integration that restrains the trade of illegal wood.

The desirable integrated and coordinated operation between public and private sectors, involving the different spheres of government, nongovernmental organizations, scientific institutions for education and research, among others, requires formatting and formalization of partnerships. Respecting the particularities of involved institutions as well as their different legal natures and specific procedures, these partnerships require time to be formalized, which should include detailing the responsibilities of each party and those that are to be shared.

Another aspect that influences the speed in implementing projects and disbursing resources is the difficulty for institutions applying to allocate teams that are structured, trained and dedicated to the technical and financial management of projects. Fragilities in the governance of some institutions, which require the adoption of measures for their outlining and strengthening, also influence the speed.

The previously mentioned issues accompany the execution of projects and are aimed at contributing to achieving the Amazon Fund's objectives. Such matters are common to those that are highlighted in the framework of critical causes connected to deforestation, according to the causal tree (Tree Problem) that guides the strategic efforts of PPCDAM (as previously mentioned).

Due to the urgency of the deforestation problem, expectations which are often expressed by quantitative indicators are legitimate. It is true that the availability of financial resources is crucial to addressing deforestation, given the magnitude of the challenges involved and the territorial magnitude.

However, factors, such as the reality and the context in which causes and effects of deforestation are engendered, have an influence and require careful consideration when the sustainability of the results to be achieved is taken into account.

For all these reasons, there is a longstanding conflict between the recurring demand for resources and the difficulty the institutions and agents that operate in this biome have in absorbing such resources.

Reliable operation and management of the Fund's resources, among other requirements, imply in:

- Pursuing legal compliance, whose absence contributes directly to the serious problems that are the origin of deforestation processes. One of the objectives of the Fund is precisely to strengthen the capacity of public agencies and agents that implement public policy to perform tasks and fulfill responsibilities.
- Supporting development of capacity-building to design and formulate initiatives and projects with the possibility to continue and sustain results in the medium and long term.
- Encouraging articulation, integration, negotiation and streamlining towards common goals and best practices.

Although initially slow and complex, the perseverance in achieving these objectives, supported by a participatory governance structure with representatives from society, the nine states in the Legal Amazon and from the ministries, helps the Amazon Fund leave a legacy of stronger institutions in terms of governance and future sustainability.

After its initial period, important challenges for the Amazon Fund are:

- to verify the reach of projects without spreading results too thin;
- to promote sustainable and inclusive development in the region; and
- to expand the scale of structural interventions aimed at solutions, which are able to ensure the desired results in the shortest possible time, with the required permanence and sustainability.

Choosing priorities for the Fund to focus its efforts on must also take into account the time and intensity of impacts on deforestation, as well as considering the logic behind its cause and effect.

Thus, initiatives in medium and long term that aim to transform and structure permanent results are included in the Fund's possibilities efforts. Among these initiatives, those that stand out are the promotion of land-use planning, which encompasses preparation, implementation and monitoring of ecological-economic zoning, which guides human activities in public and private investment in order to



intensify production in areas suitable for agricultural activities, and the adequate development of forest regions.

Generating alternatives to occupation, employment, income and the well-being of the population, especially those communities that see natural resources as their main source of sustenance and cultural connection, are urgent demands.

Identifying and providing sustainable economic activities that make it attractive to maintain the forest is of great importance in combating the spread of deforestation. The effects of such activities will be more durable if they are associated with innovation as well as scientific and technological development, focused on recovery, conservation, production practices and the sustainable use of the Amazon Biome, and if they are able to stimulate local economies using the agro-biotechnological potential in the region.

Concomitantly, there are immediate needs, such as support for environmental monitoring, controlling and management agencies, so they can exercise their duties in an efficient, effective and lasting way. The Amazon Fund must support these agencies to strengthen the training of their employees and collaborators, the purchase of equipment and other facilities to improve their functioning infrastructure, available equipments and tools to monitor and control.

The Amazon Fund team has been working in partnership with the Ministry of the Environment to structure the support for planned efforts in the second phase of PPCDAM, especially in the expansion of the Rural Environmental Registration (CAR), and within the scope of municipal capacity-building programs of the National Environment Fund, with particular focus on the municipalities in Arco Verde Operation.

The Amazon Fund features projects contracted with institutions with a strong presence and activity in the Amazon region. Throughout 2010, it intensified its search to establish partnerships with other institutions operating in accordance with the guidelines and procedures of the Fund and the responsibilities inherent to on-lending institutions of these resources.

Thus, we seek to tackle the challenge of expanding the reach and access to the Fund's resources, through trained agents to represent new distribution channels and

good mechanisms to support projects, especially those of a small size, increasing the benefits for people with a history of little access to credit, poor training in management and in financial administration as well as institutions that are not so prepared to govern and implement efforts on the required scale.

## Amazon Fund objectives

The Amazon Fund is a pioneering initiative aimed at contributing to reducing greenhouse gas emissions caused by deforestation and forest degradation. It is a fundraising tool for voluntary donations to be used in non-reimbursable applications to prevent, monitor and combat deforestation and to foster the conservation and sustainable use of the Amazon Biome.

The management of the Amazon Fund was attributed to the BNDES, which is responsible for fundraising and application of resources, to follow and monitor supported efforts and projects, to render accounts and report results in a solid and transparent fashion, in addition to running COFA's executive secretariat.

To achieve its objectives, the Amazon Fund can support projects in the following areas, specified in Decree N°. 6,527/08:<sup>6</sup>

- i. Management of public forests and protected areas;
- ii. Environmental control, monitoring and inspection;
- iii. Sustainable forest management;
- iv. Economic activities with the sustainable use of forests;
- v. Ecological and economic zoning, land-use planning and land-title regularization;
- vi. Conservation and sustainable use of biodiversity; and
- vii. Recovery of deforested areas.

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<sup>6</sup> The full text of the decree is found in Annex 1 to this report.

The decree also provides for the use of up to 20% of the Fund to support the development of deforestation monitoring and control systems in other Brazilian biomes and other tropical countries.

Eligible initiatives within the context of the Amazon Fund must be in accordance with the Sustainable Amazon Plan (PAS), the Plan for Prevention and Control of the Legal Amazon Deforestation (PPCDAM), the State Plans for Prevention and Combat of Deforestation, the guidelines and criteria of COFA, as well as the BNDES' operational policies.

### Sustainable Amazon Plan (PAS)

PAS is a strategic plan based on general guidelines and recommendations for its implementation, which guide the formulation of specific and sub-regional operational plans. Its design was based on a cooperation agreement signed in 2003 between the federal government and state governors of the states in the Amazon Region, and grounded on comprehensive diagnosis. PAS also held public consultations with more than 5,000 representatives in the region. In addition, the plan considered the general guidelines for structuring development efforts present in the PPA 2008-2011 and Growth Acceleration Program (PAC), launched in 2007.

PAS aims to implement a sustainable model of development for the Brazilian Amazon, based on the recognition of different regional realities. Deemed necessary to achieve satisfactory results, the plan proposes territorial units as the crucial element for organizing efforts, thus considering the economic, social, cultural, political and environmental aspects of each region.

It is noteworthy that, in PAS, negotiation is the key to achieving its general guidelines, by focusing attention on the local point of view and seeking dialogue and consensus between the social forces in the region.

PAS also emphasizes the integration of the South American Amazon as a strategic element for developing the region, giving rise to the need to put together a common agenda with partners in neighboring countries.

PAS' strategic guidelines are organized in four main areas:

- land-use planning and environmental management;
- sustainable production with innovation and competitiveness;
- infrastructure for sustainable development; and
- social inclusion and citizenship.



### Plan for Prevention and Control of the Legal Amazon Deforestation (PPCDAM)

The goal of this plan is to promote the reduction of deforestation rates through an ongoing and integrated set of efforts for territorial and land-use planning, environmental monitoring and control as well as fostering sustainable production activities. The plan involves partnerships between federal agencies, state governments, municipalities, civil society organizations and the private sector.

PPCDAM was developed by a Permanent Interministerial Work Group, created by a presidential decree in 2003, to propose measures and to coordinate efforts aimed at reducing deforestation rates in the Amazon. The group involved representatives from 13 ministries under the coordination of the President's Chief of Staff. Thus, in its first phase, PPCDAM (2004-2008) was organized in three main areas for implementation:

1. territorial and land-use planning;
2. environmental monitoring and control; and
3. promotion of sustainable production activities.

After assessment of its first phase, in November 2009, priorities for the second phase (2009-2011) were established, in order to adapt the PPCDAM to the changes in deforestation dynamics, the maturity of efforts and success achieved in the first four years. New strategic guidelines were incorporated, totaling 12, and they are summarized below:

1. To add value to the forest to conserve biodiversity, forest management of wood and non-wood products and to provide environmental services.
2. To encourage the best use of already deforested areas, covering technological innovation and sustainable production systems.
3. To support processes that certify and enhance biodiversity products, and that add value to such products and those from local activities, such as mixed farming.
4. To provide land-title regularization, combat illegal occupation of public lands and strengthen instruments for democratic and sustainable management of the territory, enabling alternative models for land reform that are suitable to the Amazon, and to create and consolidate protected areas and indigenous lands.

5. To improve instruments for monitoring, licensing and surveillance of deforestation using innovative methodologies, considering its integration with incentives to prevent environmental damage.
6. To adopt a decentralized and shared management style of public policy, through partnerships between the federal government, states and municipalities.
7. To encourage the active participation of different sectors in the Amazon society concerned with the management of policies related to preventing and controlling deforestation.
8. To encourage the implementation of the Rural Environmental Registration, an instrument through which environmental agencies can georeference rural properties in order to qualify remote monitoring and the effectiveness of surveillance operations in the field, as well as guide environmental regularization of rural property.
9. To advocate environmental accountability for illegal deforestation in order to enhance inter-institutional cooperation for effective administrative, civil and criminal accountability of offenders.
10. To support the implementation of the State Plans for Prevention and Control of the Brazilian Amazon Deforestation.
11. To expand and encourage sectorial agreements as a way to confirm the commitment of the entities in the production sectors ( soybean, wood, charcoal), aiming at preserving and conserving forests.
12. To give visibility to PPCDAM efforts through dissemination of information.

In this new phase, the PPCDAM emphasizes the connection with efforts made by state governments, according to the State Plans for Prevention and Control of Deforestation and the Arco Verde Operation, focused on the municipalities that are considered priorities in controlling and reducing deforestation. Thus, the plan aims to create a joint national initiative towards zero illegal deforestation in the Legal Amazon.



## State Plans for Prevention and Control of Deforestation

The preparation of plans to combat deforestation in the Amazonian states, whose goal is to ensure the objectives set forth in PPCDAM, fell under the guidance of the federal government. In this sense, the plans contain components related to territorial and land-use planning, environmental monitoring and control, fostering sustainable production activities and governance.

The states of Acre, Amazonas, Amapá, Mato Grosso, Pará, Tocantins and Rondônia have already developed their State Plans for Prevention and Control of Deforestation. These plans are available for inspection on the Amazon Fund's website on the internet.

### Arco Verde Operation

*After implementing the PPCDAM, there was a significant decrease in the deforestation rate in the region between 2005 and 2007. This trend, however, began to present a reversal at the end of 2007, when the Deter System (Deforestation Detection in Real Time) of the National Institute of Spatial Research (INPE) indicated a new increase in the rate.*

*In order to prevent a rise in the deforestation rate, the federal government took further measures, such as the issuance of Decree N°. 6,321, in December 2007, which focused on monitoring and control efforts in priority municipalities. The Ministry of the Environment, as of 2008, began to publish annual ordinances defining municipalities where new deforestation permits are prohibited and whose owners and squatters may be summoned by the National Institute of Colonization and Agrarian Reform (Incra) to re-register their rural properties. On December 31, 2010, some 43 municipalities were on the list defined by Ordinance N°. 66 of the Ministry of the Environment, March 24, 2010.*

*Alongside these efforts, in July 2008, Resolution N°. 3,545 of the National Monetary Council (CMN) entered into effect, establishing environmental and land compliance as a condition for access to rural credit for agriculture in the Amazon Biome from public and private banks.<sup>7</sup>*

<sup>7</sup> According to this resolution, owners of and squatters on properties in the Amazon Biome must meet the following requirements to obtain rural credit: obtain a valid Certificate of Rural Property Registration (CCIR); present proven environmental regularity; and they must not possess property on the list of impounded properties at the Brazilian Institute of Environment and Natural Resources (IBAMA).

*Also in 2008, the federal government started implementing the Operation Fire Belt aimed at combating deforestation and illegal timber trading in the Legal Amazon by means of the Federal Police and the Brazilian Institute of the Environment and Natural Resources (IBAMA). The operation included the closure of irregular sawmills, seizure of illegal timber and monitoring of wood transportation, among other measures.*

*Within this context, the Arco Verde Operation has surfaced as an agenda to support the transition of the development model to the municipalities in Ordinance N°. 66. The Arco Verde Operation seeks to legalize agricultural and forest activities in the Amazon Region. On the issue of land-title regularization and georeferencing rural properties, the idea was to make it possible to facilitate access to public policy instruments for credit, promotion and technical assistance.*

*Projects carried out in the aforementioned municipalities are a priority for Amazon Fund support, according to geographical criteria defined by COFA (see next chapter).*

It is important to emphasize that the creation of the Fund was an initiative of the Brazilian government, which was based on the good results achieved in reducing the deforestation rate in the Amazon which has been registered since 2005. Among other factors, this result was determined by coordination, at the federal level, with integrated and implemented efforts based on the guidelines and efforts of the main aforementioned plans.

## Funding and Governance



## Rules for funding

Fundraising for the Amazon Fund is conditioned to the reduction of greenhouse gas emissions from deforestation, i.e., it is necessary to prove the reduction of deforestation in the Amazon to make fundraising feasible.

It is incumbent upon the Ministry of the Environment (to define the calculation methodology for the limit of annual fundraising for the Amazon Fund. Meanwhile, it is up to the specialists on the Technical Committee of the Amazon Fund (CTFA) to attest to the effective reduction of carbon emissions from deforestation, assessing the calculation methodology of the deforested area and the quantity of carbon per hectare used to calculate emissions.

Based on the data for reductions in emissions, calculated by the Ministry of the Environment and validated by the Technical Committee of the Amazon Fund, the BNDES is authorized to raise donations and issue diplomas acknowledging donors' contributions to the Fund.

TABLE 2: FLOW OF FUNDRAISING

1	The Ministry of the Environment prepares a report establishing the reduction in emissions based on the data produced by the National Institute of Spatial Research (Inpe). The report is assessed by the Technical Committee.
2	The Ministry of the Environment sends the report to the BNDES and indicates the amount to be reduced and the value per ton of CO <sub>2</sub> .
3	The BNDES proceeds to raise funds, following the fundraising limit in accordance with the procedure described above.

Source: BNDES.

To calculate the limit of annual fundraising for the Amazon Fund, a simple and conservative method was chosen so as to guarantee that the reduction values of emissions are never overestimated. In short, the calculation to obtain the reduction

values of carbon emissions from deforestation, which correspond to the emissions avoided, in tons of carbon, is the difference between the average historical rate of deforestation and the deforested area effectively verified in the year being assessed (average historical rate of deforestation – annual rate of deforestation). This result is then multiplied by the quantity of carbon present in the biomass, in tons of carbon per hectare. Mathematically, this is represented as follows:

$$ED = (TDM - TD) * tC/ha$$

ED = Reduced Carbon Emissions from Deforestation, in tons of carbon (tC)  
 TDM = Average Deforestation Rate  
 TD = Annual Deforestation Rate for the period  
 tC/ha – Tons of Carbon per forest hectare

The parameters involved in calculating the estimated reduction of emissions from deforestation are the following: (i) annual deforestation rate verified by Inpe; (ii) average historic deforestation rate; and (iii) quantity of carbon per hectare contained in the forest biomass, according to the methodology defined by Ministry of the Environment. Below is some information with respect to these concepts.

### Annual rate of deforestation verified by Inpe

Since 1988, Inpe has been using an efficient system to monitor forest coverage in the Brazilian Amazon, which enables estimation of the annual deforestation rates for the region.

Since 2002, these estimations started to be obtained by means of a digital-image classification system, according to the Prodes Methodology (Project for Monitoring Deforestation in the Legal Amazon), which uses sensors capable of capturing any deforestation greater than 6.25 hectares, thus making the system reliable and more widely recognized.<sup>8</sup>

Rates are calculated annually for periods from August 1 to July 31. Thus, the reference rates for 2008, for example, involve deforestation identified from August 1, 2007, to July 31, 2008.

<sup>8</sup> According to CTFA, the error base of Prodes is around 8%.

### Average historical rate of deforestation

The annual deforestation rates to be used in calculating reductions in emissions are compared with the average deforestation rates for 10-year periods. These 10-year periods are updated every five years, so that, in the 2006-2010 period, the annual deforestation rates are compared with the average deforestation from 1996 to 2005 (average deforestation rate – TDM 1996-2005). In the subsequent period, from 2011 to 2015, the annual deforestation rates are compared with the average deforestation rate from 2001 to 2010.

In this context, the National Plan on Climate Change (PNMC), launched by the Brazilian government in December 2008, deserves a special mention. It has four-year targets to reduce deforestation in the Amazon established by the Interministerial Committee on Climate Change, with the collaboration of other collegiate bodies, among them, the Brazilian Forum on Climate Change and the Interministerial Commission on Global Climate Change.

One of the targets is to reduce the deforestation rate by 40% in the 2006-2009 period, in comparison with the average deforestation rate in the 1996-2005 period, and reduce it by 30% in the two following four-year periods,<sup>9</sup> as demonstrated in Chart 1.

**CHART 1: FOUR-YEAR TARGETS TO REDUCE DEFORESTATION IN THE AMAZON SET FORTH IN THE PNMC**



Source: PPCDAM 2<sup>nd</sup> phase.

<sup>9</sup> The PNMC can be consulted in full on the Ministry of the Environment's website ([www.mma.gov.br](http://www.mma.gov.br)).



The Amazon Fund collaborates in reaching the targets established by the National Plan on Climate Change (PNMC), especially the permanent reduction of deforestation rates and the interruption of loss of forest coverage by 2017.

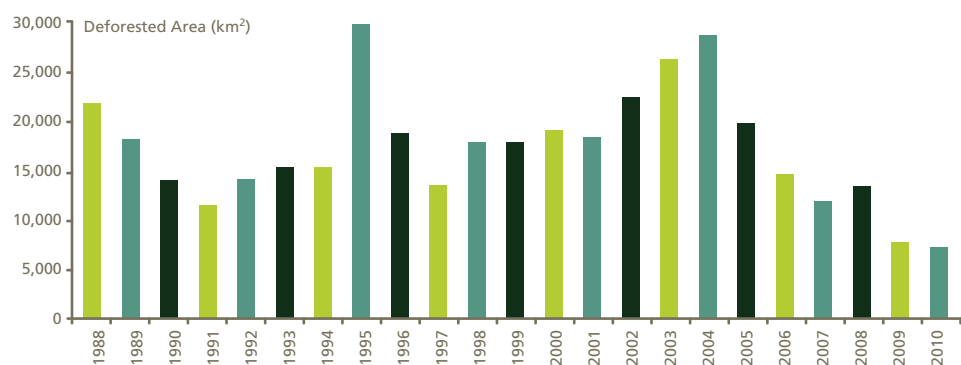
### Estimates of carbon contained in the forest biomass

The Amazon Fund has adopted the value of 100 tC/ha (tons of carbon per hectare) of biomass, equivalent to 367 tCO<sub>2</sub>/ha (tons of carbon dioxide equivalent per hectare), a conservative value considering the data found in literature (between 130 and 320 tC/ha), but sufficient for simplifying the calculations and the understanding of the mechanism proposed.

In 2010, the standard price of US\$ 5.00/tCO<sub>2</sub> (five US dollars per ton of carbon dioxide) was used. It is important to mention that carbon estimate can vary according to location and characteristics of the observed forest area and the data related to degradation are not recorded by Prodes. Thus, the result of emission reductions can be altered by implementing these two variables, which will occur when the data from the National Forest Inventory allow it, and when future monitoring systems are operating.

## Data on deforestation and carbon emissions in 2010

Consolidated data from Inpe, published in September 2011, indicate that deforestation in the Amazon from August 1, 2009, to July 31, 2010 (forest year 2010), was 7,000 km<sup>2</sup>, the lowest deforestation rate (TD) registered since this institute started monitoring the vegetation cover in the Amazon, 22 years ago.

**CHART 2: ANNUAL DEFORESTATION IN THE LEGAL AMAZON BY CLEAR CUTTING (KM<sup>2</sup>)**

Source: Prodes/Inpe.

**TABLE 3: DEFORESTED AREA (KM<sup>2</sup>) IN THE LEGAL AMAZON BETWEEN 1988 AND 2010**

YEAR	DEFORESTED AREA	YEAR	DEFORESTED AREA	YEAR	DEFORESTED AREA	YEAR	DEFORESTED AREA
1988	21,050	1994	14,896	2000	18,226	2006	14,286
1989	17,770	1995	29,059	2001	18,165	2007	11,651
1990	13,730	1996	18,161	2002	21,651	2008	12,911
1991	11,030	1997	13,227	2003	25,396	2009	7,464
1992	13,786	1998	17,383	2004	27,772	2010	7,000
1993	14,896	1999	17,259	2005	19,014		

Source: Prodes/Inpe.

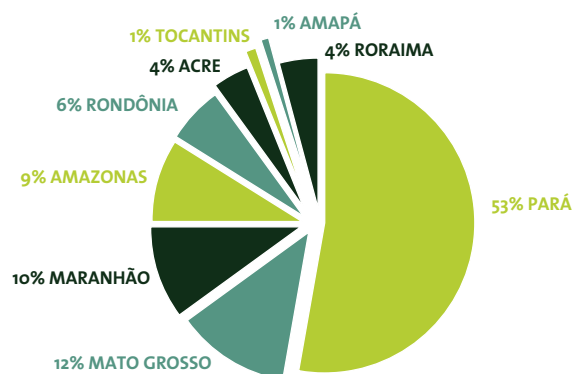
Estimated deforestation by clear cutting in the Legal Amazon for the forest year 2009 was 7,464 km<sup>2</sup>, and the estimate for the forest year 2010 is 7,000 km<sup>2</sup>. Thus, a 6% reduction in the deforestation rate has been verified. The table below shows the deforestation trends in the states that comprise the Legal Amazon, comparing them to what occurred in the previous year.

TABLE 4: DEFORESTATION PER STATE

STATES	DEFORESTATION 2009 (KM²)	DEFORESTATION 2010 (KM²)	% INCREMENT 2009-2010
Acre	167	259	55
Amazonas	405	595	47
Amapá	70	53	-24
Maranhão	828	712	-14
Mato Grosso	1,049	871	-17
Pará	4,281	3,770	-12
Rondônia	482	435	-10
Roraima	121	256	112
Tocantins	61	49	-20
AMAZÔNIA LEGAL	7.464	7.000	-6,2

Source: Prodes/Inpe.

CHART 3: CONTRIBUTION PER STATE TO DEFORESTATION IN THE LEGAL AMAZON



Source: Prodes/Inpe.

It is important to observe that, despite the fact that Pará is the state with the highest deforestation rate, there was an evolution when deforested areas in 2009 and 2010 are compared. In 2009, deforestation reached 4,281 km², whereas in 2010, this area fell to 3,770 km², which represents a reduction of 12% in relation to the previous year.

## Formalized Donations

The Amazon Fund has already received donations from foreign governments. It will also be structured to allow donations from multilateral institutions, NGOs, companies and individuals.

The government of Norway readily supported the initiative, becoming the first and, to date, the largest donator of resources to the Amazon Fund due to its formalized commitment of up to NOK<sup>10</sup> 2,300,000,000.00, equivalent to US\$ 393,721,005.87,<sup>11</sup> and the intention to donate a total of US\$ 1,000,000,000.00 up to 2015.

Moreover, in the last quarter of 2010, the Amazon Fund received significant support from Kreditanstalt für Wiederaufbau (KfW), the German development bank, which formalized a commitment in the amount of €<sup>12</sup> 21,000,000.00 to the Fund, equivalent to US\$ 28,077,000.00.

The BNDES must maintain financial resources related to donations in separate accounting records. As set forth in Decree N°. 6,527/08, some 3% of the total received from donations is earmarked to cover operational costs and other expenses related to the Amazon Fund, in addition to contracting audits.

Disbursements from donations contracted are made upon the BNDES' request, based on the Fund's financial needs and limited to the amount of reduced Carbon Emission from Deforestation (ED), attested by CTFA.

### First donation: government of Norway

As authorized by Decree N°. 6,527/08, the BNDES, on March 25, 2009, signed, a donation agreement with the Ministry of Foreign Affairs of Norway, which contained a donation to this Bank, charged with the task of managing the Amazon Fund. The donation was of NOK 700,000,000.00 (US\$ 119,828,132.22) for use in 2009 – this period was subsequently extended to 2011. The agreement established the terms and procedures applicable to Norway's donations to the Amazon Fund.

<sup>10</sup> NOK – Norwegian kroner.

<sup>11</sup> Amounts on December 31, 2010, at the exchange rate established by Brazil's Central Bank (BCB).

<sup>12</sup> € – euro.

## **ADDENDA TO THE DONATION AGREEMENT WITH THE GOVERNMENT OF NORWAY**

### **Addendum N°. 1 – Signed on November 9, 2009**

The government of Norway undertook to make additional donations up to NOK 1,500,000,000.00 (US\$ 256,774,569.05) of which NOK 750,000,000.00 (US\$ 128,387,284.53) due in 2010, and NOK 750,000,000.00 (US\$ 128,387,284.53) in 2011. In addition to these values, the possibility of additional donations by the government of Norway in 2010 and 2011 was also established.

### **Addendum N°. 2 – Signed on December 16, 2010**

The government of Norway, as established in Addendum N°. 1, undertook to make an additional donation of up to NOK 100,000,000.00 (US\$ 17,118,304.60). Thus, the total value of the donation in connection with 2010 went up to NOK 850,000,000.00 (US\$ 145,505,589.13). The basis for this increase was the total deforestation area in the forest year 2009, informed by Inpe, which was 7,464 km<sup>2</sup>.

## **Second donation: German government**

As authorized by Decree N°. 6,527/08 and within the scope of the Official Financial Cooperation between the Government of the Federal Republic of Germany and the Government of the Federative Republic of Brazil, on 12.7.2010, KfW and the BNDES entered into a Financial Contribution Agreement to the Amazon Fund. On this same date, the details for performance of the contract through a separate agreement were also agreed upon.

The total value of the contract is limited to € 21,000,000.00 (US\$ 28,077,000.00), to be granted according to the methodology established in the normative acts that govern the Amazon Fund, of which (i) up to € 12,000,000.00 (US\$ 16,044,000.00) refers to the emission reductions from deforestation of the Amazon in the forest year 2008-2009 and (ii) to € 9,000,000.00 (US\$ 12,033,000.00) refers to emission reductions verified in the forest year 2009-2010. The resources are exclusively earmarked for projects to be financed within the scope of the Amazon Fund, in accordance with its rules, conditions, guidelines and criteria. The following table presents data on the funding already raised.

TABLE 5: FUNDING AND EMISSION REDUCTIONS

DONATOR	PORTION	DATE RESOURCES ENTERED	ORIGINAL AMOUNT RECEIVED	VALUE (IN R\$)	VALUE (IN US\$)	TONS OF CARBON DIOXIDE	TONS OF CARBON	YEAR OF EMISSION REDUCTIONS
Norway	1st	10.9.2009	NOK 123.437.000,00	36,448,350.22	20,960,578.70	4,192,115.7	1,142,265.9	2006
Norway	2nd	8.9.2010	NOK 169.262.000,00	49,600,536.48	28,283,364.59	5,656,672.9	1,541,327.8	2006
Germany	1st	12.29.2010	€ 3.000.000,00	6,644,100.00	3,952,500.00	790,500.0	215,395.0	2009

Source: BNDES.

### Acknowledgment of donators

Upon each contribution to the Amazon Fund, the BNDES issues a diploma, on which the donator and the contributed amount are acknowledged in the effort towards reducing carbonic gas emissions. The effectiveness in reducing the emissions caused by deforestation, which defines the amount to be raised each year by the Amazon Fund, is attested by CTFA, comprising scientists recognized in the area of climate change.

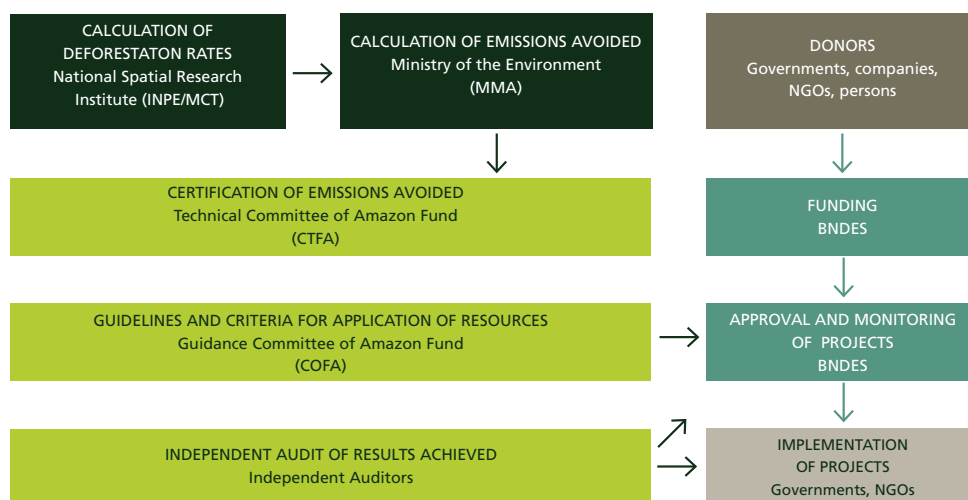
## Governance of the Amazon Fund

The Amazon Fund's governance model was designed to spark dialogue among the public with multiple interests, besides contributing to the full achievement of its targets and purposes.

The Amazon Fund has an inclusive governance structure, which integrates representatives of the federal government, those from state governments in the Brazilian Legal Amazon involved in combating deforestation, from civil society (NGOs, social movements, indigenous peoples and the business sector) and the scientific community, in addition to independent auditors responsible for verifying the adequate application of donated resources, as the figure below illustrates.



FIGURE 3: GOVERNANCE OF AMAZON FUND



Source: BNDES.

### Technical Committee of the Amazon Fund

Instituted by Ordinance MMA 345 of October 22, 2008, the Technical Committee of the Amazon Fund (CTFA) is charged with the task of attesting the Carbon Emissions from Deforestation (ED) calculated by the Ministry of the Environment. For such, the calculation methodology of the deforestation area must be evaluated, as must be the quantity of carbon per hectare used in calculating emissions.

The CTFA meets ordinarily once a year and comprises of renowned technical-scientific specialists, who are designated by Ministry of the Environment after consulting the Brazilian Forum on Climate Change. The mandate of the members is three years, extendable once for an equal period.

Participation in the CTFA is considered of public interest and involves no remuneration whatsoever.

#### **COMPOSITION IN 2010**

**1) Adalberto Luis Val, representing the National Research Institute of the Amazon (Inpa)**

Researcher of Inpa, with post-doctorate from the University of British Columbia, in Canada, Member of several teaching and research institutions, among them, the National Technical Bio-safety Commission (CTNBio-Brasil), the Brazilian Academy of Science, Research Support Foundation of the State of Amazonas (Fapeam), Carlos Chagas Filho Research Support Foundation of the State of Rio de Janeiro (Faperj) and the Research Support Foundation of the State of Minas Gerais (Fapemig).

**2) Adalberto Veríssimo, representing the Amazon Institute of People and the Environment (Imazon)**

Senior researcher and one of the founders of Imazon – a civil society organization of public interest in research, founded in 1990. He is graduated in Agronomy Engineering, with a post-doctorate in Ecology from the State University of Pennsylvania (USA).

**3) Carlos Afonso Nobre, representing the National Institute of Spatial Research (Inpe)**

Principal research fellow of Inpe, ex-general coordinator of Weather Forecast and Climatic Studies (CPTEC-Inpe) and president of the Scientific Committee of International Geosphere-Biosphere Programme (IGBP). He is graduated in Electronic Engineering from the Technological Institute of Aeronautics (ITA), with a doctorate in Meteorology from the Massachusetts Institute of Technology (MIT).

**4) Christiano Pires de Campos, representing the Petrobras Research Center (Cenpes)**

Engineer with a Master's in Energy Planning from the Federal University of Rio de Janeiro (UFRJ). Currently, he is taking a doctorate degree at UFRJ. Research Topics: Climate Convention, Brazilian Proposal, Historic Responsibility, Model of Contribution to Climate Change.

**5) Paulo Roberto de Souza Moutinho, representing the Environmental Research Institute of the Amazon (Ipam)**

Research coordinator of Ipam and assistant associated scientist of the Wood Hole Research Center. Graduated in Biological Science, with a Masters and a doctorate in Ecology from the State University of Campinas, he is also a professor at the Federal University of Pará.

**6) Roberto Dall'Agnol, representing the Federal University of Pará (UFPA)**

Coordinator of the Area of Geosciences of the Coordination of Improvement of Higher Level Personnel (Capes), dean of Research and the Post Graduation course at UFPA and a Principal Research Fellow of the Brazilian Academy of Science since 2002. Geologist with a doctorate from the Paul Sabatier University, in France.

**MEETINGS OF THE TECHNICAL COMMITTEE OF THE AMAZON FUND**

Since the creation of the Amazon Fund, the CTFA has held the following meetings<sup>13</sup> and has attested the reduction values according to the following table:

TABLE 6: CTFA MEETINGS

MEETING	DATE	YEAR OF REDUCTION	ESTIMATED VALUE OF EMISSION REDUCTIONS (IN MILLIONS OF TONS OF CO <sub>2</sub> )
1st	11.10.2008	2006	200
		2007	303
2nd	12.1.2009	2008	245.7
3rd	12.13.2010	2009	445.9

In December 2010, the Technical Committee presented a proposal to expand its attributions, which is expected to occur in 2011.

**Guidance Committee of the Amazon Fund**

The Guidance Committee of the Amazon Fund (COFA) has the task of establishing the guidelines and criteria for application of resources, as well as approving information on the application of resources and the Annual Report of the Amazon Fund.

<sup>13</sup> The minutes of these meetings are published on the Amazon Fund's website.

The COFA also has the role of guaranteeing the fidelity of the initiatives supported by the Amazon Fund, in accordance with the public policies in the Plan of Prevention and Control of Deforestation in the Legal Amazon and of the strategic guidelines in the Sustainable Amazon Plan.

It is structured as a tripartite committee, comprising the following segments: federal government, state governments and civil society. Each segment is entitled to one vote in the resolutions, and each member has the right to one vote within its segment. The resolutions must be approved by consensus. With respect to the segment of the state governments, only the states that have elaborated their respective Plans of Prevention and Combat of deforestation have the right to vote.

The COFA's composition in 2010, with the name of the institutions, members and their deputies, may be consulted in Annex 2.



#### **MEETINGS OF THE AMAZON FUND GUIDANCE COMMITTEE IN 2010**

Until December 2010, the Amazon Fund's Guidance Committee met in four ordinary sessions. All the meetings are recorded in Technical Referral Records (RETs), which, after approval by all the members, are published on the Amazon Fund's website. In addition to the topics suggested by members of the Committee, in all the meetings, an analysis of the portfolio of projects of the Fund is presented by the BNDES. In 2010, the Guidance Committee underwent its first renewal, as established in the decree which authorized the creation of the Amazon Fund.

**MEETINGS HELD IN 2010**

DATE	SUMMARY OF MATTERS COVERED
<b>7<sup>th</sup> Meeting March 26</b>	<b>Approval RET* 6<sup>th</sup> meeting</b>
Rio de Janeiro – BNDES' headquarters	<ul style="list-style-type: none"> <li>■ Schedule and planning for the following events:               <ul style="list-style-type: none"> <li>- Annual Activities Report, Audit Report and Annual Meeting with Donators</li> </ul> </li> <li>■ Support for Small-Sized projects:               <ul style="list-style-type: none"> <li>- Information and following Steps</li> </ul> </li> <li>■ Creation of commission to elaborate alteration proposal of Early Maturity Clause in contracts of the Amazon Fund</li> <li>■ Proposal for treatment of Patents within the scope of the Guidelines and Criteria of the Amazon Fund</li> <li>■ Proposal for treatment of information on projects on the Amazon Fund's website</li> </ul>
<b>8<sup>th</sup> Meeting June 23</b>	<b>Approval RET* 7<sup>th</sup> Meeting</b>
Rio de Janeiro – BNDES' headquarters	<ul style="list-style-type: none"> <li>■ Presentation of audit reports</li> <li>■ Presentation of draft of Annual Activities Report of the Amazon Fund</li> <li>■ The BNDES' proposal to induce demand in initiatives that integrate small projects</li> <li>■ Creation of Commission of Project Detailing and Structuring</li> <li>■ CCFA's proposal for Early Maturity Clause in contracts of the Amazon Fund</li> </ul>
<b>9<sup>th</sup> Meeting August 19</b>	<b>Approval RET* 8<sup>th</sup> Meeting</b>
Brasília – Hotel Tryp Brasil 21	<ul style="list-style-type: none"> <li>■ Portfolio of the Amazon Fund/Scientific and Technological Development category analysis</li> <li>■ Creation of Commission to advance the issue of support from the Amazon Fund for Science, Technology and Innovation</li> <li>■ Information from the Committee for Small-sized Project Detailing and Structuring</li> <li>■ Measures and referrals aimed at renewing the Guidance Committee of the Amazon Fund, taking into consideration the conclusion, on 10.22.2010, of the first two-year period established for the mandate of its representatives (Decree N°. 6,527/2008 and Internal Regiment COFA)</li> </ul>
<b>10<sup>th</sup> Meeting November 24</b>	<b>Approval RET 9<sup>th</sup> Meeting</b>
Brasília – Hotel Tryp Brasil 21	<ul style="list-style-type: none"> <li>■ Presentation of information reports</li> <li>■ Election of chairman for COFA for 2010-2012 period</li> <li>■ BNDES' considerations for the document FBOMS/civil society</li> <li>■ BNDES' proposal for Early Maturity Clause</li> <li>■ Information Report of the Committee for Small-sized Project Detailing and Structuring</li> <li>■ COP16 – Participation of the Amazon Fund</li> </ul>

## Committees established by the Amazon Fund's Guidance Committee in 2010

As authorized by its Internal Regiment, the COFA created three committees to analyze, study and present proposals on specific matters, discussed during 2010, namely:

### Committee to elaborate the proposal to alter the Early Maturity Clause in contracts of the Amazon Fund

The committee to elaborate the proposal to alter the Early Maturity Clause in contracts of the Amazon Fund was instituted in the COFA's 7<sup>th</sup> meeting. The Early Maturity Clause results from the interpretation that the non-reimbursable financial collaboration agreement is not a donation, pure and simple, but rather a donation with a charge. To this effect, the beneficiary must comply with the contractual conditions, with the penalty of having to return the funds to the financier if breached.

Such a clause was questioned by the COFA because it provided for the possibility that, in the event of contractual non-compliance, the beneficiary would be obliged to return all the resources received. In this context, the committee was instituted, comprising three representatives of the civil society block: CNI, Contag and FBOMs.

This committee elaborated and presented a proposal with new wording to the COFA. After analysis by the legal department responsible for standardizing rules, the BNDES presented new wording, which was approved by this committee and complied simultaneously with the Bank's rules for control and standardization of contractual drafts and with demands from civil society represented in the COFA.

### Committee for Detailing and Structuring Projects

The Committee for Detailing and Structuring Projects was instituted in COFA's 8th meeting, on June 23, to establish a mechanism within the scope of the Amazon Fund to induce the performance of indirect applications through initiatives that involve small projects, including funds and other forms of organizations that implement projects (item M-5, on COFA's Table of Guidelines and Criteria).

The committee, comprising representatives from the business sector of the Amazon states, from the third sector (NGOs) and social movements as well as the federal government, held meetings on July 8, September 29 and November 12, 2010. On these occasions, committee participants debated, among other subjects, the objectives, the target audience and the eligible economic-production segments, as well as aspects associated to land-usage planning and land-title regularization.

Based on the development of committee discussions, the BNDES drafted documents for public selection of support for small projects related to sustainable production activities, to assist in accomplishing the committee's final work, which did not terminate at the end of 2010. Its conclusion is expected in the first semester of 2011.

### Committee to help provide Amazon Fund support to Science, Technology and Innovation

The committee, to advance the issue of Amazon Fund support for Science, Technology and Innovation, was instituted in COFA's 9<sup>th</sup> meeting, on August 19, 2010, with the objective of studying models to expand the Amazon Fund's operations in this strategic sector for sustainable development of the Amazon region. In this meeting, representatives of the following institutions were invited to take part in the committee: the BNDES, Ministry of the Environment, all the states that are part of COFA, Ministry of Culture and Tourism (MCT), Ministry of Agriculture, Livestock and Food Supply (MAPA), Ministry of Agrarian Development (MDA), social movements and the Brazilian Society for the Advancement of Science (SBPC).





## Guidelines and criteria 2010

Application priorities of the Amazon Fund in 2010 were approved by COFA representatives and consolidated in the Summary Tables of Guidelines for Application of the Amazon Fund. These tables contain COFA's main normative resolutions with respect to distribution of resources, criteria for project prioritization, conditions, modalities for applying resources and their limitations.

In 2010, COFA maintained the prioritization criteria used in 2009 for Fund resources and included two items, namely: item L4, which gives priority to economically-focused projects for scientific and technological research, and item M-5, which allows indirect applications, through initiatives that involve small projects, including funds and other forms of organizations that implement projects.

The geographic criterion maintained its focus on support for projects carried out in priority municipalities for controlling and reducing deforestation (43 municipalities in the "Arco Verde Operation"); for projects carried out in municipalities where the federal government's Growth Acceleration Program (PAC) has influence; and for projects carried out in the municipalities/regions with greater conservation of forest coverage.

**SUMMARY TABLES OF GUIDELINES AND CRITERIA FOR APPLYING THE AMAZON FUND  
CONSOLIDATION: 3.26.2010**

**DISTRIBUTION OF RESOURCES THROUGHOUT APPLICATION AREAS**

APPLICATION AREA	APPLICATION LIMIT OF TOTAL RESOURCES AVAILABLE IN THE YEAR
A. Projects in the Amazon Biome	no limit
B. Projects in the other Brazilian biomes and in other tropical countries	20%

Observations: The BNDES must make efforts to apply resources in other biomes and other countries.

**A. PRIORITIZATION CRITERIA**

COD.	CRITERION	AMAZON BIOME	OTHER BIOMES	OTHER COUNTRIES
P1	Geographical	<ul style="list-style-type: none"> <li>Projects carried out in the priority municipalities to prevent, monitor and combat deforestation;</li> <li>Projects carried out in the municipalities where large works of the PAC have influence;</li> <li>Projects carried out in the municipalities /regions with the most conservation of forest coverage.</li> </ul>	Not applicable	Not applicable
P2	Area	(see table below)	Not applicable	Not applicable
P3	Diversity of players involved	<ul style="list-style-type: none"> <li>Projects which involve articulation and execution, involving public authorities, the private sector, NGOs/social movements and local communities.</li> </ul>	The same as the Amazon biome	The same as the Amazon biome. Projects which involve regional articulation.
P4	Target audience	<ul style="list-style-type: none"> <li>Projects involving direct benefits for traditional communities, settlements and family farmers.</li> </ul>	Not applicable	Not applicable
P5	Relevance	<ul style="list-style-type: none"> <li>Projects with the most potential for replicability</li> <li>Projects with the most potential for impact (e.g. R\$/hectare of forest protected or sustainably managed)</li> </ul>	Projects which develop and implement long-term monitoring methodology for REDD.	Countries with the most forestry coverage
P6	Application lines BNDES	<ul style="list-style-type: none"> <li>Prioritize projects which involve lines (a) sustainable productive activities and (d) scientific and technological development.</li> </ul>	Not applicable	Not applicable

## Observations:

P1 – The definition of these municipalities is established in accordance with Article 2 of Decree N°. 6,321/2007.

P6 – The BNDES must endeavor to apply resources in priority areas, including instruments for inducing demand.

## AREA PRIORITIZATION – THE AMAZON BIOME

GENERAL GUIDANCE	PRIORITIES
Efforts to add value to the standing forest (conservation and sustainable use)	<ul style="list-style-type: none"> <li>■ Promotion and increase in the production scale of production sectors of wood and non-wood forestry products coming from sustainable management of the forest, including management plans, research, innovation, as well as scientific and technological development of the market, training and qualification;</li> <li>■ Implementation of systems to pay for environmental services associated to the increase in and/or the maintenance of forest coverage and/or forestry and agro-forestry systems;</li> <li>■ Development and implementation of recovery models for APPs and the Legal Reserve, with emphasis on economic use;</li> <li>■ Consolidation of protected areas, especially the Conservation Units of Sustainable Use and Indigenous Lands;</li> </ul>
Efforts to foster land-use planning and land-title regularization	<ul style="list-style-type: none"> <li>■ Allocation of Non-Allocated Public Forests, with prioritization for community forests;</li> <li>■ Control of illegal occupation of land through illicit land titles, land-use planning and land-title regularization, preferably in areas with larger concentration of squatting and/or conflicts;</li> </ul>
Efforts to structure and integrate systems for environmental control, monitoring and inspections in the Amazon	<ul style="list-style-type: none"> <li>■ Support to structure state bodies responsible for state forest management;</li> <li>■ Support to implement municipal systems for environmental monitoring and inspection;</li> <li>■ Structuring and integrating the forest management control system, environmental licensing of rural properties and the tracking and the chain of custody of agricultural-livestock and forest products;</li> <li>■ Expanding and intensifying deforestation and forest degradation monitoring systems.</li> </ul>

## Observations:

PT C – The economic use of APPs shall only be supported in terms of the legislation in effect.

PT F – Land-title regularization includes the processes of regularization and follow-up of these processes by society.

## B. MINIMUM REQUIREMENTS FOR PROJECTS

COD.	CRITERION	AMAZON BIOME	OTHER BIOMES	OTHER COUNTRIES
C1	Result indicators	Project must include measurable result indicators that are directly related to the Amazon Fund.	Project must include measurable result indicators directly related to the system for monitoring deforestation or forest degradation.	Project must include measurable result indicators that are directly related to implementing the system for monitoring deforestation or forest degradation.
C2	Applicants / Executors	As of its presentation, the project must include consent from all applicants and executors.	The same as the Amazon Biome	The same as the Amazon Biome and must have the participation and/or consent from the central government of the beneficiary country.
C3	Social participation	Projects involving traditional communities and indigenous people, compulsorily, must present a document which proves the consent from these communities or from their representative institutions.	Project must necessarily carry out at least one follow-up with the participation of governmental entities and civil society entities.	Project must necessarily carry out at least one follow-up with the participation of governmental and civil society entities.
C4	Coherence with areas in the Amazon Fund	Project must be coherent with an area established in Decree N°. 6,527/2008	Not applicable	Not applicable
C5	Coherence with Federal Plan and State Plans of Prevention and Combat of Deforestation	Project must be clearly coherent with efforts established in PPCDAm and in State Plans of Prevention and Combat of Deforestation	Not applicable	Not applicable
C6	Coherence with PAS	Project must be clearly coherent with guidelines in PAS.	Not applicable	Not applicable
C7	Contribution to REDD	Project must contribute directly or indirectly to efforts leading to REDD.	The same as the Amazon Biome	The same as the Amazon Biome

Continued

Continued

COD.	CRITERION	AMAZON BIOME	OTHER BIOMES	OTHER COUNTRIES
C8	Addition of resources	Projects must represent additions to public budgets earmarked for application areas of the Amazon Fund.	The same as the Amazon Biome	Not applicable
C9	Counterpart	Must present a counterpart and/or non financial contributions, demonstrating addition to resources taken from the Amazon Fund and producing multiplying effect for investments of Fund.	The same as the Amazon Biome	The same as the Amazon Biome
C10	Territorial base	Projects must specify their territorial base for application (state and, where applicable, municipality)	Projects must necessarily approach the monitoring of forests of at least one biome as a whole.	Projects must necessarily approach monitoring of forests at a national level.
C11	Publicity and transparency	Projects must have a mechanism for disclosure on the Internet for their implementation.	Monitoring system supported by the Amazon Fund must be put together with platforms that allow widespread disclosure, transparency and access to produced data via the internet.	Monitoring system supported by the Amazon Fund must be put together with platforms that allow widespread disclosure, transparency and access to produced data via the internet.
C12	Project sustainability	Present support strategies for post-implementation results.	Demonstration of the project's economic support capacity – post implementation.	Demonstration of the project's economic support capacity – post implementation.
C13	De-concentration of resources	The value applied in each of the four operational modalities must not be less than 40% of the resources available in the year. The value disbursed for a single project must not exceed 10% of the total available value in the Amazon Fund for the year.	The same as the Amazon Biome	The same as the Amazon Biome

Continued

Continued

COD.	CRITERION	AMAZON BIOME	OTHER BIOMES	OTHER COUNTRIES
C14	Benefits of collective use	<p>The results of economically-focused projects must be for collective or public use, related to:</p> <ul style="list-style-type: none"> <li>■ production infrastructure for collective use;</li> <li>■ studies and surveys with results must be available to the general public;</li> <li>■ training and qualification open to the general public;</li> <li>■ technological development with results; open to the general public, whenever feasible;</li> <li>■ replicable and practical application innovations;</li> <li>■ other collective benefits identified in the assessment process of projects.</li> </ul>	Not applicable	Not applicable
C15	Non substitution of other sources of financing	The resources of the Amazon Fund may not substitute other available financing sources.	Not applicable	Not applicable

Observations:

C2 – Applicants must necessarily be national institutions from tropical countries, according to the respective national legislations.

C3 – Projects which involve the development of monitoring systems must necessarily carry out at least one follow-up, with the participation of governmental or civil society entities.

C3 – The communities involved will be specified in the project.

C3 – Projects related to the duties to be performed by public bodies, or to the establishment of public policies do not necessarily require the consent of beneficiaries.

C5 – In the absence of a State Plan of Prevention and Combat to Deforestation, the criterion is not applicable.

C9 – In the application of Criterion C9, the following aspects may be considered:

- Average budget executed in the two previous years in the public budget invested in the effort proposed;

- Degree of contingencies in resources in the public budget to carry out the effort;

- Forecast in the effective multi-year plans of the government (PPAs).

C9 – The counterparts may occur in the form of financial resources directly invested in the project or by supplying infrastructure, personnel and other indirect forms, taking into consideration the conditions established in C9.

C11 – The BNDES will provide a standardized tool for integrating and disseminating updated information of all the projects.

### C. MODALITIES FOR APPLYING RESOURCES

COD.	MODE	AMAZON BIOME	OTHER BIOMES	OTHER COUNTRIES
M1	Direct application – investment	Applications made directly by project executors, including through third party contracting. Includes investments in construction, equipment and qualification to establish initiatives.	The same as the Amazon Biome	The same as the Amazon Biome
M2	Direct application – costs	Applications made directly by project executors, including through third party contracting. Includes expenses with travel/field missions, individual or corporation consulting, field materials, and communication, among others.	The same as the Amazon Biome	The same as the Amazon Biome
M3	Payment for environmental services	Payments made to environmental service providers.	Not applicable	Not applicable
M4	Continued long-term services	Services which must be supported in the long term to achieve long-term results, such as monitoring deforestation or forest degradation, forest inventory, among others.	Not applicable	Not applicable
M5	Indirect application	Indirect applications through intermediation of small projects that involve initiatives, including funds and other organizations that implement projects.	Not applicable	Not applicable

#### Observations:

M4 – The continued service projects may be of up to 10 years and will have a mechanism for continuous follow-up of their implementation and public dissemination of their results.

M1 to M4 – The projects may involve the use of more than one modality.



**D. RESTRICTIONS ON USE OF RESOURCES**

COD.	CRITERION	AMAZON BIOME	OTHER BIOMES	OTHER COUNTRIES
R1	Daily expenses	Daily expenses may not be paid to public employees (This restriction is not applicable for research activities involving public research institutions).	The same as the Amazon Biome	The same as the Amazon Biome
R2	Payment of individuals	Payments of salaries or any type of remuneration may not be made to exclusively dedicated public servants in the three government spheres (This restriction is not applicable to the payment of scholarships, study or research specifically related to the project).	The same as the Amazon Biome	The same as the Amazon Biome
R3	Taxes	The resources may not be applied to payment of taxes that are not inherent and/or an integral part of the cost or investments made by the project (restriction not applicable to taxes related to project activities, such as ICMS included in the prices of products; INSS on the payment of individual services etc.)	The same as the Amazon Biome	The same as the Amazon Biome

**E. EQUAL CRITERIA FOR APPLYING RESOURCES**

COD.	CRITERION	AMAZON BIOME	OTHER BIOMES	OTHER COUNTRIES
E1	Equality in applying resources per state	Avoid concentration of resources for projects in the same state.	Avoid the concentration of project resources in the same Biome.	Avoid concentration of project resources in the same country.
E2	Equality per type of applicant	Avoid the concentration of resources among the types of applicants: public bodies, research institutions and civil society organizations.	Not applicable	Not applicable

Observations:

E1 – Option not to establish specific indicators for concentration of resources in exclusive projects in a state, during the first year of operation the Amazon Fund.

E2 – In the context of the Amazon Fund, Non Governmental Organizations, class representations, companies and other private legal institutions are included in civil society.

## F. LIMITATION ON APPLYING RESOURCES

COD.	TYPE OF PROJECT	AMAZON BIOME	OTHER BIOMES	OTHER COUNTRIES
L1	Economically-focused projects	<ul style="list-style-type: none"> <li>■ a) Maximum participation of the Amazon Fund: <ul style="list-style-type: none"> <li>■ 90% for projects that involve micro and small companies, cooperatives or associations of producers with annual gross operating revenue smaller or equal to R\$ 10.5 million;</li> <li>■ 70% for projects that involve medium-sized companies, cooperatives or associations of producers with annual gross operating revenue greater than R\$ 10.5 million and smaller than or equal to R\$ 60 million;</li> <li>■ 50% for projects that involve large companies, cooperatives or associations of producers with annual gross operating revenue greater than R\$ 60 million.</li> </ul> </li> </ul>	Not applicable	Not applicable
L2	Economically-focused projects in support of weakened social groups	b) Maximum participation of the Amazon Fund, in duly justified cases: 100%	Not applicable	Not applicable
L3	Economically-focused projects for Local Productive Systems (APLs) of collective use	c) Maximum participation of the Amazon Fund: 90%	Not applicable	Not applicable
L4	Economically-focused projects for scientific and technological research developed in cooperation with Technological Institutions (ITs) and economically-focused entities.	<ul style="list-style-type: none"> <li>d) Maximum participation of the Amazon Fund: <ul style="list-style-type: none"> <li>■ 90% for projects that involve micro and small companies, cooperatives or associations of producers with annual gross operating revenue smaller than or equal to R\$ 10.5 million;</li> <li>■ 80% for projects that involve medium-sized companies, cooperatives or associations of producers with annual gross operating revenues greater than R\$ 10.5 million and smaller than R\$ 60 million;</li> <li>■ 70% for projects that involve large companies, cooperatives or associations of producers with annual gross operating revenue greater than R\$ 60 million</li> <li>■ The beneficiaries of financial resources of the Amazon Fund will be Technological Institutions (ITs) and/or Support Institutions (IAs).</li> <li>■ The companies and/or other economically-focused entities with strategic interest in research will not be direct beneficiaries of the resources. They will be intervening parties in financing operations and will enter with a financial sum complementing the resources of the Amazon Fund.</li> </ul> </li> </ul>	Not applicable	Not applicable

The observations presented below refer to the breakdown of the criteria highlighted in 2010:  
 L1 and L4 – In the event that activities begin in the same calendar year, the aforementioned limits will be proportional to the number of months in which the corporation has exercised an activity, not regarding fractions of months. In the cases of companies being implemented, the annual projection of sales used in the undertaking will be considered, taking into account the total installed capacity. When the company is controlled by another company or belongs to an economic group, the classification of the size shall be made by considering the consolidated gross operating capacity.

L2 – The economic results from projects that support weakened groups will be distributed to their integrators, regardless of who the Applicant or Bidder is.

L4 – Technological Institution (IT): internal public corporation or entity directly or indirectly controlled by it or non profit private corporation, which have the institutional mission, among others, to carry out basic or applied research activities of a scientific or technological nature, as well as technological development.

L4 – Support Institutions (IA): non-profit institutions aimed at providing support to research, teaching and extension projects as well as institutional, scientific and technological development of higher education and scientific and technological research, besides institutions created under Law N°. 8,958, of December 20, 1994, which have this same aim.

L4 – Investments made to benefit the Technological Institution (IT) are eligible to receive support, with the specific purpose of complying with objectives of the project.

L4 – Participation in intellectual property and in economic results from exploring creations resulting from the project will comply with the provisions established in the Innovation Law (Law N°. 10,973, of December 2, 2004). Thus, the parties will contractually provide for ownership of the intellectual property and participation in results. These will be assured, provided they are established in the contract, in the proportion equivalent to the added value of the pre-existing knowledge in the beginning of the partnership and of human, financial and material resources allocated by the contracting parties in the project.

L4 – During the analysis stage, the BNDES will verify aspects related to the intellectual property rights resulting from the research, development and innovation project to avoid, when relevant, practices that restrict the use and assignment of these rights. In addition to the aspects mentioned, the BNDES, in the analysis stage, will verify the criteria to allocate the financial results of the project.









# The BNDES Amazon Fund



## Who we are

The Brazilian Development Bank (BNDES), a federal public company, founded in 1952, is the main instrument for long-term financing for investments in all segments of the Brazilian economy, in a policy that addresses social, regional and environmental aspects.

The BNDES' mission is to foster sustainable development. Throughout its history, the Bank has presented a legacy of expressive results in the economic and social development of Brazil, having introduced innovative practices in the areas of management and social-environmental responsibility.

In fulfilling its mission, the BNDES' main objective is to create conditions and instruments for financial support that allow it to respond to the challenges of development. Performing the wide array of activities attributed to the Bank imposes challenges in the permanent capacity-building of the BNDES' employees, who are admitted after passing nation-wide recruitment exams for civil servants.

The BNDES' support is provided by means of financing investment projects, acquiring equipment, as well as exporting goods and services. Moreover, the Bank aims at strengthening the capital structure of private companies and allocates non-reimbursable financing to projects that contribute to social, cultural and technological development.

The decisions of the BNDES are grounded in technical norms and guidelines, and its procedures entail several phases leading to the final decision by its Board of Directors in a collegiate framework. All the Bank's decisions undergo auditing and control carried out by the bodies constituted for this purpose. There are several mechanisms to hold the BNDES accountable.

The BNDES is also a signatory of the Green Protocol and expresses its Policy of Socio-Environmental Responsibility publicly and transparently, seeking excellence while exercising its corporate responsibility.

Among the principles of this performance policy are the openness and willingness to engage in dialogue with interested parties, aiming at building better practices to improve efficiency and effectiveness, attributes that are inseparable from its mission.

As manager of the Amazon Fund, the BNDES is responsible for ensuring the correct application of the procedures in accordance with the Fund's norms and its Operating Policy. Verification of compliance is performed by the BNDES' control and management bodies, and attested by external and independent opinions, as well as by society. Moreover, the existence and compliance of procedures and criteria by the BNDES are also analyzed by the assessment missions sent by partners and potential donors to the Amazon Fund. The missions operate with the same thoroughness when verifying legal compliance, standards and the performance criteria based on internationally-recognized best management practices.

Although the origin of the Fund's resources is from non-reimbursable donations, they take on the characteristic of donations with charges, since, for projects to be approved, they must be in accordance with the Amazon Fund's guidelines determined by the COFA, PCCDAM and PAS. Such guidelines require projects to contribute to the reduction of deforestation and forest degradation. Furthermore, planned efforts must prove clearly coherent with the proposed objective, the budget and project implementation schedule.

To this effect, complying and seeking excellence in management aims at ensuring continuity to the flow of donations to the Fund. This is not only linked to proof of progress and of results achieved, but also held by the credibility and trust in the institutions that carry out and manage the projects, since international donors must also render accounts on the use of the donated funds in their countries of origin.

In 2010, several initiatives aimed at meeting demands and suggestions presented by the COFA and the engaged public were put into effect. With the above-described purpose, these initiatives are centered on issues of access and support for small projects, improvements in communication and new wording for rules and procedures. This includes reviewing the format and the organization of content in the templates and scripts for presenting proposals, detailing the early maturity contractual clause, website improvements and disclosing information in the Portfolio Informative Reports and News Bulletins.

## MANAGEMENT ATTRIBUTIONS AND OPERATING STRUCTURE

In its Corporate Planning for the 2009-2014 period, the BNDES elected innovation, local and regional development as well as social-environmental development as the most important aspects of economic promotion in the current context. The Bank insists that these issues must be fostered and emphasized in all undertakings it supports. Thus, the BNDES reinforces its historic commitment to the development of Brazilian society as a whole, aligned with the most urgent challenges of contemporary social and economic dynamics.

According to aforementioned strategic guidelines, the creation of the BNDES' Environmental Division, at the beginning of 2009, an operational unit exclusively geared towards financing environmental activities and investments, has provided the necessary conditions to take over the management of the Amazon Fund, assigned to the Amazon Fund Management Department (DEFAM).

This department concentrates on the following activities:

- raising donations, in conjunction with the BNDES' Financial and International Divisions, as well as issuing diplomas that certify donators' contributions to the Amazon Fund;
- promoting, structuring, analyzing, contracting and monitoring non-reimbursable operations in efforts designed to prevent, monitor and combat deforestation and foster conservation and sustainable use in the Amazon Biome;
- preparing the rendering of accounts and management information reports;
- publishing the Amazon Fund Annual Report, including an opinion on the financial statements and compliance, prepared by internationally-recognized external independent auditors;
- preparing the Logical Framework (Result Matrix) and implementing its monitoring plan; and
- developing communication and institutional relationship channels with the public in general as well as with interested parties.

The obligations of the Amazon Fund Management Department also include scheduling the Annual Meeting with donators to report on the progress made by the Fund, the results achieved and the performance of contractual obligations, besides



running the COFA's Executive Secretariat. The Amazon Fund Management Department (DEFAM) also operates jointly with other BNDES Fundamental Units to identify and support operations in which there is synergy with its area of knowledge or with the geographic region in which its activities are developed.

The Amazon Fund team was strengthened during 2010 with the significant reinforcement of its original organizational structure:

Mar. 2009 – creation of the Amazon Fund Management Department (DEFAM) with eight employees;  
Dec. 2009 – DEFAM team with 17 employees;  
Dec. 2010 – DEFAM team with 27 employees.

It should be pointed out that, in addition to entering the Bank's personnel structure by means of nation-wide exams, some 52% of the team allocated to the Amazon Fund has a graduate-level education.

In 2010, the Amazon Fund team completed an extensive travel agenda to evaluate proposals for activities and partnerships, pay technical assessment visits to projects submitted to the Fund and participate in seminars, forums and workshops, described in the following chapter.

Throughout the year, meetings were held with public and private institutions to clarify doubts in the preparation of projects, and with strategic partners, such as the German Technical Cooperation Agency (GIZ), the Ministry of the Environment and the Brazilian Forestry Service.



## Institutional articulation and technical cooperation

The year 2010 was marked by intense dialogue with the wide array of audiences with interest in the Amazon Fund, aimed at providing transparency to its activities, encouraging collaboration and establishing partnerships with a view to enhancing its efforts.

In August 2010, the BNDES formally initiated the Amazon Fund's cooperative activities with the German Technical Cooperation Agency (GIZ). Highlights include technical discussions concerning the Amazon Fund's Logical Framework, support for projects in the areas of Science, Technology and Innovation, as well as the structuring of public selection for support in sustainable production activities in the Amazon Region.

In parallel, the BNDES and the German government, by means of the Brazilian Cooperation Agency (ABC), agreed on the terms in the Technical Cooperation Project to be developed with the GIZ, whose work plan is structured so as to achieve the following specific objectives and expected results:

- helping applicants with higher institutional capacity to prepare and implement projects for the Amazon Fund;
- developing instruments to monitor impacts and results from enhanced projects;
- strengthening the Fund's international cooperation efforts, including the identification of opportunities to carry out projects in other countries;
- attaining knowledge from compared experiences in developing scientific and technological policies, particularly in the area of biotechnology;
- identifying opportunities in sustainable production activities, efforts towards the conservation and sustainable use of biodiversity; environmental services; developing efforts aimed at traditional peoples, communities and indigenous lands, land-title regularization and the recovery of deforested areas; and
- identifying innovative financial mechanisms.

The Technical Cooperation Project with GIZ will remain in effect for 36 months.

## Communication and other activities

Within the scope of the COFA, in addition to the meetings with the board and its committees, the following events were held:

**March 16:** “Small-size Projects” workshop, held at the BNDES’ headquarters, designed to obtain information and assistance aimed at expanding support for these projects.

**March 17:** work meeting, in Brasília (DF), with representatives from the Legal Amazon region states to identify the Amazon Fund’s priority efforts in the region.

### VISITS FROM FOREIGN COUNTRIES AND INSTITUTIONS

**March 12:** workshop, at the BNDES’ headquarters, with the Packard, Moore and Ford [Climate Change Alliance (CLUA)] foundations to present the Amazon Fund.

**April 27-28:** visit from representatives of the Norwegian Agency for Cooperation for International Development (Norad) to the BNDES’ offices in Rio de Janeiro to exchange information on the Amazon Fund.

**July 12-13:** visit from representatives of Tanzania to the BNDES’ offices to learn more about how the Amazon Fund operates.

**September 22:** visit from 13 members of the Norwegian Parliament, members of Norway’s Standing Committee on Energy and Environment.

**October 28:** visit from the delegation of the government of Indonesia, led by the chairman of the UKP4 (equivalent to the Department of the Chief of Staff in Brazil), Kuntoro Mangkusubroto, to learn more about the Amazon Fund’s operating mechanisms.



### **PARTICIPATION IN THE CONFERENCE OF THE PARTIES TO THE UNITED NATIONS CONVENTION ON CLIMATE CHANGE (COP16)**

The BNDES was part of the Brazilian delegation present at the COP16, held between November 29 and December 10 in the city of Cancun, Mexico.

The Bank's agenda included presentations on the Amazon Fund and its participation in the Forest Day 4 seminar, an event organized by the Center for International Forestry Research (Cifor) – this time in partnership with the government of Mexico and in parallel to the Conference's official program.

Measuring 400 m<sup>2</sup>, the Brazil Space – located in Pavilion D of the Cancunmesse Convention Center – was equipped with an auditorium where two presentations on the Amazon Fund were held, on December 3 and 6.

On December 5, the BNDES manned a stand at the Forest Day 4 seminar, with the objective of showing the importance of forests in the mitigation of and adaptation to climatic change.

In its fourth edition, Forest Day, in its sessions and plenary sessions, highlighted the urgency to guarantee the survival of the world's forests, their biodiversity and the hundreds of millions of people who depend on them. The event marked the end of the International Year of Biodiversity (2010) and the beginning of the International Year of Forests (2011).



#### **OTHER PRESENTATIONS ABROAD ON THE AMAZON FUND**

**March 5:** seminar "Biodiversity and Ecosystems: Why these are important for Sustained Growth and Equity in Latin America and the Caribbean" – New York – the UN.

**March 4-6:** technical workshop, in Bogor, Indonesia, to exchange experiences between forest countries (Congo, Brazil and Indonesia), held by the World Bank's Forest Carbon Partnership Facility and the UN UN-REDD program.

**May 30:** presentation in Munich, Germany – event held by the Brazilian Ministry of Foreign Affairs' division for Commercial Promotion Programs.

**June 2:** presentation in London, England – event promoted by the Brazilian Ministry of Foreign Affairs' division for Commercial Promotion Programs.

**July 20-23:** presentation of the Amazon Fund during a BNDES visit to Japan.

**September 13-17:** 1<sup>st</sup> Meeting of the Ad Hoc Open Ended Intergovernmental Group of Experts on financing sustainable forestry management (AHEG) of the United Nations Forum on Forests (UNFF) – Nairobi, Kenya.

#### **PARTICIPATION IN OTHER EVENTS**

**March 22-25:** technical workshop, in Iranduba (AM), on the preparation of projects and activities for Reduction of Emissions by Deforestation and Degradation (REDD).

**May 4:** public hearing in the House of Representatives in Brasília – "The Amazon Fund: Application and Criteria for Releasing Funding" –, promoted by the Committee for the Amazon, National Integration and Regional Development.

**May 18-21:** symposium on Amazon Forest Management and seminar to celebrate the 30th anniversary of the Tapajós/km 67 National Forest, in Santarém, in the state of Pará (seminar organized by the Brazilian Forestry Service).

**May 20-21:** VII Technical Scientific Seminar on Deforestation Data (seminar organized by the Ministry of the Environment in Brasília).

**June 8-11:** Amazon Sustainable Development Congress (organized by the Center for Amazon Studies of the University of Pará).

**June 29:** "Sustainable Development of the Amazon" seminar in Manaus (AM) [initiative of the Brazilian Center for International Relations (Cebri)].

**July 6-8:** workshop organized by the Brazilian Company for Agricultural and Cattle-breeding Research (Embrapa) to assist in establishing integrated activities based on the use of agricultural forest systems.

**July 12-13:** REDD+ Multilateral Platforms, in Brasília. The objective of the meeting, organized by the Secretariat of Climatic Change and Environmental Quality of the Ministry of the Environment, was to discuss the synergy between the different multilateral initiatives for REDD+ and map the possibilities of Brazilian participation.



**October 4:** Luciano Coutinho, president of the BNDES, and Edson Arantes do Nascimento, Pelé, visited the municipalities of Alta Floresta and Carlinda, in Mato Grosso, to learn more about the environmental program developed by the Alta Floresta Municipal Secretariat for the Environment and the program Seeds of the Portal, run by the Ouro Verde Institute (IOV). Pelé visited the region, invited by the BNDES president, to learn more about the recovery of areas degraded by deforestation, involving reforestation efforts, recovery of springs and registration of small properties.

**October 19 and 21:** consultation on the REDD+ National Regime and Amazon Fund Work Meeting in Brasília. The joint event included indigenous leaders and traditional communities, as well as representatives from NGOs and social movements.



**October 20:** meeting with representatives from the Amazon Research and Development Activities Committee (CAPDA), at the BNDES' headquarters. This committee comprises representatives from the government, support institutions for research and innovation, the scientific community and the business sector.

#### *Alide Verde Prize*

*The Amazon Fund received the Alide Verde Prize, on April 14, 2010, in a ceremony held during the 40th Annual Encounter of the General Meeting of Alide. The Latin American Association of Development Financial Institutions (Alide), a body representing public development banks in the region, included the category "Green Alide" in the Alide Prize to encourage its members to implement strategies for financing 'green' projects. This special category aims at recognizing the financial initiatives to combat and adapt to climatic change, which, according to this organization, is one of the main threats to growth in Latin America and the Caribbean and, therefore, one of the great challenges faced by the Latin-American financial system.*



# Communication

## **WEBSITE [WWW.FUNDOAMAZONIA.GOV.BR](http://WWW.FUNDOAMAZONIA.GOV.BR)**

The BNDES maintains the Amazon Fund's website on the internet, also in English and Spanish. Since the release of the first version in 2008, the Amazon Fund's website has undergone continued improvement, performed jointly with the Systems Development Department of the BNDES' Information Technology Division (ATI/DESI1).

## **INFORMATION PUBLISHED ON THE AMAZON FUND'S WEBSITE**

The Amazon Fund provides ample and diversified information on the Internet, such as operational flow for project approval and documentation required at each stage of the project. Services to the public are provided by means of the Contact Us section, by telephone, or by reading the FAQ (Frequently Asked Questions) section.

The Amazon Fund discloses its project portfolio in detail. The portfolio presents the following information: purpose, value (project and request), location, area, applicant's corporate identity, operational stage and projects already contracted.

The BNDES does not disclose information resulting from the analysis that its managerial position requires it to do and that could somehow compromise the applicant's image or reputation.

## **NEWS BULLETIN**

As of 2010, aimed at rendering accounts of its activities to the COFA and to the donors, besides expanding its communication with the general public, the Amazon Fund started to publish a bulletin disclosing the main events related to its activities. In total, 10 bulletins were published, disclosing seminars, Amazon Fund presentations in Brazil and abroad, work meetings, approved projects, among other events. The bulletins are published on the Amazon Fund's website, but can also be distributed in printed version or by e-mail.



Additionally, news on the Amazon Fund may be consulted individually on the website, where it is published faster.

### **SPEAKING WITH THE PUBLIC**

So as to provide increased transparency and security for the flow of information, the BNDES created the following electronic addresses:

1. *fundoamazonia.secretariacomite@bndes.gov.br*

Objective: assorted call notices, arrangement of airline tickets, receipt of information on removal and appointment of members, receipt of demands for inclusion of subject matters in meeting agendas, etc.

2. *fundoamazonia.faleconosco@bndes.gov.br*

Objective: answer questions from the general public sent via the website.

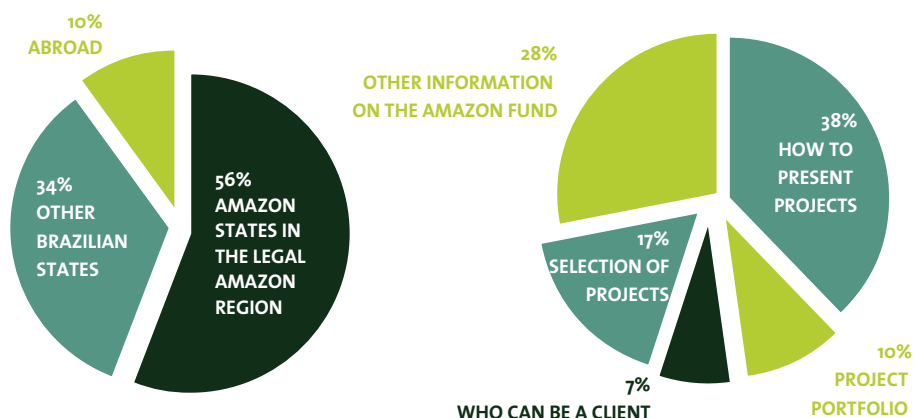
3. *fundoamazonia@bndes.gov.br*

Objectives: send invitations to seminars open to the public and communication in general with a more specific public to convene and schedule meetings etc.

All the messages received at the aforementioned addresses are recorded and answered. Inquiries addressed directly to the BNDES technical staff and those forwarded, for example, by the BNDES press department are not computed below.

In 2010, some 83 inquiries, coming from the Legal Amazon region, from other Brazilian states and from abroad (England, 1; the US, 3; Norway, 1; and Portugal, 1) were received and answered. The inquiries from the states in the Legal Amazon region correspond to 57%; those from other Brazilian states, 34%; and those from abroad correspond to 7% of the total, as the chart below illustrates.

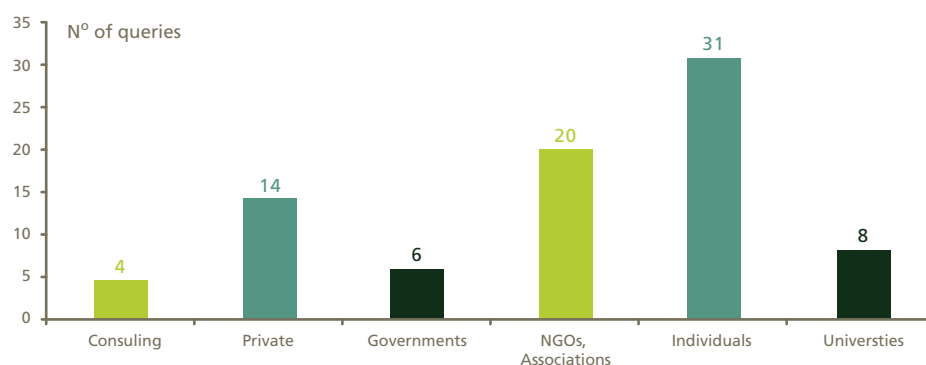
CHART 4: ORIGIN OF QUERIES AND SUBJECTS DISCUSSED



Of the 83 inquiries, 32 were related to the presentation of projects, eight to the project portfolio, six related to who can be a client of the Amazon Fund; and 14 discussed the selection of projects. The other 23 refer to various subjects, such as access to publications, areas of activity, donations, fundraising structure and support limits for projects.

Origin of the inquiries: universities: 8; consulting firms: 4; NGOs, Oscips, cooperatives and associations: 20; governments and city halls: 6; private companies: 14; individuals: 31.

CHART 5: ORIGIN OF THE DEMAND



## Operating Performance



## Project portfolio

From June 2009 through December 2010, the Amazon Fund approved the allocation of resources for the financial support of 13 projects, in the total amount of R\$ 190,230,714.00, of which five were in 2009, and eight, in 2010.

These projects cover all the states that make up the Legal Amazon region, involving over 190 municipalities – of which 28 were on the list of priority municipalities for preventing, monitoring and combating deforestation. The projects also benefit traditional populations, such as riverside dwellers, Indians and *quilombolas* (former slave settlements) as well as forest people.

Deadlines to carry out projects range from one and one half years up to five.

TABLE 7: APPROVED AMOUNTS AND PROJECTS

YEAR	APPROVED PROJECTS	AMOUNT OF SUPPORT (R\$)
2009	5	70,339,010.00
2010	8	119,891,704.43
Total	13	190,230,714.43

In their conception, the approved projects have distinct approaches, but are coherent with efforts that directly or indirectly contribute to reducing CO<sub>2</sub> emissions, resulting from degradation and deforestation, always in keeping with public environmental management policies.

The range of projects includes support for sustainable production activities, land-use planning and land-title regularization, rural property monitoring, recovery of degraded and permanent protection areas, consolidation and maintenance of preservation areas, institutional strengthening as well as physical and operational structuring of government environmental management agencies.

The following two charts illustrate the classification of efforts established in the projects presented to the Amazon Fund, in relation to the BNDES' operating modalities and the areas outlined in Decree N°. 6,527/2008. The increase in the number of efforts related to scientific and technological development deserves to be highlighted as one of the main priorities established by COFA for 2010.

CHART 6: EVOLUTION OF THE NUMBER OF PROJECTS PER BNDES OPERATING MODALITY

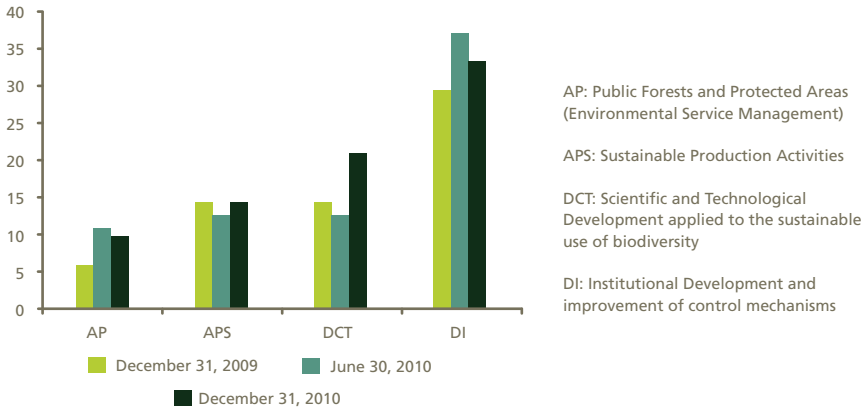


CHART 7: EVOLUTION OF THE NUMBER OF PROJECTS PER AREA OF DECREE N°. 6,527/2008

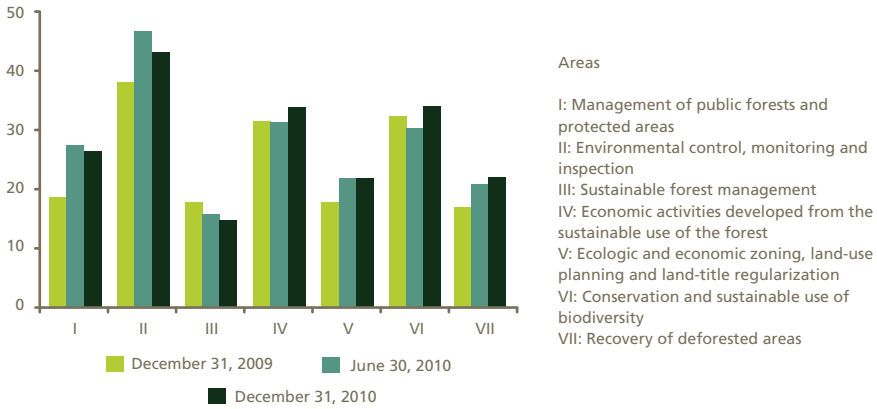
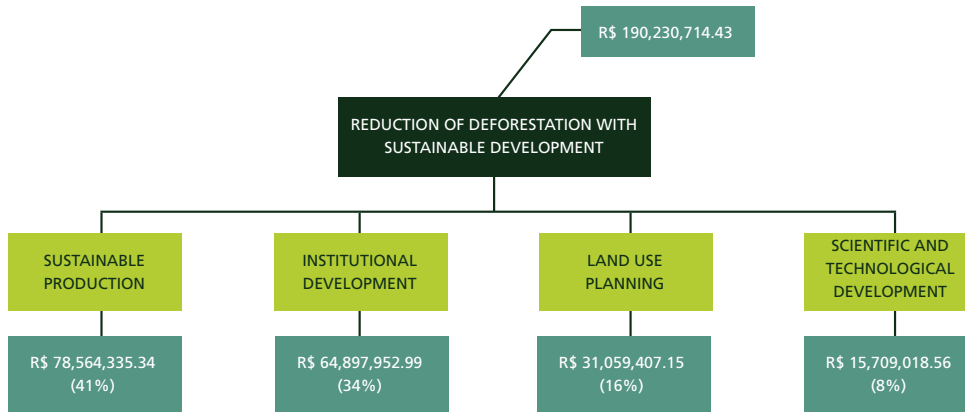


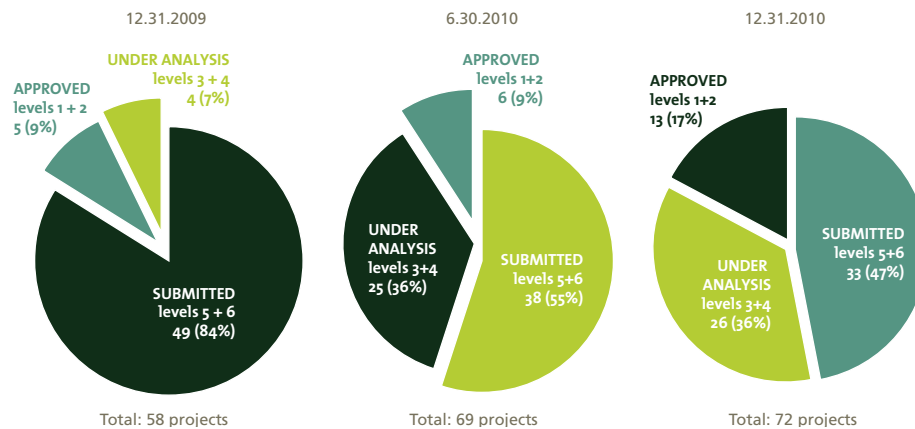
Figure 4 illustrates the distribution of the amount of support for approved projects up to December 2010 per Amazon Fund areas, summarized in four components of its Logical Framework (to be presented in detail).

FIGURE 4: DISTRIBUTION OF THE APPROVED AMOUNT PER LOGICAL FRAMEWORK COMPONENT



The temporal analysis of the active operations portfolio (including those in consultation, under analysis and approved)<sup>14</sup> considering the relative data from December 2009, June 2010 and December 2010, is represented in the following charts:

CHARTS 8, 9 AND 10: EVOLUTION OF THE NUMBER OF PROJECTS IN THE BNDES OPERATING PORTFOLIO

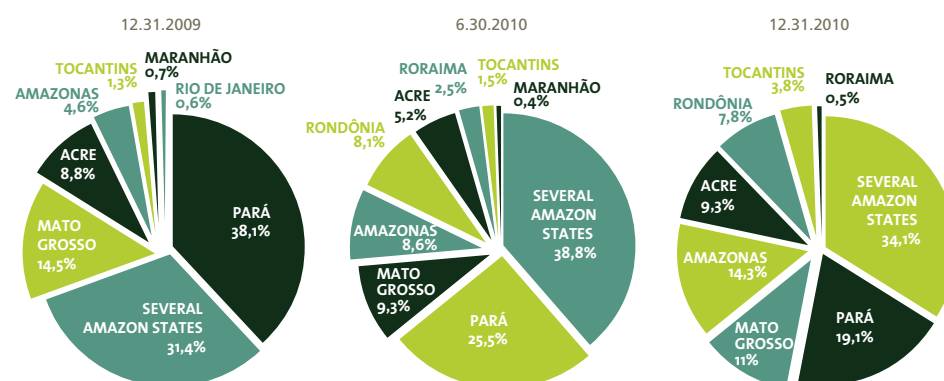


<sup>14</sup> Active operations are requests for support (projects) included in the BNDES/Amazon Fund portfolio.

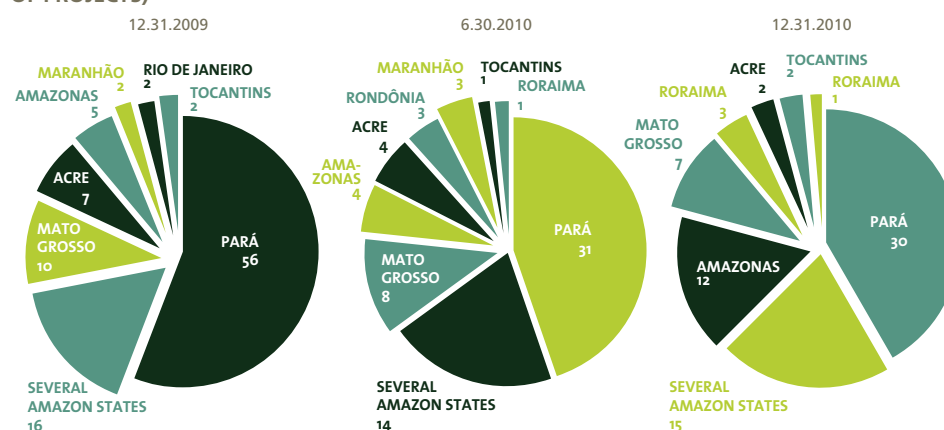
These charts demonstrate that the number of projects approved between July and December 2010 (seven) surpassed the total number of approvals in the two immediately preceding six-month periods. Furthermore, the number of projects that were under technical analysis by the Amazon Fund team on 12.31.2010 (26 projects) was more than six times greater than the total being analyzed at the end of 2009.

Another important point refers to the change in the distribution of resources for projects submitted to the Fund per territorial coverage, as listed in the following charts:

CHARTS 11, 12 AND 13: EVOLUTION OF THE DISTRIBUTION OF REQUESTED AMOUNTS



CHARTS 14, 15 AND 16: EVOLUTION OF THE TERRITORIAL COVERAGE OF EFFORTS (PER NUMBER OF PROJECTS)



In December 2009, some 39 of the 58 portfolio projects (more than 67%) exclusively covered areas located in only two states: Pará and Mato Grosso.<sup>15</sup> At that time, these projects accounted for nearly 53% of the total demand for Amazon Fund resources (R\$ 358,120,910.00 of a total of R\$ 679,256,910.00).

On 6.30.2010, these two states continued to maintain their positions as the Fund's largest applicants, but presented a drop in their representativeness. The projects located within their territories accounted for a little over 56% of the total amount of requests and 35% of the total demanded resources.

At the end of December 2010, the state of Amazonas<sup>16</sup> held second position among the largest requests for financial support from the Fund. The state of Pará continued to occupy the first position. These two states, together, represent approximately 67% of the total Brazilian Amazon Biome. The projects in areas located within their territories accounted for approximately 58% of the total amount of applications (42 projects) and 33% of the total demanded resources (R\$ 278,101,460.00 of a total of R\$ 832,007,910.00).

The third largest applicant on 12.31.2010 (seven projects and 11% of demanded resources) was the state of Mato Grosso. Other Legal Amazon states, such as Acre and Rondônia, now also hold greater representativeness among the major Fund applicants.

Projects that encompass actions in areas located in more than one Legal Amazon state (including the aforementioned states) are quite representative within the Amazon Fund portfolio. In December 2010, these totaled 15 projects, accounting for over 34% of total demanded resources.

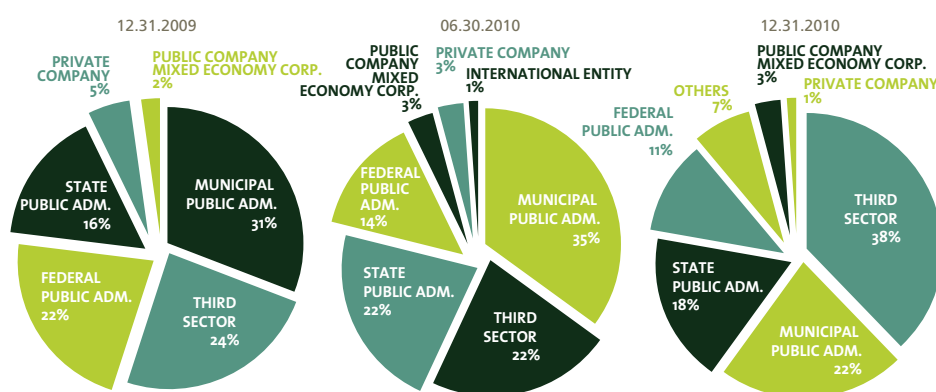
Concerning the legal structure of applicants, the project portfolio was less concentrated on 12.31.2010. At the end of 2009, some 69% of the active projects came from the public sector. At the end of 2010, this percentage reached 51%. On the other hand, the number of projects in portfolio presented by the third sector (non-governmental organizations) practically doubled in one year: 14 at the end of 2009 and 27 at the end of 2010 (38% of the total). These data are illustrated in the following charts.

<sup>15</sup> According to IBGE, the states of Pará and Mato Grosso represent, together, approximately 41% of total Brazilian Amazon Biome area.

<sup>16</sup> Source: IBGE.



CHARTS 17, 18 AND 19: EVOLUTION OF THE NUMBER OF PROJECTS PER LEGAL STRUCTURE OF THE APPLICANTS



The evolution of the project portfolio demonstrates the characteristic learning curve related to the initial operating period, one year and a half after the Bank received the first requests for financial support. This process has intensified in 2011, enabling the necessary advances toward the changes intended for the Amazon Fund.

One particular aspect that exemplifies this learning curve becomes evident when observing the number of requests that did not progress in the BNDES' operational flow, that is, their requests for financial support were initially denied.

The negative response for support of these inquiries was due, mainly, to the following reasons: efforts were not in compliance with the Amazon Fund's regulations – eligible areas, guidelines, criteria and minimum prerequisites established by the COFA and the BNDES' operational policies for the investment of funds; a lack of and inconsistency in information related to project execution; inadequate costs; aspects related to registration status; as well as managerial and execution capability of the institution and its management.

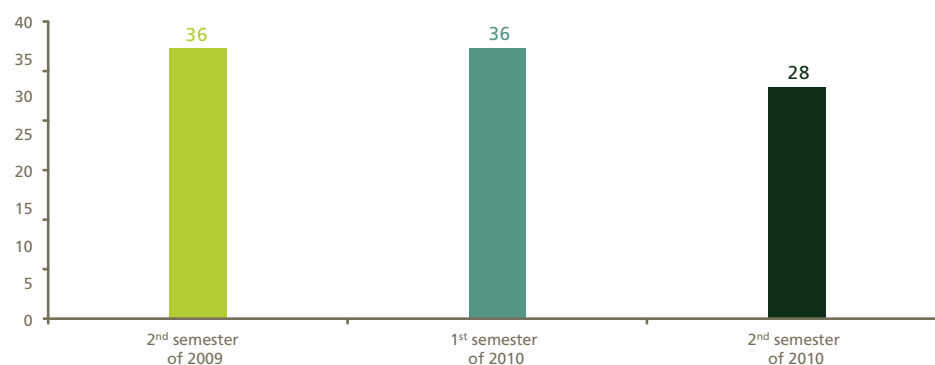
These aspects were identified in the preliminary assessment of requests – part of the BNDES' total analysis process –, which involves the initial contact between the teams and the applicants as well as examination of the project and supplementary information.

Whenever requested by applicants, the BNDES provides guidance to reformulate projects so that they may be presented again on the correct basis. Furthermore, an additional effort was made to improve the Fund's communication process, including enhancement of the financial support application models. With this, by the end of 2010, some 27 applications, initially denied due to inadequacy, were reformulated and presented again to the Amazon Fund.

Results were noted in the second half of 2010, when there was a drop in denied applications, demonstrating an increase in adjustments and qualification of the proposals submitted to the Fund. This result was brought about by both the specific managerial work on the part of the BNDES, as well as by the organization of the partners with representation on the Amazon Fund's Guidance Committee and other involved agents and publics, who played a significant role in the intensive debates and workshops, thus expanding the disclosure and knowledge of the Amazon Fund's objectives and possibility for financing.

Chart 20 represents the issue previously mentioned in the July 2009 situation – when the BNDES officially started to receive the requests for financial support – up to December 31, 2010. The previously mentioned change in trend related to increased compliance of the received applications can be observed. Over the entire period considered, the Fund received 175 applications, of which 103 were denied:

**CHART 20: NUMBER OF INQUIRIES DENIED UP TO 12.31.2010**



## Financial performance

As set forth in the donation contracts, the donator's disbursements are made half-yearly, or within shorter periods, upon written request issued by the BNDES. This request must be based on the Amazon Fund's financial needs.

Ninety seven percent of the received amount is invested in the Gaia Fund, a fixed-income fund managed by Banco do Brasil, for allocation to the supported projects. The remaining amount, as set forth in Decree N°. 6,527/08, is earmarked to offset operational costs and administrative expenses related to the management of the Amazon Fund.

In 2009, practically all expenses incurred with the management of the Amazon Fund were recorded as BNDES expenses. In March 2010, the BNDES' Board of Directors defined which costs and expenses of the Fund (travel, COFA secretariat, specific hires to support COFA meetings, auditing, advertising etc.) may be paid using the 3%, besides approving the related procedures and relevant accounting accounts. According to this definition, certain administrative expenses incurred by the BNDES are not recorded as pertaining to the Amazon Fund. Aimed at ensuring greater transparency in the distribution of funds made available to the Fund, the BNDES opted to allocate to the 3% only those expenses clearly related to the Fund. In 2010, these costs and expenses totaled approximately R\$ 1.35 million.

The following tables summarize the situation of the funds that entered Brazil for use in projects supported by the Amazon Fund. The amounts were recorded based on Brazilian accounting standards and legislation in effect (in reais).

TABLE 8: BALANCE SHEET AS OF 12.31.2010 (IN R\$ THOUSAND)

ASSETS		LIABILITIES AND SHAREHOLDERS' EQUITY	
CURRENT		CURRENT	
Non-invested funds*	6,647	Project funds**	84,394
Gaia Fund (97%)	77,922	<b>SHAREHOLDERS' EQUITY</b>	
Costing funds (3%)	1,401	Accrued surplus	1,600
Receivable incomes	24		
<b>Total Assets</b>	<b>85,994</b>	<b>Total Liabilities and Shareholders' Equity</b>	<b>85,994</b>

\* Non-invested funds refer to the first installment of the KfW donation, which entered on 12.31.2010 and was invested in the Gaia Fund on the first business day of 2011.

\*\* The balance of the "Project Funds" account, recorded in Current Liabilities, corresponds to the sum of 97% of the amount received from donors and corresponding compensation, the total amount that the Fund is required to invest in projects.

TABLE 9: RESULT OF THE 2010 FISCAL YEAR (IN R\$ THOUSAND)

REVENUES	
Revenue from donations for investments (releases for projects)*	11,106
Revenue from donations for costing (3% of the received amounts - principal)	1,687
Financial revenue (income from financial investments ref. 100% of the received amount)	5,244
	<b>18,037</b>
(-) EXPENSES	
Expenses with donations for investment (releases for projects)*	-11,106
Expenses with project fund compensation**	-5,086
Administrative expenses	-1,352
	<b>495</b>
<b>SURPLUS FOR THE PERIOD</b>	<b>495</b>

\* According to the understanding of the Regional Superintendence of Brazil's Inland Revenue Service of the 7th RF, cross-referencing revenues and expenses to determine assessment of IR and CSLL over donations to Amazon Fund will be carried out in an equivalent amount, so as to mutually cancel each other out on the date and at the exact amount of funds released to the supported projects.

\*\* Compensation of liabilities, corresponding exactly to the income related to investment in the Gaia Fund.

## Audits

Annually, the Fund undergoes three audit processes. The first occurs within the scope of the external audit of the BNDES' financial statements, since the Fund's accounts, of a purely accounting nature and without its own corporate identity, are allocated in the accounting records of this institution. Aimed at complying with the requirement established in Decree N°. 6,527/08 and the donation contract with Norway, the BNDES has contracted the following services:

1. Financial audit: to evaluate the veracity of the balance amounts recorded in the Amazon Fund's Financial Statements, as well as the appropriateness in allocating these balance amounts within the BNDES' Financial Statements. This audit includes the amounts deposited in the Banco do Brasil Gaia Fund, a conservative investment fund contracted to remunerate and maintain the monetary value of the funds donated and effectively sent to the country. Contracts with clients, resources disbursed by the Gaia Fund earmarked for investment in supported projects, and expenses incurred with Fund management are also audited, and;
2. Compliance audit: to evaluate whether the supported projects, taking into account their foreseen objectives, products, services and efforts, are in accordance with the determinations of Decree N°. 6,527/08, and the COFA Guidelines and Criteria, the Sustainable Amazon Plan (PAS) and the Action Plan for the Prevention and Control of Deforestation in Legal Amazon (PPCDAM).

The financial audit procedures related to 2010 were performed by Deloitte Touche Tohmatsu, an independent auditing company. The referred auditor agreed with the adequacy of the accounting balances presented by the BNDES.

In Annex 4, there is a facsimile of the auditor's opinion.



# Information and Monitoring Transparency





## Eligibility and project analysis criteria

Although it operates by means of non-reimbursable resources, the Amazon Fund follows the usual rules adopted for projects financed by the BNDES.<sup>17</sup>

Some projects may receive financial applications with no demand for reimbursement. This consists of investments of a social, cultural (education and research), environmental, scientific, or technological nature.

The origin of the resources in the Amazon Fund (donation) reinforces the need to adopt procedures that assure proper application, accountability, and the demonstration of results.

It is important to highlight that donations of international resources to the Amazon Fund implies that the accounts be rendered by the donators in their country of origin. The willingness of donators to continue donating is linked to the demonstration of results, credibility, and trust in the executing institutions and managers of the donated resources.

These requirements are the objectives of the Amazon Fund and of its governance and management system to assure that it is invested in synergic, articulated and integrated efforts, aimed at serving various individuals and not specific interests, even if they have isolated merits.

Since 1986, the BNDES has supported non-refundable projects aimed at the social area, and since 1995, has done the same for the cultural area, always mindful of sector specifics. The nature of non-reimbursable resources for the supported projects does not mean investments into a lost fund; nor does it cancel the need for clear demonstration of expected results and its relevance.

To be approved, projects must in accordance with the guidelines and the criteria of the Amazon Fund and must illustrate their contribution to reducing deforestation and

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<sup>17</sup> More information at [www.bndes.gov.br](http://www.bndes.gov.br).



forest degradation. Good projects must consist of more than just good ideas: to put abstract enunciations into effect, projects and programs are needed, which must be modeled on concrete efforts.

Moreover, established efforts must be clearly coherent with the proposed objective, such as the budget and implantation chronogram. Finally, but no less important, applicants must be capable of managing the execution of the project.

Managerial capability is essential for applicants to be able to manage received resources, whose application and expected results should be monitored, verified, and reported.

The monitoring of impacts and results of supported efforts and projects is key to those funds that receive donations and must render accounts of their activities. The Logical Framework is more than a control instrument; it is an important tool for planning, monitoring, demonstrating, and communicating the results achieved.

## Legal course of projects at the BNDES

The complete cycle of a project at the BNDES comprises the steps of eligibility, analysis, approval, contracting, and disbursement. Fulfillment of and responsibility for these steps belong to two departments of the BNDES – the Priority Department (DEPRI) and the Management Department of the Amazon Fund (DEFAM) –, both members of the Planning Division and of the Environmental Division, respectively. Technical assessments are submitted to the Eligibility and Credit Committee as well as the BNDES Board of Directors, which determine the approval or not.

Requests to the Amazon Fund for financial support are initiated by sending a “Previous Consultation”, a form provided by the BNDES to present proposals and which aims to serve as a script for required information regarding initial understanding of projects, their compatibility with the guidelines and the objectives of the Fund.

Previous Consultations are received and assessed by the Priorities Department (DEPRI), which verifies preliminary documentation and compatibility of the project with the guidelines and the criteria applicable to the Amazon Fund.

Based on the Previous Consultation, the compatibility of the financial request with the regulations and guidelines that rule the Amazon Fund is verified. Specified in the Previous Consultation are the basic characteristics of the project seeking financial support and the applicant. With basis on this information, a pre-assessment of the applying institution is made, which includes its managing capabilities, its background of accomplished projects, and its registration qualification, among other aspects. At this stage, the Credit and Environmental Divisions of the BNDES are consulted.

An applying institution is considered to be a company that submits the Previous Consultation to the Amazon Fund and establishes a non-reimbursable contract of financial support with the BNDES. Applicants are responsible to the BNDES for carrying out the project and for all other associated obligations, such as sending reports on the progress of the project and supporting the monitoring to be carried out by the BNDES related to the execution of the physical and financial aspects of the project.

After the financial request is classified as eligible, applicants must present the project in detail. Only then does the analysis stage, carried out by the Amazon Fund Management Department (DEFAM) begin, which that includes technical visits, meetings, and other contact to define the costs involved and the execution chronogram, fundable items, the financial counterpart, and conditions for contracting and the release of resources, among other aspects defined in common agreement with applicants.

Once analysis is complete, the operational department makes a technical recommendation as to the financial support for the project, which will be defined by the BNDES' Board of Directors. In the event it is approved, the project can be contracted. After the contract is signed, the execution stage of the project begins. Resources are disbursed in portions according to the terms of the signed contract, to the physical and financial agreement of the chronogram, and to the progress of the project, which be verified in the technical monitoring by the BNDES/Amazon Fund's team.

The following flowchart summarizes the stages, their respective protocol registrations and those responsible throughout the course of projects described above, starting from the initial presentation of the Previous Consultation.

## Flowchart x operational stages of the BNDES



The registrations correspond to the protocol levels used by the BNDES due to the suitability and completeness of required information at the presentation, to the time required for applicants to obtain and send requested information, to the stage for defining and detailing the proposed project, as well as to the time needed from analysis and technical recommendation of the operation for defining competent departments. These departments correspond to the way portfolio information of the Amazon Fund has been disclosed until now.

The main instructions for filling in the Previous Consultation are described in the Guidelines and Information Script for Previous Consultation to the Amazon Fund.<sup>18</sup>

The operational flow is published on the internet, where all steps for analysis and concession of financial support are described, including the definition of departments responsible. The procedures for presenting requests for support are widely disclosed and are also published on the internet, including the required documentation in each step.

Also, an information bulletin of the Amazon Fund Portfolio is published along with a News Bulletin.

<sup>18</sup> Also available on the Amazon Fund's website: <[www.fundoamazonia.gov.br](http://www.fundoamazonia.gov.br)>.

## Logical framework of the Amazon Fund

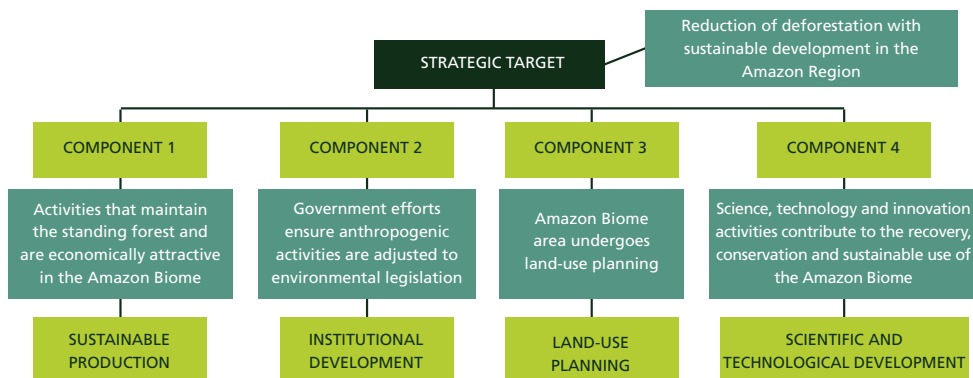
The construction and implementation of a Logical Framework for the Amazon Fund aims to make continuous monitoring easier, whether it is internally carried out by those in charge of its management, or whether it is externally done by the general public.

The Logical Framework represents another support instrument for its management by permitting an aggregate analysis of the supported projects in order to assess the contribution of its results to the Fund's objectives.

Elaborated in 2009 and consolidated in September of 2010, its construction was internally carried out at the BNDES and included the contribution of several external speakers, among them the Brazilian Forest Service (SFB), the Ministry of the Environment (MMA), the Brazilian Institute of Geography and Statistics (IBGE), the agency of technical cooperation of Norway (Norad), and the agency of technical cooperation of Germany (GIZ).

Taking into account the extent of the area the Amazon Fund operates in, its Logical Framework was structured, as seen in the following diagram, in Components 1, 2, 3 and 4, which result in four specific Logical Frameworks that share the same Strategic Target.<sup>19</sup>

FIGURE 5: LOGIC OF INTERVENTION OF THE AMAZON FUND AND ITS COMPONENTS

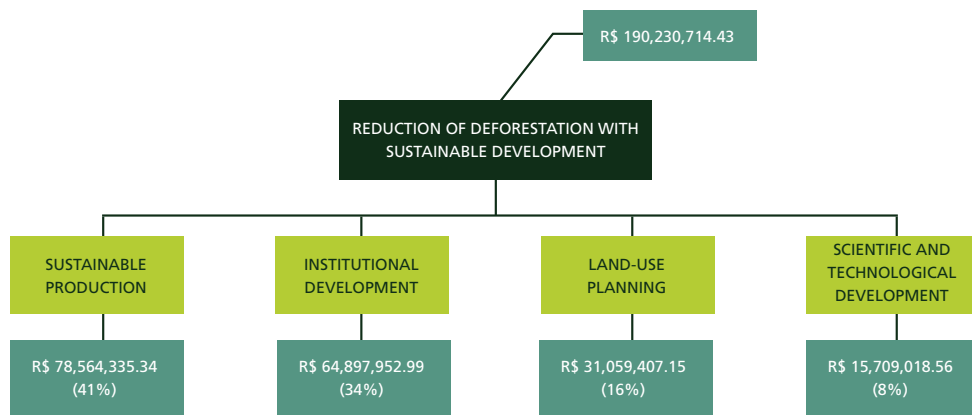


Source: BNDES.

<sup>19</sup> In the definition of the Amazon Fund's Strategic Target, a summarized and focused proposition was chosen in this biome, without preventing the Amazon Fund from supporting monitoring in other biomes (Brazilian or of other tropical countries).

Figure 6 shows how the 13 approved projects up to December of 2010 are distributed across four components of the Logical Framework of the Amazon Fund.

**FIGURE 6: DISTRIBUTION OF RESOURCES ACCORDING TO COMPONENTS OF THE LOGICAL FRAMEWORK**



Source: BNDES.

These four components of the Amazon Fund – Sustainable production, Institutional development, Land-use planning and Scientific and technological development – are related to the seven areas seen in Decree N° 6,527/08, to the aspects of the Plan for Prevention and Combat of the Deforestation of the Amazon (PPCDAM) and the Sustainable Amazon Plan (PAS), and are also in accordance with the four operational modalities established in the BNDES' Operational Policies. In Chart 1, the relationships between the four components of the Logical Framework and the seven areas established in Decree N° 6,527/2008 are set forth.

Analytically, the Logical Framework consists of not only a structure of cause-effect relations relating to a situation-problem but also strategies and means to change this situation. In this sense, the Logical Framework illustrates what the intervention proposal is as well as its design.

CHART 1: RELATION BETWEEN OBJECTIVES (COMPONENTS) OF THE AMAZON FUND AND AREAS

INTERVENTION LOGIC				
Objective	Component 1 Activities that keep the forest standing are economically attractive in the Amazon Biome	Component 2 Government efforts assure anthropogenic activities are adjusted to environmental legislation	Component 3 Amazon Biome area undergoes land-use planning	Component 4 Science, technology, and innovation activities contribute to the recovery, conservation, and sustainable use of the Amazon Biome
Areas corresponding to Decree N.º 6,527/2008	<ul style="list-style-type: none"> <li>■ Sustainable forest management –</li> <li>■ Economic activities developed from sustainable forest use</li> <li>■ Conservation and sustainable use of the biodiversity</li> <li>■ Recovery of deforested areas</li> </ul>	<ul style="list-style-type: none"> <li>■ Control, monitoring and environmental inspection</li> </ul>	<ul style="list-style-type: none"> <li>■ Management of public forests and protected areas</li> <li>■ Economic and ecological zoning, land-use planning, and land-title regularization</li> </ul>	<ul style="list-style-type: none"> <li>■ Management of public forests and protected areas</li> <li>■ Control, monitoring, and environmental inspection</li> <li>■ Sustainable forest management</li> <li>■ Economic activities developed from the sustainable use of the forest</li> <li>■ Ecological and economical zoning, land-use planning, and land-title regularization</li> <li>■ Conservation and sustainable use of the biodiversity</li> <li>■ Recovery of deforested areas</li> </ul>

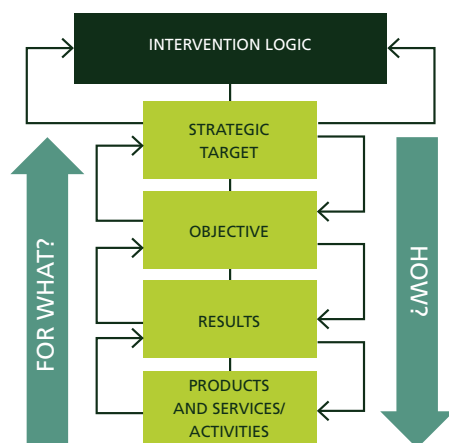
Source: BNDES.

The Logical Framework also helps establish a baseline for indicators and objectives that should be followed during the implementation and operation process and which will be assessed once the intervention is complete, including the specification of the sources used to confirm the indicators.

The Logical Framework is a methodology<sup>20</sup> used to assess whether the financed efforts contribute to the general objective of a program. It can be defined as a matrix in which the strategic decisions regarding the application of resources in a program are inserted in an operational and organized manner, exposing the intended path (objectives) and the intended accomplishment (how).

It is possible to visualize the basic structure of the Logical Framework of the Amazon Fund and its cause-effect relations according to each one of its components in the outline presented in Figure 7.

FIGURE 7: INTERVENTION LOGIC OF THE AMAZON FUND



Source: BNDES.

<sup>20</sup> This is one of the most well known and most widespread tools for planning and assessing public policies. It was developed by the American Cooperation Agency for Development (Usaid), in the 1960s and is used by the majority of multilateral financing agencies.





A vertical reading from top to bottom enables an understanding of how the project or the program will be executed. For example: how to reduce deforestation with sustainable development in the Amazon Region (Strategic Target)? Which activities maintain the forest standing and are economically attractive in the Amazon Biome (Objective of Component 1 – Sustainable Production).

Yet, the vertical reading from bottom to top clarifies the motives inserted in the intervention logic, in other words, the reasons the project or program was conceived. For example: to invest in activities that maintain the forest standing that are economically attractive in the Amazon Biome (Objective of Component 1 – Sustainable Production)? To reduce deforestation with sustainable development in the Amazon Region (Strategic Target).

Within the scope of projects, monitoring the impact of efforts will be concomitantly carried out with the follow-up of implementation and will also comprehend an ex post assessment, within a timeframe of approximately two years after the conclusion of investments that received support via financial cooperation from the Amazon Fund.

Monitoring the Amazon Fund will be consolidated periodically when its performance indicators are verified and the risks that threaten the success of its initiatives and other relevant factors impacting the Amazon Region will be verified.

Finally, the dynamic nature of the Logical Framework is highlighted, especially in what is related to the result indicators, which will be optimized by incorporating relative indicators into supported projects and as new sustainability indicators for monitoring impacts in systemic or regional levels become available.

## Description of approved projects in 2009-2010

The application of Amazon Fund resources is non-reimbursable and carried out in accordance with projects and contracts, including responsibilities, even if not financial.

A project is a planned undertaking that consists of a group of interrelated and coordinated activities, with the goal of reaching specific objectives within the limits of a budget and a given period of time [(Cohen & Franco UN (1984)).

Upon analyzing a project, the BNDES assesses the logical compatibility between the agreed activities, the resulting products and services starting from the execution of such activities, the direct objectives (general objective) and the indirect impacts desired with the project.

Figure 8 illustrates the logical cause-effect sequence ranging from the activities of the project to its indirect impacts.

FIGURE 8: INTERVENTION SEQUENCE OF A PROJECT



Following are reports on the 13 approved projects by the Amazon Fund, in the period from 2009 to 2010.

## PROJECT ÁREAS PROTEGIDAS DA AMAZÔNIA (ARPA) – STAGE 2

TERRITORIAL RANGE	Every state of the Amazon Biome
RESPONSIBLE FOR THE PROJECT	Brazilian Biodiversity Fund (Funbio) <a href="http://www.programaarpa.org.br">www.programaarpa.org.br</a>
BENEFICIARIES	Resident population and region inhabitants; workers and institutions responsible for management; managing councils; and municipalities involved in the territories of the Conservation Units (UCs) served by the program
OBJECTIVE	To support the creation and the consolidation of UCs in the Amazon Biome in order to ensure the conservation of the biodiversity and the maintenance of processes and ecological services of the region
TOTAL VALUE OF THE PROJECT	R\$ 164,294,880.00
VALUE OF SUPPORT	R\$ 20,000,000.00 (US\$ 12,003,360.94)
TERM FOR EXECUTION	48 months (from the date of contracting)
SITUATION ON 12/31/2010	Contracted (4/22/2010)
VALUE DISBURSED	R\$ 4,999,230.90 (25%)

### Contextualization

The creation of protected areas is one of the main conservation strategies for biodiversity. Brazil, as a signatory of the UN Convention on Biological Diversity (CDB), has significant objectives to protect its ecosystems. In the Brazilian Amazon, the effort to meet this objective has advanced greatly over the last few decades, with the creation of Conservation Units (UCs) that cover 22.2% of the Amazon Biome, in the Whole Protection and Sustainable Use categories.

With progress in understanding and mobilizing society in discussions on climate change, the enormous contribution given by the UCs became evident, with its forest ecosystems, in maintaining the carbon stock, especially in the Amazon, depending on the vast extensions of forests and the intense deforestation process.

The institution, in 2000, from the National System of Conservation Units (SNUC) established the current creation and management instruments for UCs, as well as the categories. Within the federal scope, the Chico Mendes Institute for Conservation of Biodiversity (ICMBIO), created in 2007, is the main executor of SNUC's activities. It is

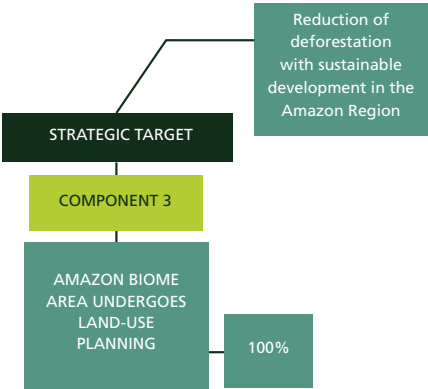
ICMbio’s responsibility to propose, implement, manage, protect, inspect, and monitor the UCs established by the federal government.

**INTERVENTION LOGIC**

The Áreas Protegidas da Amazônia (Arpa - Amazon Protected Areas) is considered one of the largest in the world in environmental conservation. The first stage, executed between 2002 and 2009, supported the creation and the consolidation of 43 conservation units, making a total of 24 million hectares, besides having supported the consolidation of another 8.5 million hectares of previously created conservation units.

Additionally, the program supported the creation and implementation of the SisARPA – a computerized system to coordinate and manage the Arpa Program – and established 14 community projects in regions surrounding the whole protection conservation units. It also capitalized approximately US\$ 29.7 million in a fund (FAP – Protected Area Fund) that will operate, in the future, as a financial mechanism to provide long-term financial sustainability to the conservation units within the scope of this program.

**FIGURE 9: INTERVENTION LOGIC**





***Expected results (second stage)***

- *Support to create 13.5 million hectares in new conservation units in areas that vastly represent the biogeography in the biome.*
- *Support to consolidate 31.6 million hectares in UCs, which involves the construction of basic infrastructure, signaling, protection, monitoring the biodiversity, elaborating a management plan, and setting up and maintaining councils.*
- *Structuring the UCs that integrate the program which involves integrated and participative management.*
- *Strategic planning of the group of UCs and stimulation to create management mosaics, besides developing competent management in the responsible teams.*
- *Promoting long-term financial sustainability, by means of capturing and preservation strategies for capital in the fiduciary fund in the long term, as well as identifying the most adequate mechanisms for managing income.*

FIGURE 10: UNITS SUPPORTED BY ARPA



### **National System of Conservation Units**

*The National System of Conservation Units (SNUC) is the group of federal, state, and municipal conservation units. It comprises 12 categories of UCs, whose specific objectives are different, ranging from the manner of protection to allowed uses: those that require greater care, due to fragility and particularities, and those that can be used in a sustainable manner and conserved at the same time.*

#### **Whole Protection Units**

- *Ecological Station: an area earmarked for preserving nature and conducting scientific research. It can only host visitors with education objectives.*
- *Biological Reserve: an area earmarked for preserving biological diversity, in which altered ecosystem recovery measures are applied to recover the natural balance and preserve the biological diversity. It can only host visitors with education objectives.*
- *National Park: an area earmarked for preserving the natural ecosystem and areas of scenic beauty. The park is a category that enables greater interaction between visitor and nature because it allows the development of recreational, educational, and interpretational activities, besides including the possibility of scientific research.*
- *Natural Monument: an area earmarked for preserving locations of singular, rare, and vast scenic beauty, allowing an assortment of visiting activities. This UC category can consist of private areas, given that the activities carried out are compatible with the UC's objectives.*
- *Wildlife Refuge: an area earmarked for protecting natural environments, where the objective is to ensure the best conditions for the existence or the reproduction of species or communities of local vegetation and wildlife. It allows an array of visitation activities and the existence of private areas, such as in the natural monument.*



### **Units of Sustainable Use**

- *Environmental Protection Area: an area with natural, esthetic, and cultural attributes that are important to the standard of living and the well-being of human populations. Generally, it is an extended area, with the objective of protecting biological diversity, organizing the process of human occupation and assuring sustainability of the use of natural resources. It is constructed on public and private lands.*
- *Area of Relevant Ecological Interest: this is the area whose aim is to preserve the natural ecosystem of regional or local importance. Generally, it is an area of small range, with little or no human occupation and with singular natural characteristics. It consists of public and private lands.*
- *National Forest: an area with forest coverage where native species thrive, aiming at the sustainable and diversified use of forest resources and scientific research. Traditional populations that inhabit the location since its creation are allowed to live there.*
- *Extraction Reserve: a natural area used by traditional extraction populations that carry out activities based on extraction, on family agriculture and on raising small-sized livestock, ensuring the sustainable use of existing natural resources. It allows public visitation and scientific research.*
- *Wildlife Reserve: a natural area with populations of native animal species, land-living or aquatic. It is adequate for technical scientific studies on the sustainable economic management of wildlife resources.*
- *Reserve of Sustainable Development: a natural area where traditional populations live based on sustainable exploitation systems of natural resources. It allows public and scientific research visitation.*
- *Private Reserve of Natural Heritage: a private area with the objective of conserving biological diversity; scientific research and tourist visitation, both recreational and educational, are allowed. It is created via the owner's initiative, and can receive support from integrated departments of the SNUC in the management of the UC.*

## PROJECT OLHOS D'ÁGUA DA AMAZÔNIA

TERRITORIAL RANGE	Municipality of Alta Floresta, state of Mato Grosso
RESPONSIBLE FOR THE PROJECT	Municipality of Alta Floresta, state of Mato Grosso <a href="http://www.altafloresta.mt.gov.br">www.altafloresta.mt.gov.br</a>
BENEFICIARIES	Rural producers and the local population
OBJECTIVE	To support the strengthening of environmental management in the municipality via environmental diagnosis and enabling the registration process of small rural properties in the Rural Environmental Registration (CAR), besides promoting financed efforts to recover permanent preservation areas near springs in small properties that have been degraded
TOTAL VALUE OF THE PROJECT	R\$ 2,781,340.40
VALUE OF SUPPORT	R\$ 2,781,340.40 (US\$ 1,669,271.64)
TERM FOR EXECUTION	36 months (from the contracting date)
SITUATION ON 12/31/2010	Approved
VALUE DISBURSED	-

### Contextualization

The municipality of Alta Floresta is located in the extreme north of the state of Mato Grosso, in an area under intense deforestation.<sup>21</sup> In 2007, it was included by the Ministry of the Environment on the list of priority municipalities for efforts to monitor and control deforestation.<sup>22</sup>

Income in Alta Floresta is concentrated and influenced by predominant economic activities, which are cattle-raising and timber exploration. As a consequence of the occupation of the territory and developed economic activities, environmental degradation is vast in the municipality, originally covered by forests. According to data of the Municipal Secretary of the Environment of Alta Floresta (SECMA), some 50% of the municipality has been deforested, and of the nearly 6,500 springs, only 3,100 (49%) have been preserved.

<sup>21</sup> According to the historical series informed by the National Institute of Space Research (INPE), between the years of 2001 and 2005 the state of Mato Grosso occupied first place in the size of deforested area in the Amazon. Nowadays, the state occupies second place in the relation, right behind the state of Pará.

<sup>22</sup> Arco Verde Operation (more detail on page 34).

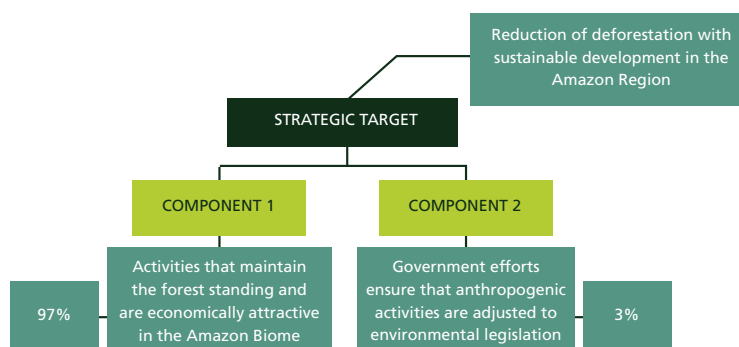
Besides this, of the total Permanent Preservation Areas (APPs) that the municipality possesses, the use and coverage of the soil of some 42% are incompatible with the duties which they should be performing, affecting the hydro resources in the region, as well.

### INTERVENTION LOGIC

The Olhos d'Água da Amazônia project encompasses a group of efforts to tackle the problem of rural environmental degradation in the municipality of Alta Floresta, especially that of springs located on small properties (up to two hundred hectares), preventing the risk of water shortages in the municipality.

For the execution of the project, the municipality has a vast social network for collaboration and support from several institutions, among them NGOs, universities, local entrepreneurs, and other municipal secretaries.

FIGURE 11: INTERVENTION LOGIC



Among the activities of the project is allowance of small rural land owners to adhere to the Rural Environmental Registration (CAR), an environmental management instrument for delimiting the rural properties, by means of geo referencing, thus identifying the permanent preservation areas and legal reserves, aiming at environmental recovery and monitoring.

The project also establishes support for the elaboration of technical recovery projects for APPs and recovery efforts for springs on small properties. Furthermore,

the project includes the implementation of demonstration agro-forest systems with seed and sapling planting, and ecological management units for pastures in 19 rural units in Alta Floresta.<sup>23</sup>

Besides contributing to the recovery of degraded areas, the merit of the Olhos d'Água da Amazônia project is in providing the municipal administration with instruments improve and strengthen monitoring and control efforts in a municipality with intense deforestation pressure.

### ***Municipality of Alta Floresta***

*Located 830 km from Cuiabá, Alta Floresta has an area of 9,212 km<sup>2</sup> and a population of 49,233 inhabitants, which means a demographic density of 5.34 inhabitants per km<sup>2</sup>.*

*Near another 15 municipalities in the state, it forms the Portal Territory of the Amazon, an initiative of the federal government that seeks to universalize basic programs of citizenship by means of a sustainable territorial development strategy. The municipality is the population and economic pole in this territory.*

*The Municipal Human Development Index (IDH-M) of Brazilian municipalities, measured in 2000 by the PNUD, showed Alta Floresta with a value of 0.779, which corresponds to an average index.*

*In 2008, the GDP of Alta Floresta was R\$ 518 million, while the GDP per capita was R\$ 10,100.*

*In 2009, there were approximately 808,000 head of cattle in the municipality, representing more than 16 head of bovine cattle per inhabitant.*

*Source: IBGE.*

### ***Expected Results***

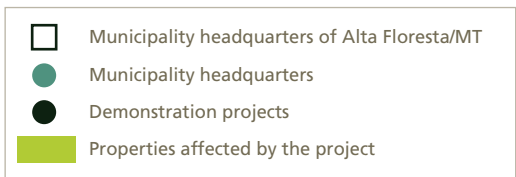
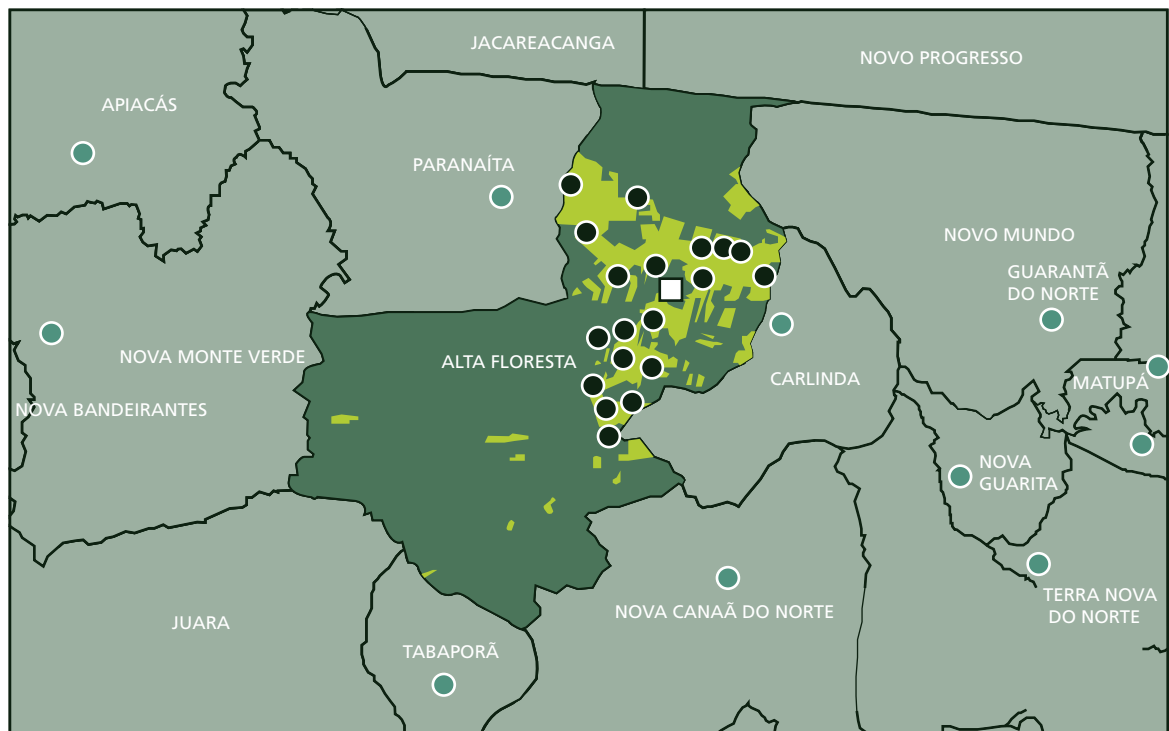
- *Registration of 2,800 small properties;*
- *Recovery of approximately 1,200 springs; and*
- *Implementation of demonstration forest systems in 19 rural units for dissemination of the model throughout the rest of the municipality.*

<sup>23</sup> The project of the Ouro Verde Institute (IOV), also supported in the scope of the Amazon Fund, foresees the recovery of degraded permanent preservation areas in six municipalities in the state of Mato Grosso, including Alta Floresta. It is worth noticing, therefore, that both projects will act on distinct areas of the municipality. Read more about the IOV project on page 131.

FIGURE 12: LOCATION OF ALTA FLORESTA (MT)



FIGURE 13: THE PROJECT IN DETAIL



## PROJECT RECUPERA MARCELÂNDIA

TERRITORIAL RANGE	Municipality of Marcelândia, state of Mato Grosso
RESPONSIBLE FOR THE PROJECT	Municipality of Marcelândia, state of Mato Grosso <a href="http://www.marcelandia.mt.gov.br">www.marcelandia.mt.gov.br</a>
BENEFICIARIES	Rural producers and local population
OBJECTIVE	To support the strengthening of municipal environmental management and the recovery of degraded areas surrounding fifty springs in the sub-basin of the Manissauá-Missu River, located near the urban zone of the municipality.
TOTAL VALUE OF THE PROJECT	R\$ 686,630.30
VALUE OF THE AF SUPPORT	R\$ 669,126.00 (US\$ 401,588.04)
SITUATION ON 12/31/2010	Approved
VALUE DISBURSED	-

### Contextualization

The municipality of Marcelândia is located to the north of the state of Mato Grosso, in the area of highway BR-163 (Cuiabá-Santarém) and integrates the Portal Territory of the Amazon.<sup>24</sup> It is made up, mainly, of large and medium-sized properties (84% of the total area), and the rest of the territory is divided into family agriculture (3%), settlements (1%) and indigenous land (12%).

The environmental situation in Marcelândia is similar to that in other municipalities in the north of the state, which suffer from a swift expansion of occupation, basically through cattle-raising and uncontrolled timber exploration.<sup>25</sup> However, the deforestation process over the last few years – Marcelândia is one of the 43 municipalities that integrate the Arco Verde Operation<sup>26</sup> – is being gradually reduced. In 2009, the deforestation index registered a zero variation in relation to the previous year.<sup>27</sup>

<sup>24</sup> The Amazon Portal comprises 16 municipalities: Alta Floresta, Apiacás, Carlinda, Colíder, Guarantã do Norte, Marcelândia, Matupá, Nova Bandeirantes, Nova Canaã do Norte, Nova Guarita, Nova Monte Verde, Nova Santa Helena, Novo Mundo, Paranaíta, Peixoto de Azevedo and Terra Nova do Norte.

<sup>25</sup> Despite the volume of extracted timber logs, some 70% of Marcelândia still has remaining native forests. Source: [www.territoriosdacidadania.gov.br](http://www.territoriosdacidadania.gov.br).

<sup>26</sup> More information on Arco Verde Operation on page 34.

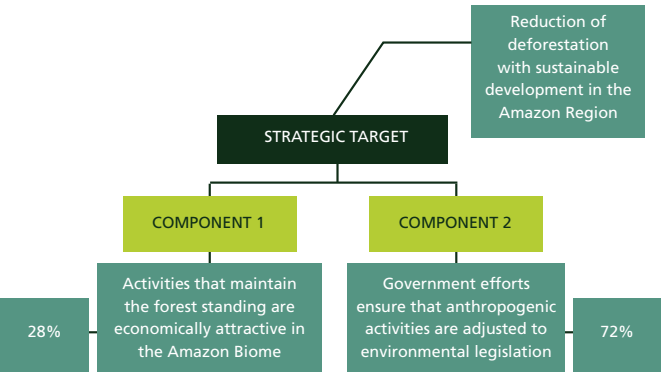
<sup>27</sup> Inpe data.



**INTERVENTION LOGIC**

The project in the municipality of Marcelândia is divided in two efforts: institutional strengthening of the Municipal Environment and Tourism Secretary, and the recovery of river bank vegetation in approximately fifty springs in the sub-basin of the Manissauá-Missu River, by planting seeds and saplings which will be produced in the municipal nursery.

**FIGURE 14: INTERVENTION LOGIC**



In the first efforts in the project, the Municipal Environment and Tourism Secretary will be equipped and its technicians will be trained to use geo-technology tools, which will allow computerized processing of geo-referenced data, in other words, the use of computer programs that integrate cartographical (maps, blueprints, topographic letters etc.) to data that can be associated with them (such as productive activities, natural resources, and the population).

The second effort will take on the problem if degraded and deforested areas, especially spring areas. According to data presented by the Municipal Environment and Tourism Secretary, of the 1,300 existing springs in the municipality, approximately 370 (28%) are completely degraded.

Included are environmental diagnosis of the areas to be recovered and capacity-building in the local community, in addition to the implementation of an environmental recovery unit of a demonstrative nature on one of the properties so that the model can be replicated by the other rural owners in the municipality.

#### *Expected results*

- *Strengthening of monitoring efforts and control in the municipality, which is on the list of the 42 municipalities with the largest deforestation rates in the Amazon.*
- *Recovery of 157 hectares of permanent preservation area around fifty springs considered degraded.*

#### *Municipality of Marcelândia*

*Located 712 km from Cuiabá, Marcelândia has an area of 12.294 km<sup>2</sup> and a population of 11,994 inhabitants.*

*The Municipality Human Development Index (IDH-M) of Brazilian Municipalities, measured in 2000 by the PNUD, showed Marcelândia (MT) had a value of 0.771, which corresponds to an average index.*

*In 2008, the GDP of Marcelândia was R\$ 162.5 million, while the GDP per capita was R\$ 11,200.*

*In 2009, there were around 208,000 head of cattle in the municipality, representing 17 head of bovine cattle per inhabitant.*

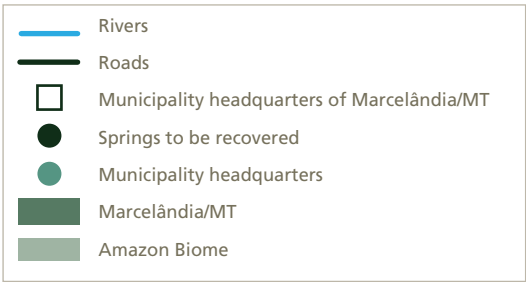
*Source: IBGE.*

*The Marcelândia project will encompass the recovery of 50 springs in the Manissauá-Missú River sub-basin in a radius of approximately 18 km around the urban area. The benefited properties possess 22,000 hectares, where there is dairy and beef cattle as well as family agriculture. The scope of the project was defined geographically, focusing on the region with the most altered usage of the soil, as shown by Municipality Environmental Zoning. This is because it is where the occupation of Marcelândia started, and where, therefore, the largest concentration of the population and highest deforestation rate is.*

FIGURE 15: LOCATION OF MARCELÂNDIA (MT)



FIGURA 16: LOCATION OF SPRINGS



## PROJECT SECRETARIA DO ESTADO DO MEIO AMBIENTE E DESENVOLVIMENTO SUSTENTÁVEL DO ESTADO DO AMAZONAS

TERRITORIAL RANGE	Municipalities to the south of the state of Amazonas (Boca do Acre, Lábrea, Apuí, and Novo Aripuanã)
RESPONSIBLE FOR THE PROJECT	State of Amazonas www.sds.am.gov.br
BENEFICIARIES	Population of Boca do Acre, Lábrea, Apuí, and Novo Aripuanã
OBJECTIVE	To support the strengthening of environmental management in areas of intense deforestation pressure in the state of Amazonas by elaborating legal references for registration (CAR); by motivating environmental and land-title regularization; by optimizing the mechanisms for environmental licensing and monitoring, and by recovering deforested areas via reforestation with economic and ecological goals
TOTAL VALUE OF THE PROJECT	R\$ 20,000,000.00
VALUE OF SUPPORT	R\$ 20,000,000.00 (US\$ 12,003,360.94)
TERM FOR EXECUTION	36 months (from the contracting date)
SITUATION ON 12/31/2010	Contracted (12.17.2010)
VALUE DISBURSED	-

### Contextualization

The state of Amazonas has the largest forestry asset in Brazil. It is 140 million hectares of native forests and approximately 52% of the territory is legally protected, comprising 28% of indigenous land, 12% of state UCs and 12% of federal UCs. It has the lowest deforestation rate in the Amazon Region (approximately 2%), although the municipalities located to the south of the state show high rates of deforestation. Among the main causes are: migratory pressure from neighboring states; the need for integrated policies aimed at sustainable development in the region; the initial land-title regularization; as well as the lack of control and permanent environmental inspection.

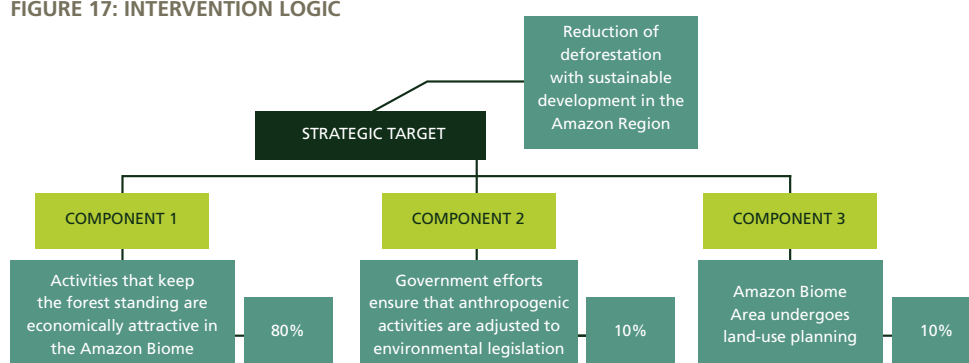
### INTERVENTION LOGIC

The Amazon project will carry out local efforts in four municipalities in the south of the state – Boca do Acre, Lábrea, Apuí, and Novo Aripuanã –, which show relevant deforestation rates.

The first effort aims to strengthen environmental management by elaborating technical norms to establish and implement CAR and Environmental Licensing of Sustainable Production in the four municipalities.

The second effort will consist of land-title regularization in state areas, in the municipalities of Boca do Acre and Novo Aripuanã, targeting approximately 800 properties. This regularization consists of registration, a social and economic background check, inspection, formalization of any lawsuits, concession of provisional title, topographical demarcation, geo-referencing, and concession of definitive title.

FIGURE 17: INTERVENTION LOGIC



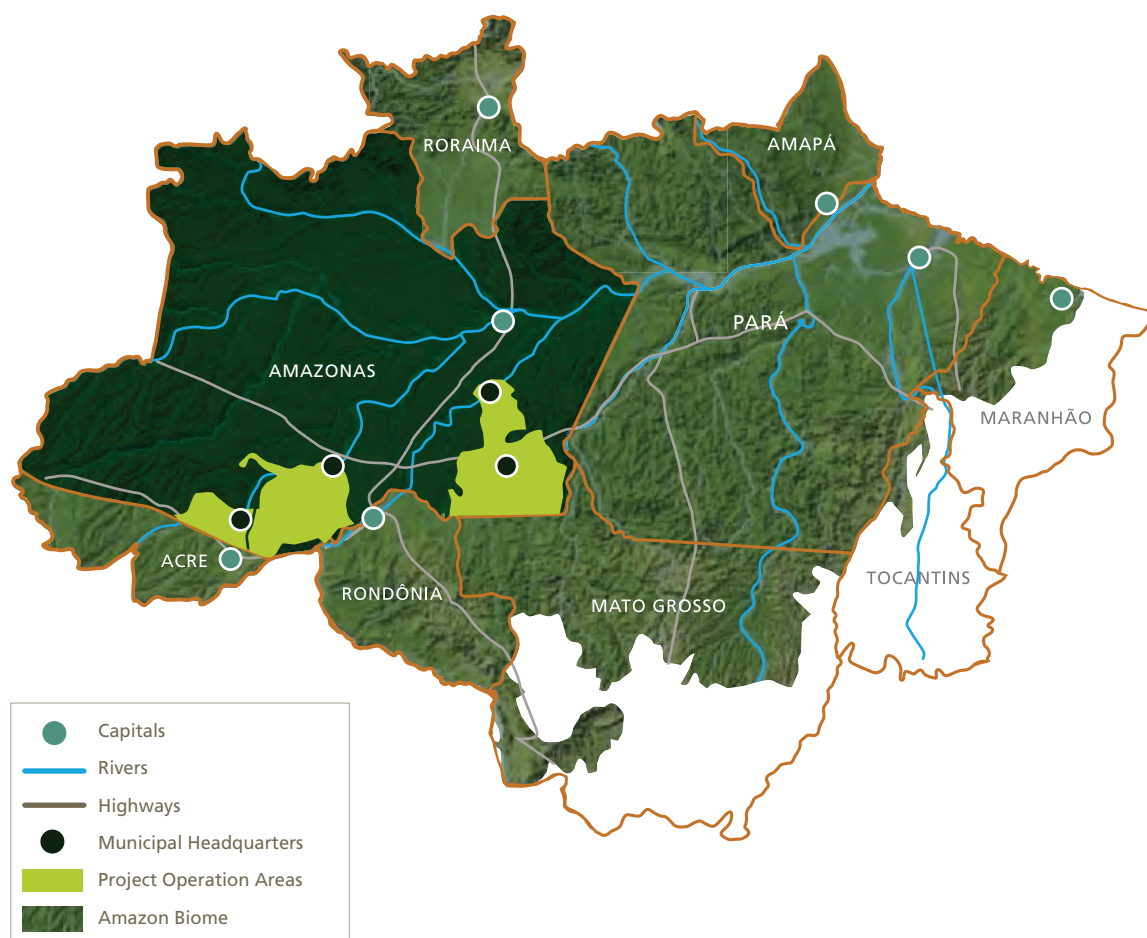
The objective of the third effort is to recover deforested areas through reforestation with species that have economic and ecological aims. For this, awareness workshops with local companies, capacity-building, and technical support will be carried out through sustainable use and management of natural resources, using demonstration units where producers may observe implementation methods and the results of agro-forest systems.

The project will be implemented by the State Environmental and Sustainable Development Secretary (SDS), in partnership with the Institute of Agricultural and Cattle-Farming and Sustainable Forest Development of the State of Amazonas (Idam), the Institute of Environmental Protection of Amazonas (Ipaam), the Institute of Lands of Amazonas (Iteam), municipal environmental secretaries, municipal secretaries of rural production, and other specialized departments in environmental recovery.

### Expected results

- *Recovery of degraded areas through reforestation with ecological and economical aims.*
- *Promotion of land-title regularization of 800 properties on state-owned lands under intense deforestation pressure.*
- *Improvement of environmental licensing process.*

FIGURE 18: PROJECT'S INTERVENTION AREAS



## PROJECT VALORIZAÇÃO DO ATIVO AMBIENTAL FLORESTAL

TERRITORIAL RANGE	State of Acre
RESPONSIBLE FOR THE PROJECT	Government of the State of Acre www.ac.gov.br
BENEFICIARIES	Settled families and family farmers
OBJECTIVE	To foster sustainable practices to reduce deforestation with payment for environmental services, adding value to the environmental and forest assets to consolidate a clean, fair, and competitive economy, based on Ecological Economical Zoning
TOTAL VALUE OF THE PROJECT	R\$ 66,700,000.00
VALUE OF THE SUPPORT	R\$ 60,000,000.00 (US\$ 36,010,082.82)
TERM FOR EXECUTION	36 months (from the contracting date)
SITUATION ON 12/31/2010	Contracted (11/19/2010)
VALUE DISBURSED	-

### Contextualization

The state of Acre is one of the most active in implementing integrated environmental and territorial management, besides acquiring effective instruments to foster an economy that sustainably incorporates forest products and services. The main example of this line of action is Ecological Economical Zoning (ZEE), elaborated on a scale of 1:250.000, which guides government efforts and establishes specific zones for environmental conservation and protection, identifying the areas for promotion and for forest, agriculture and farming, and agro-forest management. Also worth mentioning is the strengthening of the production sector for natural rubber with payment for environmental services for extractors (Chico Mendes Law),<sup>28</sup> and the aggregate value of latex, with the settling of a prophylactic factory – the only one in the world to use latex from native rubber trees. The factory produces currently one hundred million prophylactics per year.

<sup>28</sup> State Law N° 1,277/99, enforced in the state of Acre, which pays rubber producers a subsidy for environmental services rendered – the value of R\$ 0.70 per kilo of commercialized rubber.



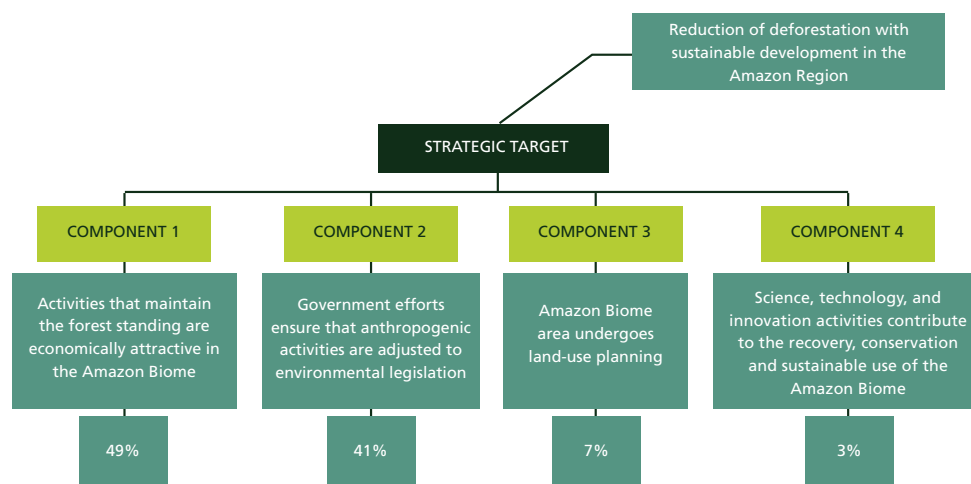
Deforestation in the state of Acre has dropped over the past years. According to the Amazon Deforestation Calculation Program (Prodes), used by the National Institute of Space Research (INPE), Acre showed a reduction of 54% in deforestation between 2005 (592 km<sup>2</sup>) and 2010 (273 km<sup>2</sup>). Still, some factors that represent a threat of the return of local deforestation can be identified, such as increased participation of small properties in deforestation, using inappropriate techniques in crops, a rise in the incidence of burn-offs, limited capacity of control and inspection departments, and management processes are still too centralized.

Besides structuring policies that foster land-use planning and strengthening production sectors, the Acre government instated the Appreciation Policy of the Environmental Asset, aiming to establish basic guidelines to implement payment mechanisms for environmental services. Starting in September of 2008, this policy is being implemented via a united strategy on municipal and state levels, involving secretaries and municipalities that comprise the sustainable development area of the state government, in articulation with city councils and organized social movements.

#### **INTERVENTION LOGIC**

The aim of the project in the state of Acre is to support the appreciation policy of the environmental and forest assets by strengthening integrated territorial management, by fostering forest and agro-forest production sectors and by technically and financially motivating environmental services. This plan is being implemented according to the principle that payment for environmental services (financial and economic incentives) is linked to the adoption of sustainable practices and environmental criteria.

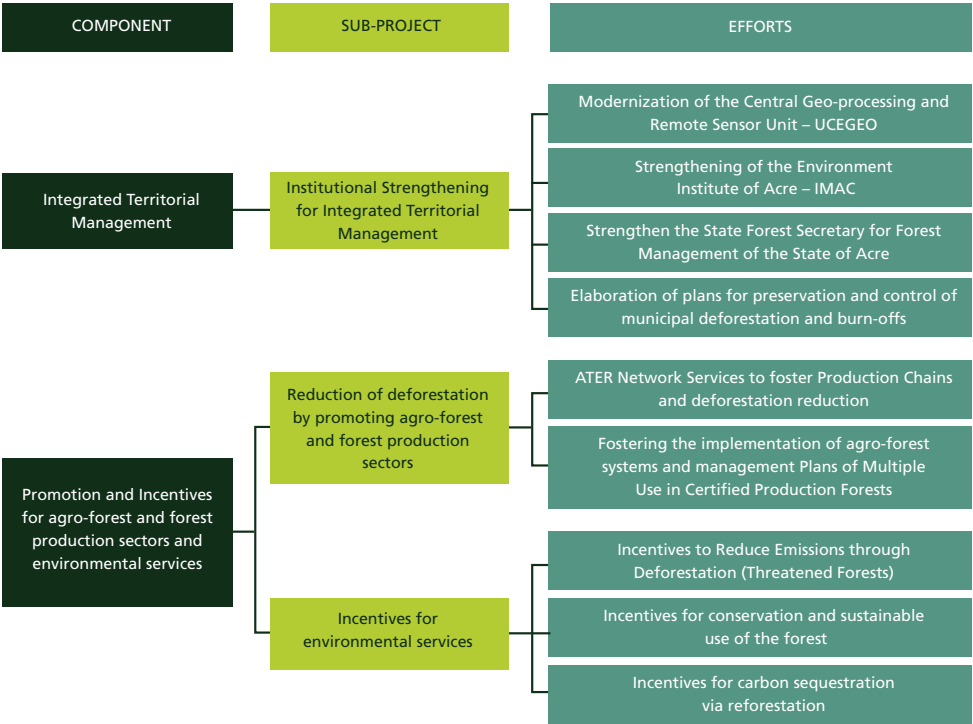
FIGURE 19: INTERVENTION LOGIC



The continuous containment and decrease in deforestation in the state requires optimizing the monitoring, control, and inspection system of altered areas by strengthening technical bases in the institutions responsible for territorial management. This includes modernizing the Central Geo-processing and Remote Sensor Unit (Ucegeo), strengthening the Environment Institute of Acre (Imac) and the State Secretary of Forests of the State of Acre (SEF) as well as elaborating and implementing Municipal Plans for Prevention and Control of Deforestation.

The plan also establishes the structuring of incentives for environmental services, aimed at inserting and consolidating sustainable production practices, at forest management of timber and non-timber products; and at carbon capturing through reforestation of degraded areas. Supporting the adoption of sustainable production practices includes elaborating support mechanisms for involved communities, family producers, and rural owners, such as the Community Development Plan, Indigenous Land Management Plan, Sustainable Property Certification Plan, and the Environmental Damage Regularization Plan.

FIGURE 20: STRUCTURE OF THE PROJECT



### **ZEE in the state of Acre**

*Elaboration of the territorial management map involved “stratification” of the Acre territory in four large zones, which present the following general characteristics:*

#### *Zone 1 – Consolidation of sustainable production systems*

*These are areas that are directly influenced by the BR-364 and BR-317 highways, with the oldest occupation in the state of agro-farming and timber activities. They are also associated to the new fronts of expansion and conversion of forest areas to develop agro-farming activities. These are areas occupied by family agriculture in settlement projects, small producers, medium-sized and large cattle farmers as well as forest areas with large rubber trees.*

#### *Zone 2 – Sustainable use of natural resources and environmental protection*

*These are protected areas in the form of Whole Protection Conservation Units and Sustainable Use and Indigenous Lands. The Differentiated Settlement Projects are included in this zone since its population depends on extraction activities and the sustainable use of natural resources is predominant.*

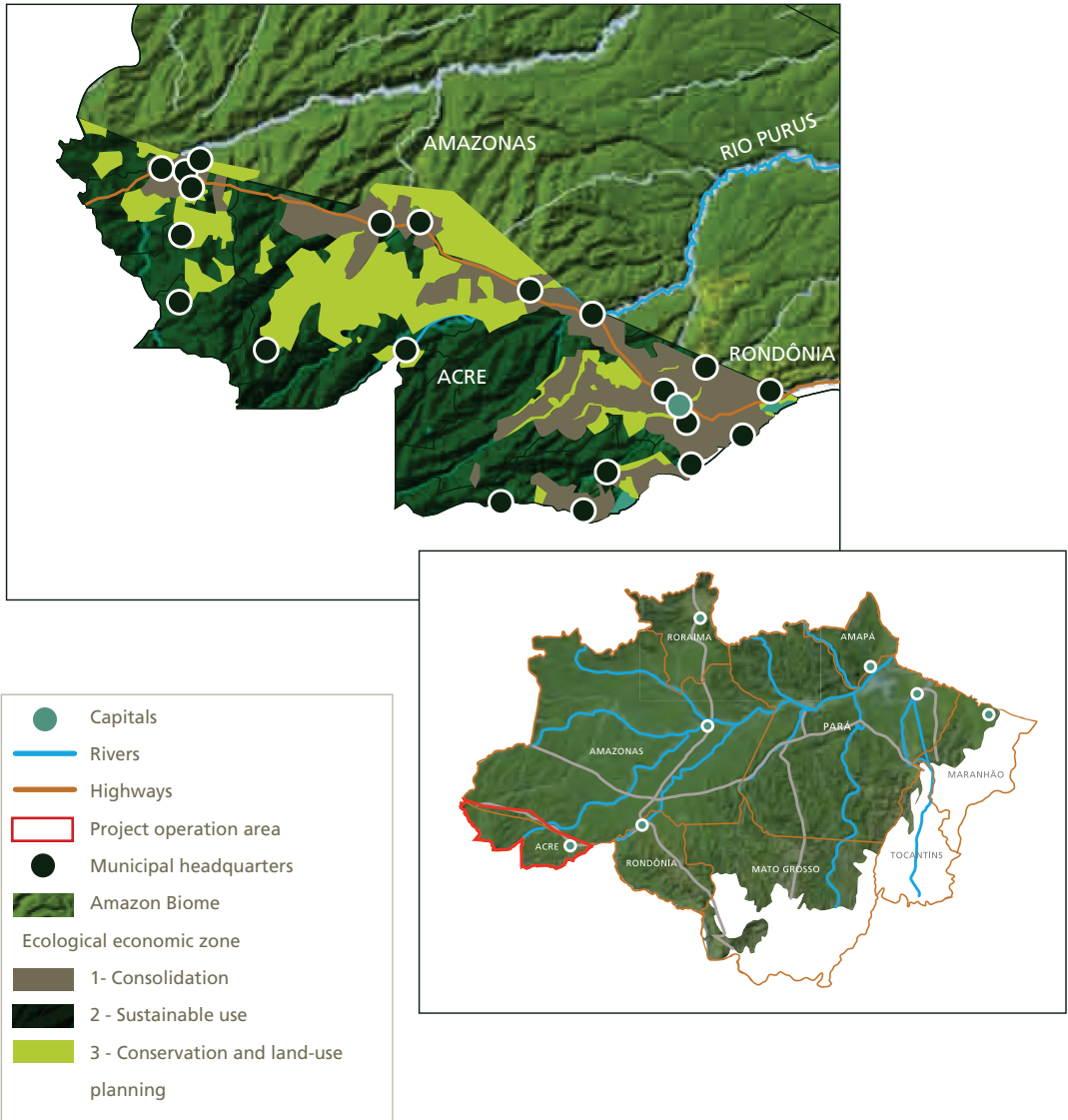
#### *Zone 3 – Priority areas for land-use planning*

*Areas claimed by traditional populations and/or recommended by technical studies of the ZEE-Acre to create new conservation units, indigenous lands, and differentiated settlement projects.*

#### *Zone 4 – Forest cities*

*These are municipality areas characterized by urban spaces surrounded by different rural landscapes with the predominance of forests. The criteria for the stratification of the 22 cities in the state of Acre into sub-zones is their insertion into the hydrographic sub-basins.*

FIGURE 21: ECOLOGICAL ECONOMIC ZONING IN THE STATE OF ACRE



## PROJECT BOLSA FLORESTA

TERRITORIAL RANGE	20 State Conservation Units in Amazonas, covering approximately 10 million hectares
RESPONSIBLE FOR THE PROJECT	Sustainable Amazon Foundation <a href="http://www.fas-amazonas.org">www.fas-amazonas.org</a>
BENEFICIARIES	Population of the Conservation Units served by the project, rising from 14 to 20 UCs by 2013
OBJECTIVE	To foster the containment of deforestation and improve the standard of living of traditional populations, residents in the State Conservation Units of Amazonas
TOTAL VALUE OF THE PROJECT	R\$ 29,934,645.00
VALUE OF THE SUPPORT	R\$ 19,169,087.00 (US\$ 11,504,673.51)
TERM FOR EXECUTION	60 months (from the contracting date)
SITUATION ON 12/31/2010	Contracted (3/31/2010)
VALUE DISBURSED	R\$ 3,999,208.00 (20.9%)

### Contextualization

The state of Amazonas maintains around 98% of its forest coverage. The so-called “forest heart” of the biome remains well preserved, in good measure considering the low rates of deforestation which are usually high due to colonization projects, roadways, and predatory activities such as timber exploration and cattle-farming. On the other hand, traditional and indigenous populations occupying expressive areas play an active role in conserving their territories. In the state of Amazonas, almost half of the surface of the state is under some form of protection.

Nevertheless, creating conservation units does not guarantee environmental preservation. Various other initiatives are needed, such as management, inspection, and mainly, appreciation of the forestry assets, so that maintenance is attractive. In the case of the units of sustainable use, this depends on the involvement and the improvement of the population’s standard of living, by means of social policies that are adjusted to their reality, community strengthening, and an increase in the possibility of generating income with sustainable activities.

It must be considered that there are pressures from predatory activities, represented by the belt of deforestation, mainly in the south of the state. Besides this,



the lack of sustainable economic alternatives makes deforestation one of the survival strategies in the region.

#### **INTERVENTION LOGIC**

The Bolsa Floresta Program (PBF) recognizes, values, and rewards the traditional population that has undertaken the formal commitment to zero deforestation.

The PBF promotes the direct transfer of income to the families that join the agreement to no longer practice deforestation. It is a vast system which concedes benefits, structured in a way that motivates the forming of associations, income, sustainable production, and basic social services, via its four components: Income, Social, Association, and Family.

Furthermore, support programs are being implemented, aimed at implementing efforts of a structuring character, divided into five areas: sustainable production, health and education, inspection and monitoring, management of conservation units, and scientific development.

Contributions to the project are distributed in the following manner: 58% to the Income component, 10% to the Association component, with the support of the Amazon Fund, and 32% to support program efforts, with counterpart resources.



FIGURE 22: PROJECT'S INTERVENTION AREAS





### **The four components of the Bolsa Floresta Program**

#### ■ **BOLSA FLORESTA – INCOME (BFR)**

*This is earmarked to support sustainable production: fish, vegetable oils, fruit, honey, and nuts, among others. The goal is to promote production systems and the certification of products that increase the value received by the producer. Eligible activities include all those that do not produce deforestation, that are legalized, and that add value to the standing forest.*

*Investment Examples: warehouse infrastructure, boats and tractors to transport production.*

#### ■ **BOLSA FLORESTA – SOCIAL (BFS)**

*This is earmarked to improving education, health, communication, and transportation, basic components for the construction of citizenship for forest residents. Efforts are developed in partnership with the government departments responsible and other institutions.*

*Investment Examples: radios, to facilitate emergency calls, and ambulance boats, to move patients from isolated locations.*

#### ■ **BOLSA FLORESTA – ASSOCIATION (BFA)**

*This is aimed at associations of residents in the UCs, equivalent to 10% of the total of all Bolsa Floresta – Family. Its aim is to promote participative management by strengthening community organization, the communities themselves and the social control of the Bolsa Floresta Program, aiming at implementing UCs.*

*Investment Examples: construction of headquarters and association kits (computer, printer, solar energy kit, and motorboat).*

#### ■ **BOLSA FLORESTA – FAMILY (BFF)**

*The aim is to involve resident families and users of the state UCs in reducing deforestation and adding value to the standing forest. This category also seeks to promote the understanding of the economic and environmental reality to improve the efficiency in the application of resources and in the assessment of the investments' results.*

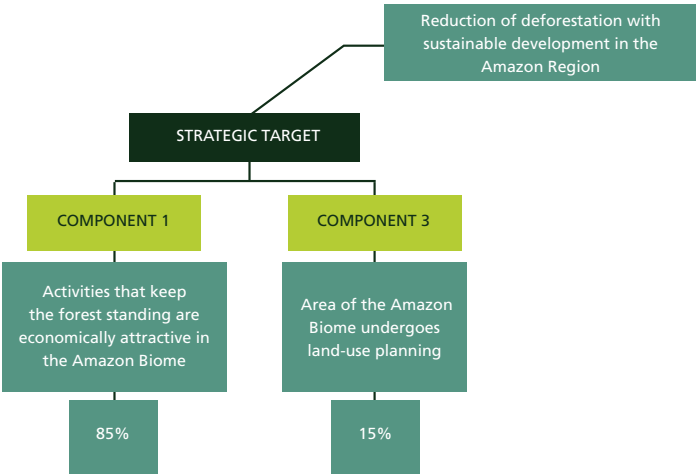
*In practice, it is the payment of a monthly amount of R\$ 50, given to the mothers*

of families residing in the UCs, who are willing to undertake a commitment to environmental conservation and sustainable development. The BFF is not a salary and does not intend to become the main source of income for the families. It is an income supplement paid in exchange for conserving the forest.

Observation: Among the components of the Bolsa Floresta Program, the Amazon Fund carries resources in the BFR and the BFA.

Source: FAS.

FIGURE 23: INTERVENTION LOGIC



*Expected Results*

- Serving 3,950 new families, making a total of 10,000 families benefited by the Bolsa Floresta.
- Expanding the number of UCs included in the program from 14 to 20.

## PROJECT SEMENTES DO PORTAL

TERRITORIAL RANGE	Eight municipalities that comprise the region known as the Portal of the Amazon, in the extreme north of the state of Mato Grosso: Apicás, Alta Floresta, Carlinda, Nova Guarita, Nova Canaã do Norte, Terra Nova do Norte, Peixoto de Azevedo and Matupá
RESPONSIBLE FOR THE PROJECT	Ouro Verde Institute <a href="http://www.ouroverde.org.br">www.ouroverde.org.br</a>
BENEFICIARIES	Settled families, family agriculture, and the Terena indigenous community in the state of Mato Grosso
OBJECTIVE	To foster environmental recovery of 1,200 hectares of degraded areas (restoration of permanent protection areas and legal reserves) and the re-appreciation of family agriculture in six municipalities in the Portal Territory of the Amazon, by diffusing agro-forest systems, which combine the sustainable use of the forest with the generation of income. Additionally, the Terena indigenous community will be enabled to collect seeds that will be used in the agro-forest systems
VALUE OF THE PROJECT	R\$ 5,433,450.00
VALUE OF THE SUPPORT	R\$ 5,433,450.00 (US\$ 3,260,983.08)
TERM FOR EXECUTION	36 months (from the contracting date)
SITUATION ON 12/31/2010	Contracted (3/25/2010)
VALUE DISBURSED	R\$ 1,334,750.00 (24.6%)

### Contextualization

In many cases, the occupation of land in the Amazon Region demonstrates a certain pattern, characterized by deforestation, inadequate use and abandonment. The areas are occupied in a disorderly and intense fashion by specific activities (timber, gold-digging, cattle) that temporarily generate value and attract a population, to later be practically abandoned. In the Portal of the Amazon area, located in the extreme north of the state of Mato Grosso, this occupation process was no different, going through cycles of gold, timber, and cattle.

The result was increased deforestation, which compromised even permanent preservation areas, with grave damage to environmental services rendered, especially referring to water resources, concentration of income and land, as well as economic and social fragility of the entire region. It is estimated, for example, that over 30% of

grazing lands in the region (around 300,000 hectares) are completely degraded, with a significantly low capacity to continue raising cattle.

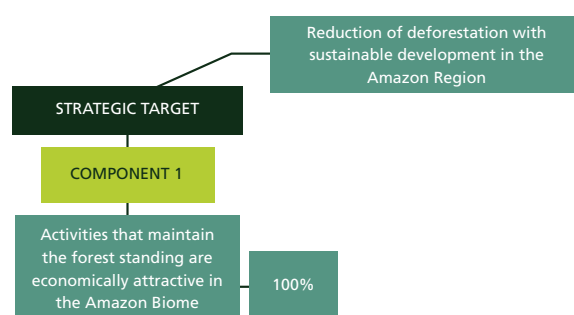
In rural settlements, this dynamic adds to the inadequate and disorganized manner that they were implemented, with no environmental diagnosis of the areas to be occupied, many of them extremely degraded, with no technical or credit support that would enable farmers to adopt agricultural practices that were more adequate for the region and also learn to value and manage the forest's resources.

Other problems faced by these farmers include social disarticulation, the pressure to sell land from large farmers and the lack of knowledge when it comes to alternative sustainable economic activities. The growing effort of public authorities for people to abide by environmental legislation made the environmental damage of a large portion of these properties most evident, which represents an additional challenge, due to the lack of technical support in elaborating projects for environmental recovery and associated costs.

### INTERVENTION LOGIC

The Sementes do Portal Project plans to operate within this context, aiming to recover degraded areas by structuring social and technological bases that allow involved family farmers to continue the process of environmental recovery on their own. It is an effort in synch with recent discussions held in the state of Mato Grosso involving the recovery and the reforestation of degraded areas (state plan to combat deforestation and burn-off).

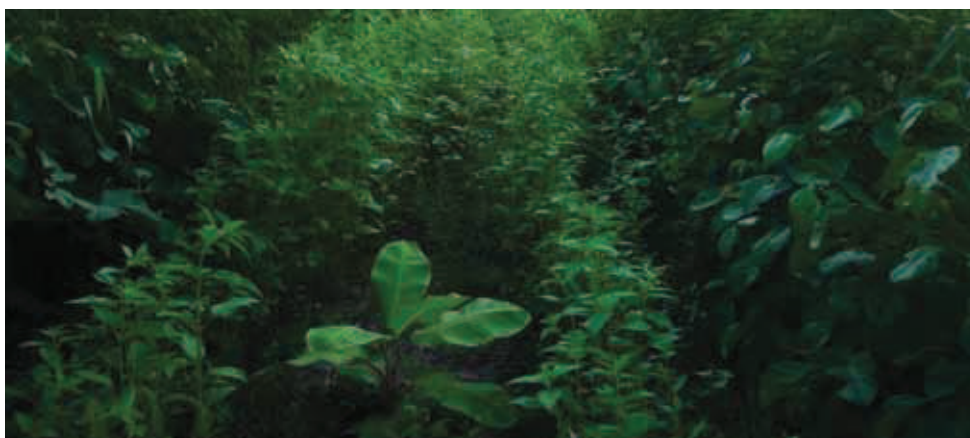
FIGURE 24: INTERVENTION LOGIC



The use of Agro-forestry Systems (SAFs) to promote the environmental recovery of degraded areas aims to adapt properties to environmental legislation; to protect and add value to environmental services rendered in these areas, especially the maintenance of water courses; to develop an economic alternative activity for the property; and to strengthen the nutrition security of families.

In the long term, the project aims at strengthening another way for farmers relate to the land, by adding value to the forest, introducing concepts and techniques, such as the muvuca (agro-forest implementation technique by multi seed planting and managing several species of forest and agricultural seeds) and by discussing the need for practices that are harmful to the environment, such as burn-offs as well as the intensive use of pesticides and fertilizers.

In a complementary way, the project also aims at promoting the collection of native seeds as an important economic alternative in the region, within environmental practices and parameters that are attuned to the sustainable reproduction of forest resources, minimizing the impacts caused by the activity. This will happen by implementing seed houses and strengthening a network of collectors that share technical and traditional knowledge on the subject. The participation of the Terena ethnic group in this activity will be of fundamental importance for their area is well preserved and maintains many forest species that are hard to find in the region.



### **Expected results**

- Recover 1,200 hectares of degraded areas including APPs and Legal Reserves.
- Implement a collection, storage, and seed distribution network.

### **Muvuca technique**

*In the muvuca technique, or a mix of seeds, tree seeds are planted in high density, that is, ten trees per square meter. The seeds of the trees, after the "break of dormancy", are mixed with soil and humidified, in a consistency of crumbs, that is then distributed, in lines, in the land.*

*For good distribution in the field, the mix of seeds that was prepared, for example, for six lines of planting, can be divided into six small mounds, in a way that, in each line, a little mound is distributed.*

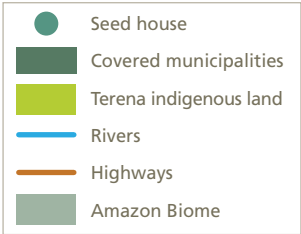
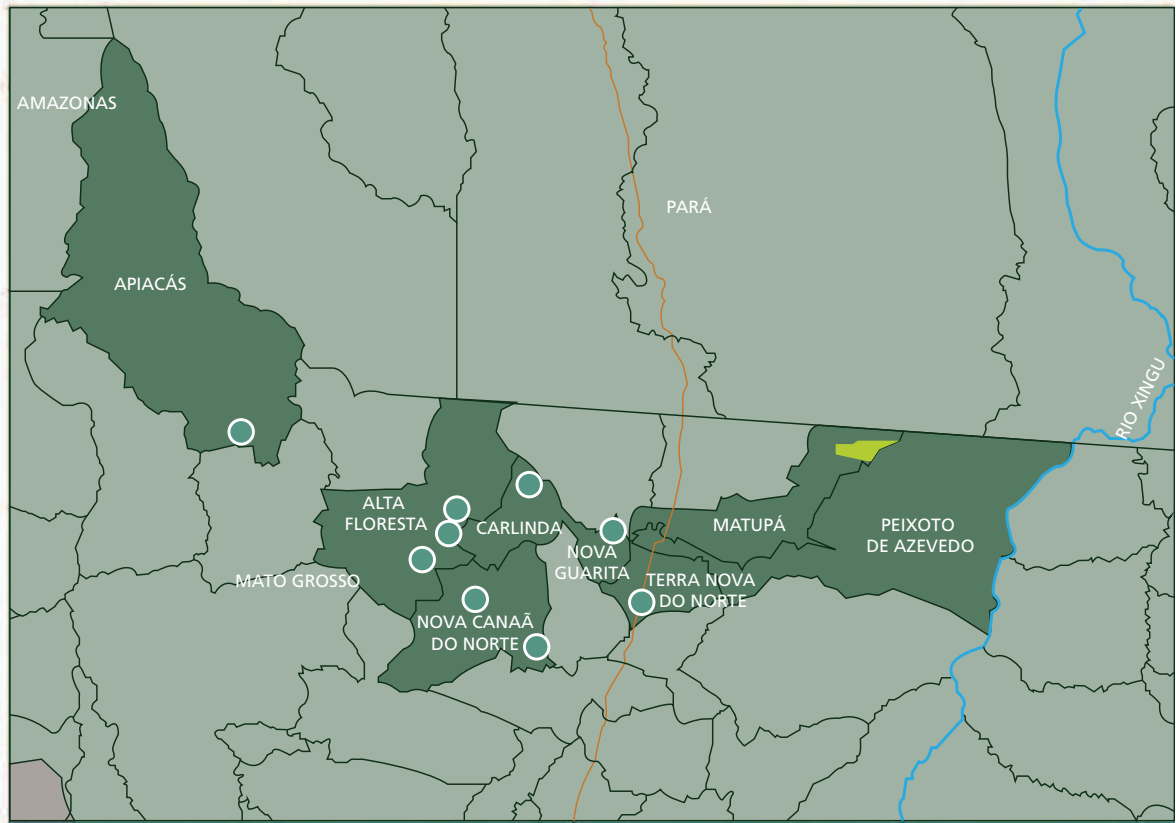
*The tree seeds can easily sprout, or they may take quite a while to do so, which is known as dormancy. This is a way that plants guarantee that seeds survive for a long period in the ground, waiting for the best environmental conditions to sprout. To accelerate sprouting, there are ways of "breaking the dormancy" of the seeds. For hard seeds, sanding, scraping, or carefully cutting the skin, creating a small opening are recommended methods. The cut should be made always in the opposite side of the aril (the "eye" where the sprout comes out). Another way is to provoke a thermal shock in the seed, dipping it into hot water for a minute (up to 80°C) and into cold water after. In all cases, it is recommended to leave the seed for 24 hours in water before planting, at room temperature, so that the water is absorbed by the seed.*

*Source: Letter Freedom and life with agro-forests.*

FIGURE 25: PROJECT'S INTERVENTION AREAS



FIGURE 26: THE PROJECT IN DETAIL





## PROJECT DISSEMINAÇÃO E OTIMIZAÇÃO DAS TÉCNICAS DE MANEJO FLORESTAL SUSTENTÁVEL

TERRITORIAL RANGE	States of Pará, Amazonas and Rondônia
RESPONSIBLE FOR THE PROJECT	Floresta Tropical Institute <a href="http://www.ift.org.br">www.ift.org.br</a>
BENEFICIARIES	Workers of the timber and forest sector and heavy machine operators, forest communities and small rural producers, government agents, engineers, auditors, business men, researchers, and forest students in high schools and universities
OBJECTIVE	To support the expansion of sustainable forest management via technical capacity-building, awareness-building of the key players and workers as well as applied research
TOTAL VALUE OF THE PROJECT	R\$ 12,498,000.00
VALUE OF THE SUPPORT	R\$ 7,449,000.00 (US\$ 4,470,651.78)
TERM FOR EXECUTION	36 months (from the contracting date)
SITUATION ON 12/31/2010	Approved
VALUE DISBURSED	-

### Contextualization

Strengthening sustainable forest management in the Amazon Biome, both the corporate format and that practiced by traditional communities, is one of the main policies for adding value to the forestry assets in the region, or, as is often said, that promote the maintenance of the standing forest. The practice has highlighted the environmental benefits (by minimizing the impact of the timber activity), social (by providing an increase in the offer of work and in the income of communities and workers in the sector) and economic (by increasing the still underdeveloped legally managed or certified timber market, aiming to make it a real alternative to the illegal timber market and other uses of the land).

The new forest policy, implemented from the creation of the Brazilian Forest Service and the approval of the Public Forest Management Law, is an important step in this direction and will enable access to the expressive stock of timber in the region, responsibly promoting forest trade. One of the main bottlenecks pointed out by specialists that could hinder the ample success of this policy is the lack of skilled labor to implement good forest management practices in the Amazon.

Activities involved in management are not restricted to the period of timber extraction, but include also preparatory and post-preparatory stages, including planning, execution, and monitoring of the activities. Estimations point to a need for at least 5,000 skilled professionals over the next ten years.

In addition to the critical issue of the lack of skilled personnel, another challenge to the development of a sustainable timber economy is the lack of knowledge concerning the economic, social, and environmental advantages of sustainable forest management and the need to generate and disseminate technical know-how in order to continuously optimize its potential environmental and economic benefits.

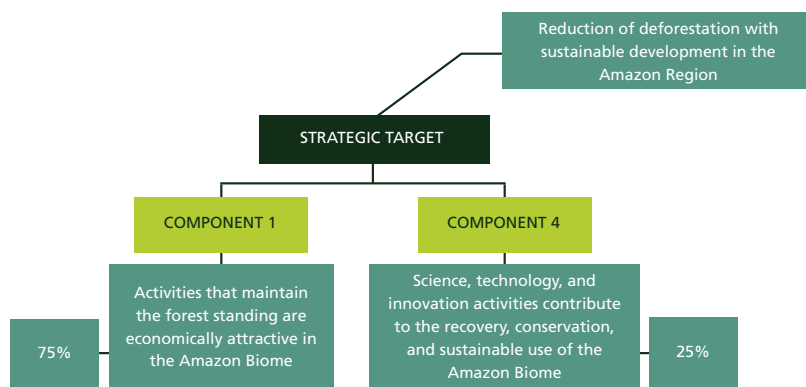
#### **INTERVENTION LOGIC**

The Tropical Forest Institute is a reference in sustainable forest management in the Amazon, having been in the region for 15 years. It operates mainly in capacity-building, awareness, and research of the various components involved in forest management, especially developing and validating techniques for Reduced Impact Exploration (EIR) which are adapted to tropical forests.

The project seeks to reduce the chronic lack of labor in forest management in the region, as well as changing the perception of the sector regarding the advantages of adopting best practices in timber exploration in comparison to conventional exploration. These objectives will be reached by strengthening the institution's activities in capacity-building and awareness by means of courses on location and off location, events and production of technical literature.

Another important aspect of the project aims to improve social, economic, and ecological sustainability for forest management by increasing its technical and scientific base. The development of applied research, as well as the disclosure of resulting know-how and technologies, is fundamental to the quality of services rendered, besides contributing to the improvement of society's perception (including economic and institutional factors, academia, and social movements) concerning the benefits and challenges of forest management.

FIGURE 27: INTERVENTION LOGIC



#### Stages in sustainable forest management

- *Planning of pre-exploratory activities*
  - macro-planning;
  - delimitation of plots (area of annual exploration);
  - forest inventory;
  - data analysis; and
  - planning and construction of yards and forest roads.
- *Exploratory activities*
  - selection and signaling of trees to explore and seed carrying trees;
  - directional cutting of trees;
  - planning of drag and log drag;
  - operations in the yard; and
  - forest transport.
- *Post-exploratory activities*
  - silviculture treatments to speed up forest recovery;
  - assessment of damage and exploration waste;
  - monitoring of forest growth; and
  - maintenance of infrastructure.



EFFORTS	EXPECTED RESULTS
Capacity-building and training	<p>Conducting between 60 and 70 capacity-building courses in the Roberto Bauch Forest Training Center (CT), covering a total of 900 people in the CT.</p> <p>Conducting 40 capacity-building courses in the forests of family producers, communities, or small companies, covering a total of 400 people.</p>
Awareness	<p>Conducting from 40 to 70 awareness-raising events on conservation and forest management, covering a total of 2,100 people.</p> <p>Producing technical literature for disclosure on management, such as folders, bulletins, and news letters, besides a simplified disclosure manual on forest management.</p>
Applied research	<p>Conducting 12 experiments in applied research.</p> <p>Elaborating technical literature with results from applied research, such as scientific articles and a technical manual on forest management.</p>

FIGURE 28: PROJECT'S INTERVENTION AREAS



## PROJECT IMAZON – INSTITUTO DO HOMEM E MEIO AMBIENTE DA AMAZÔNIA

TERRITORIAL RANGE	11 municipalities in the state of Pará
RESPONSIBLE FOR THE PROJECT	Imazon <a href="http://www.imazon.org.br">www.imazon.org.br</a>
TARGET PUBLIC/BENEFICIARIES	Total population of the 11 municipalities (482,000 inhabitants according to the estimate in 2008)
OBJECTIVE	To mobilize state and municipality governments, rural producers, unions and associations aiming at accelerating the adhesion to CAR (Rural Environmental Registration); to monitor deforestation via satellite images; and to help plan the landscape and restoration of degraded areas in the Uraim and Paragominas River basins
TOTAL VALUE OF THE PROJECT	R\$ 9,736,473.00
VALUE OF THE SUPPORT	R\$ 9,736,473.00 (US\$ 5,843,519.99)
TERM FOR EXECUTION	36 months (from the contracting date)
SITUATION ON 12/31/2010	Contracted (7.29.2010)

### Contextualization

Pará is one of the federation states with the highest deforestation rate, according to 2009 data from the National Spatial Research Institute (Inpe). Deforestation in the state covers an area of 245,000 km<sup>2</sup>, corresponding to 20% of its territory. A total of 11 municipalities in the state will be benefited by the project: Abel Figueiredo, Bom Jesus do Tocantins, Breu Branco, Dom Eliseu, Goianésia do Pará, Itupiranga, Jacundá, Paragominas, Rondon do Pará, Tailândia, and Ulianópolis.

The municipalities included in this project belong to the Pará Southeast region (except for Tailândia). Beef-cattle farming, with bovine cattle numbering a little over two million head, is highlighted as one of the main economic activities in the region. The state of Pará has the fifth largest number of bovine cattle in the country, with approximately 17 million head, and the agricultural products include rice, beans, corn and soybean [IBGE (2009)].

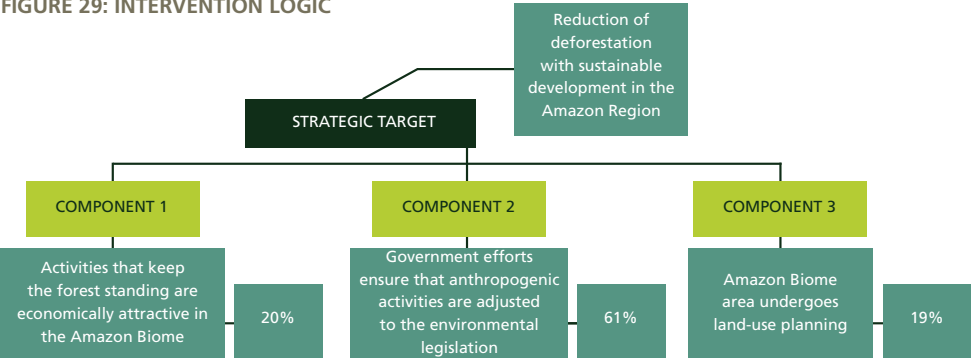
Six of the 11 municipalities covered by the project were included on the list of the Ministry of the Environment (MMA) as priority areas for prevention and control of deforestation in the Amazon.

**INTERVENTION LOGIC**

The project developed by Imazon in the state of Pará is based on the incentive for rural producers to adhere to the Rural Environmental Registration (CAR), making it possible to carry out environmental regularization of the properties and provide access to credit.

Besides this, the CAR allows municipal and state environmental departments to know the rural areas in its territories more precisely. Adhesion to CAR implies a commitment from rural owners – by signing a Conduct Adjustment Term (TAC) – to recover degraded areas, which also will help remove these 11 municipalities, where these rural areas are located, from the list of municipalities that deforest the most in the Amazon.

**FIGURE 29: INTERVENTION LOGIC**



The project establishes the monitoring of deforestation in these municipalities via satellite imaging. Imazon will use its monthly deforestation monitoring system, based on the Deforestation Alert System (SAD), with the objective of guiding inspection and deforestation support efforts.

Located in the Paragominas territory – one of the municipalities benefited by the project – is the Uraim River Basin, where a large part of its permanent preservation areas are currently degraded, which puts the municipalities water supply at risk. Stretching 185 km, the Uraim River supplies approximately 80% of Paragomina’s water, and the planning of the Uraim River Basin’s landscape is one of the main objectives for restoring degraded areas.

By analyzing satellite images, the degrees of degradation in the area will be identified in order to define the best lines of action. Based on this information, the plan to recover the Basin will be elaborated which will be used to: (i) guide the signing of Conduct Adjustment Terms on properties in this region for the purpose of environmental regularization in the CAR; (ii) help implement the city council's seedling planting program; and (iii) help the analysis of business potential with carbon sequestration via forest recovery in this region.

#### ***Expected results***

- *Enable municipalities to be removed from the Ministry of the Environment's list of priority areas for prevention and control of deforestation in the Amazon.*
- *Support environmental pacts for deforestation reduction.*
- *Raise the transparency of environmental and land-title regularization.*
- *Carry out the planning to recover degraded areas in the Uraim River Basin, in Paragominas.*

#### ***Municipalities covered in the project***

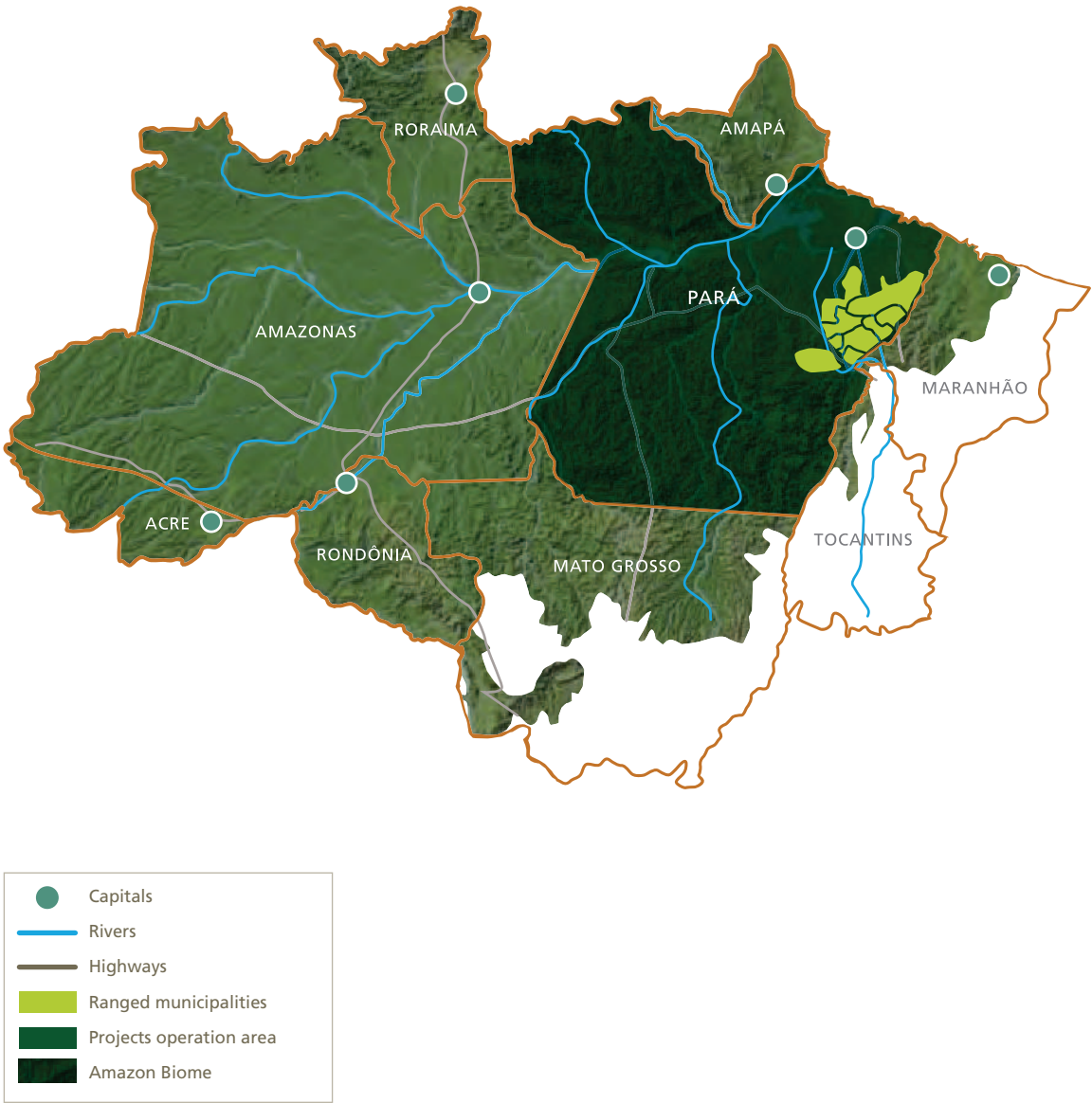
*The municipalities of Abel Figueiredo, Bom Jesus do Tocantins, Breu Branco, Dom Eliseu, Goianésia do Pará, Itupiranga, Jacundá, Paragominas, Rondon do Pará, Tailândia, and Ulianópolis total an area of 66,640 km².*

*Six of these municipalities integrate the MMA's list of the municipalities in priority areas for the prevention and control of deforestation in the Amazon. Of these, nine were included in 2009 in the Green Belt Legal Land of the federal government, which combines three components: incentive for sustainable activities, environmental adaptation, and land-title regularization of rural property.*

*Only two of the 11 municipalities are not part of the programs mentioned – Abel Figueiredo and Bom Jesus do Tocantins –, but were included as operation areas as more than 50% of their areas are deforested and because they neighbor other municipalities, which is an opportunity to increase the range of the project and capitalize on the municipalities' interests in preventing deforestation and forest degradation.*



FIGURE 30: PROJECT'S INTERVENTION AREAS



## PROJECT TNC BRASIL

TERRITORIAL RANGE	12 municipalities in Mato Grosso and in Pará
RESPONSIBLE FOR THE PROJECT	The Nature Conservancy (TNC) Brasil <a href="http://www.nature.org/brasil">www.nature.org/brasil</a>
BENEFICIARIES	City councils, agricultural producers, cattle farmers, and timber extractors, large and small alike
OBJECTIVE	To contribute to mobilizing local efforts in 12 municipalities in the states of Mato Grosso and Pará, aimed at adhering to CAR; and to monitor deforestation in the region via satellite imaging
TOTAL VALUE OF THE PROJECT	R\$ 19,200,000.00
VALUE OF THE SUPPORT	R\$ 16,000,000.00 (US\$ 9,602,688.75)
TERM FOR EXECUTION	36 months (from the contracting date)
SITUATION ON 12/31/2010	Contracted (4/13/2010)
VALUE DISBURSED	R\$ 772,778.00 (4.8%)

### Contextualization

The project encompasses 12 municipalities in the Amazon Biome, of which some are located in transition areas with a different vegetation area of the hinterlands. There are seven municipalities in Mato Grosso (Campos de Julio, Cotriguaçu, Juruena, Nova Mutum, Nova Ubiratã, Sapezal, and Tapurah) and five in Pará (Bannach, Cumaru do Norte, Ourilândia do Norte, São Félix do Xingu, and Tucumã). The majority of these municipalities host economic activities linked to timber exploration or cattle-raising and/or soybean cultivation, suffering strong deforestation pressure.

Nova Ubiratã, Tapurah, Nova Mutum, Sapezal, and Campos de Julio are part of the soybean pole in Mato Grosso, where part of the rural properties has pending issues related to environmental legislation.

The municipalities of Cotriguaçu and Juruena are located in the northwest region of the state of Mato Grosso, where timber exploration is still intense; thus this region is a priority execution area in the PGAI.<sup>29</sup>

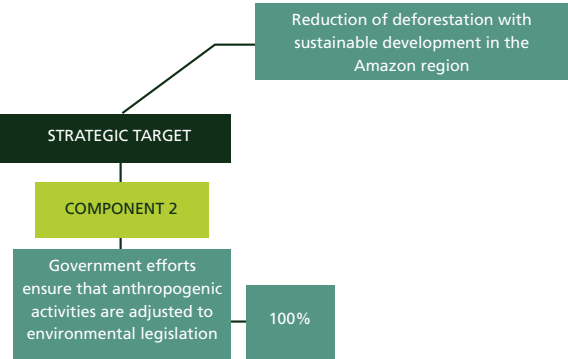
<sup>29</sup> The Integrated Environmental Management Project (PGAI) is the main arm of the Subprogram for Natural Resource Policies (SPRN), which is part of the Pilot Program for the Protection of Tropical Forests of Brazil (PPG-7).

The municipalities of São Félix do Xingu, Ourilândia do Norte, Tucumã, Cumaru do Norte, and Bannach are located in the São Félix do Xingu region, in the state of Pará, where bovine cattle farming represents the main form of land usage. This region stands out on the Ministry of the Environment’s list of priority municipalities in efforts for prevention and control of deforestation. However, despite leading in deforestation rates in the Amazon, considering total area, the region still contains the largest remaining forest and one of the most important mosaics of protected areas (indigenous lands and Conservation Units) in the state of Pará.

INTERVENTION LOGIC

This project seeks to offer awareness, mobilize, and integrate actors – such as the municipal and state governments, association, unions, and rural producers –, to implement an economic development model following environmental adaptation and social-environmental sustainability, by promoting the CAR and motivating environmental regularization of rural properties in seven municipalities in the state of Mato Grosso and five in the state of Pará.

FIGURE 31: INTERVENTION LOGIC



Among other aspects, the project establishes the acquisition of high resolution satellite imaging, the elaboration of a digital cartographical base, the use of land mapping, the creation of a monitoring system for the effectiveness of environmental adaptation of properties and municipality zoning to guide the compensation for legal reserves of mapped properties.

In May 2010, the first disbursement was made. By the end of that year, several efforts linked especially to mobilization and awareness raising of the actors were carried out.

#### ***Expected results***

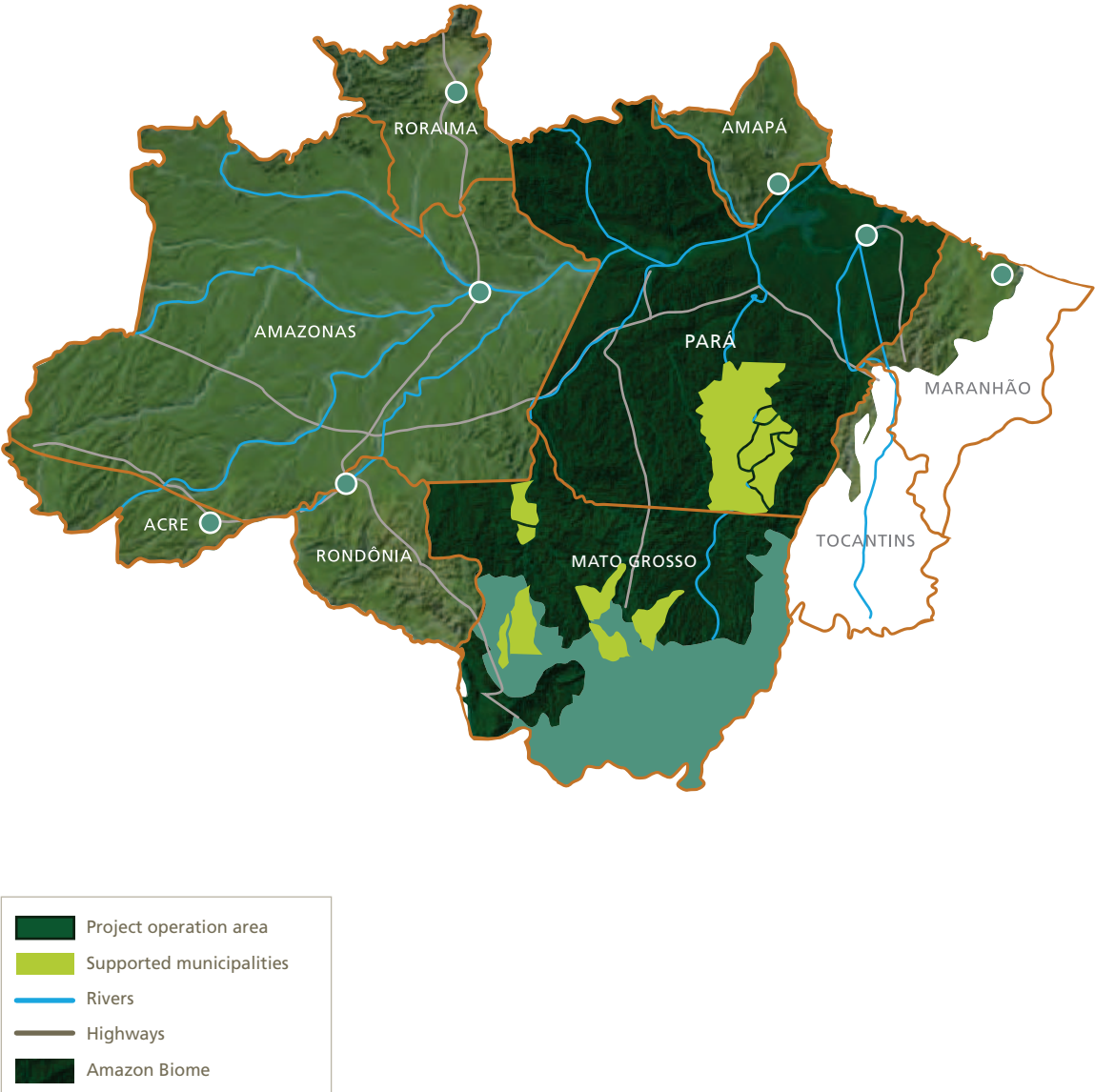
- *At least 50% of owners with more than 150 hectares adhering to the CAR.*
- *Property registration portal, with needed data for environmental adaptation.*
- *At least 10 million hectares with updated cartographical information and high resolution satellite imaging.*
- *At least 20% of the properties inserted in the CAR of the SEMAs PA and MT in process of final licensing.*
- *The customized monitoring system for legal reserves and APPs up and running and generating maps/reports for registered properties.*

#### ***Rural Environmental Registration***

*The Rural Environmental Registration (CAR) is the registration of rural properties at the Environmental Secretary of the state where the rural property is located, using geo referencing for the entire area, including the identification of legal reserves, permanent preservation areas, parts where alternative soil usage is underway, and what should be recovered within the property.*

*The CAR is the first step to obtaining the environmental license. It is linked to the rural property, regardless of property transfer, ownership, or possession. It allows environmental regularization of the rural business to continue and opens up the possibility of obtaining bank loans. This formal act makes it possible to monitor illegal deforestation and is an important instrument to protect the Amazon Forest.*

FIGURE 32: PROJECT'S INTERVENTION AREA



## PROJECT CONHECER PARA CONSERVAR

TERRITORIAL RANGE	Municipality of Manaus, state of Amazonas
RESPONSIBLE FOR THE PROJECT	Museum of the Amazon (Musa) <a href="http://www.museudaamazonia.org.br">www.museudaamazonia.org.br</a>
BENEFICIARIES	Population of Manaus and nearby cities, domestic and foreign tourists, university students, students and teachers in the public and private school network in the state of Amazonas and others interested in social environmental matters
OBJECTIVE	To implement the Amazon Museum (Musa) and a training Center in the Agua Branca settlement, in Manaus, aiming to disseminate the knowledge that contributes to adding value and conserving natural resources in the Amazon and its cultural heritage, via an innovative forest visitation model
TOTAL VALUE OF THE PROJECT	R\$ 8,454,421.00
VALUE OF THE SUPPORT	R\$ 8,454,421.00 (US\$ 5,074,073.34)
SITUATION ON 12/31/2010	Approved
VALUE DISBURSED	-

### Contextualization

The facilities at the Amazon Museum (Musa) will occupy approximately one hundred hectares of the Adolpho Ducke Reserve, an urban forest stretching across 10,000 hectares located within the limits of the city of Manaus. Taking into account its dimensions and its state of conservation, this reserve harbors populations of animals and plants that are a truly authentic representation of Central Amazonian biodiversity.

The Adolpho Ducke Reserve has been studied systematically for more than thirty years, mainly by the National Research Institute of the Amazon (Inpa). Therefore, it has valuable documentation on its biodiversity, its forest and aquatic ecosystems, and its biotic and abiotic interactions.

Part of the project will be carried out in a rural settlement area near the Adolpho Ducke Forest: the Água Branca Settlement. This area consists of an "ecological corridor" that connects the Adolpho Ducke Forest Reserve and the Puraquequara Lake. Today, approximately 90% of these properties are still covered by native forest.

However, if measures are not taken immediately to ensure the maintenance of this ecological corridor, the conservation value of the reserve is at risk due to forest fragmentation and the isolation of its biota.

#### **INTERVENTION LOGIC**

The Amazon Museum will promote an innovative model for forest visitation and dissemination of knowledge on the Amazon region. Its proposal is to offer experiences that allow the visitor to have contact with the biological and social cultural diversity in the Amazon Region. For this, the museum will work with the concept of a “living museum” of social biodiversity, grounded on the acquired knowledge from researchers in Brazilian and international scientific institutions that conduct research in the Amazon Basin.

The project is structured into two components. One of them includes a complex of pavilions, tanks, trails, suspended walkways, stations, and forest observation towers; connecting an area of approximately thirty hectares of the Adolpho Ducke Forest Reserve to the current facilities of the Botanical Gardens in the city of Manaus.

The other component involves structuring a training and capacity-building center in Água Branca, a settlement area of the National Colonization and Agro Reform Institute (Incra). The objective is to generate economic options based on the sustainable use of the Amazon Biome, creating a demonstration model for economic activities that add value to the “standing forest”, with the possibility of generating income and improving social conditions. Some 36 resident families in the Água Branca settlement will be directly benefited.

#### ***The risk of forest fragmentation of the Adolpho Ducke Forest Reserve***

*Forest fragment can be understood as an area of continuous natural vegetation interrupted by anthropogenic barriers (caused by man) or natural causes. The consequence of fragmentation is the formation of “forest islands”, which are isolated by hostile surroundings. This significantly reduces the flow of animals, pollen, and seeds. Thus, there is a gradual loss of biodiversity, the ecosystem is impoverished, and the forest coverage is reduced.*

**Expected results**

- Increased interest in environmental tourism.
- Raised awareness of the local population and tourists concerning matters of the Amazon's social biodiversity.
- Generation and disclosure of knowledge from research institutes in the Amazon.
- Conservation of the ecological corridor in the Água Branca Settlement, avoiding forest fragmentation of the Ducke Reserve, measuring ten thousand hectares.
- Capacity-building for human resources, on different levels, to enable extraction activities and environmental management, other management, and conservation of the Amazon Forest areas.

FIGURE 33: INTERVENTION LOGIC

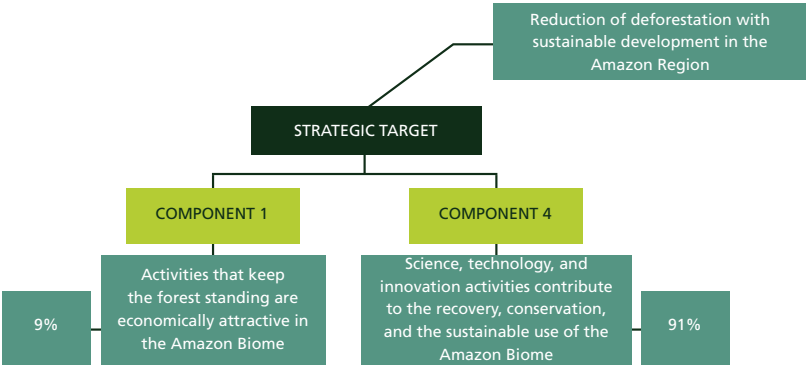




FIGURE 34: LOCATION OF THE PROJECT



FIGURE 35: LOCATION OF THE PROJECT IN MANAUS



## PROJECT NOVA CARTOGRAFIA SOCIAL NA AMAZÔNIA

TERRITORIAL RANGE	Every state present in the Amazon Biome
RESPONSIBLE FOR THE PROJECT	Muraki Institutional Support Foundation <a href="http://www.novacartografiasocial.com">www.novacartografiasocial.com</a>
INTERVINING EXECUTION INSTITUTION	Amazonas State University
BENEFICIARIES	27 peoples and traditional communities in the region and the research network involved in the New Social Mapping of the Amazon Project (Network of Peoples and Traditional Communities and Researchers)
OBJECTIVE	To promote the social mapping of 27 communities in the Amazon Biome and to strengthen the research network involved in the New Social Mapping Project of the Amazon
TOTAL VALUE OF THE PROJECT	R\$ 4,614,578.03
VALUE OF THE SUPPORT	R\$ 4,614,587.03 (US\$ 2,769.69)
TERM FOR EXECUTION	36 months (from the contracting date)
SITUATION ON 12/31/2010	Approved
VALUE DISBURSED	-

### Contextualization

The occupation of lands in the Amazon by peoples and traditional communities – social groups that have great knowledge of the ecosystems and the region's biodiversity – is an important factor in preserving lowland tropical forests and high-montane forests. For this, strengthening associations and form of community organization, as well as consolidating and disclosing the peoples' and traditional communities' practical knowledge, are strategies that are capable of multiplying the native knowledge of sustainable use of natural resources, contributing to the maintenance of the standing forest.

### INTERVENTION LOGIC

The Amazonas State University (UEA), by means of a participative work methodology called social mapping, plans to present the reality of 27 peoples and traditional

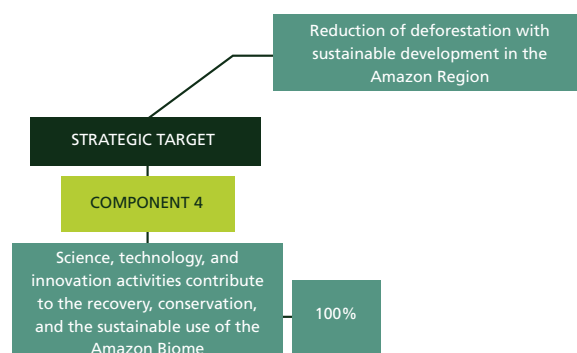
communities who live in the Amazon Biome, which will contribute to increasing the knowledge of sustainable use of natural resources.

The main characteristic of this process is the elaboration of maps, which will highlight the economic activities developed in the area, the characteristics regarding the use of natural resources and the communities' ways of social organization.

All mapping work will be carried out by members of the Peoples' and Communities Network and Researchers, a structure comprising nine state nuclei, as well as researchers from universities and partner institutions that operate in the Amazon. The workshops established in the project will be run by this group of researchers, but will also have active participation from community members.

Part of the project also seeks to strengthen this research network. Among established efforts are: the re-adaptation of physical space in the project's headquarters; the consolidation of its nine state nuclei; the structuring of a database for the storage of material produced by the project; and the running of meetings and regional seminars for an exchange of information and integration of its members.

FIGURE 36: INTERVENTION LOGIC



**Expected results**

- *Editing and publication of 27 editions.*
- *12 integrating meetings, with the total participation of approximately 1,100 people.*
- *Expansion of the laboratory infrastructure at the Amazonas State University.*
- *Capacity-building and establishing researchers in locations.*

**Nova Cartografia Social da Amazônia**

*The Nova Cartografia Social da Amazônia (New Social Mapping of the Amazon) project has been developed since July of 2005 and coordinated by the anthropologist Alfredo Wagner Berno de Almeida.*

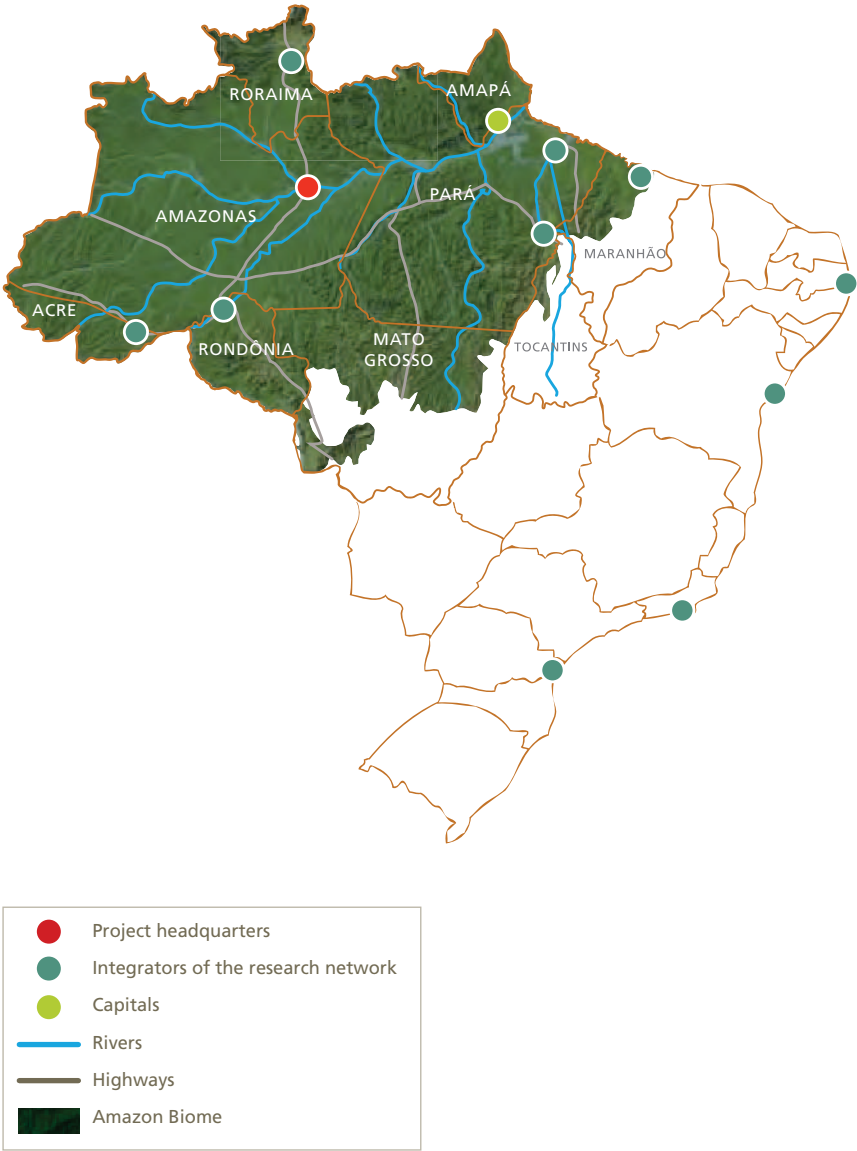
*The objective of the project is to carry out social mapping of the peoples and traditional communities in the Amazon. It is intended to honor the diversity of cultural expressions combined with the distinct collective identities aimed at in social movements.*

*This is articulated with the research project named Territorializing Processes, Conflicts, and Social Movements in the Amazon CNPq-FAPEAM, implemented in December 2005. In 2006, the project expanded the mapping to outside the Amazon with the New Social Mapping of the Peoples and Traditional Communities of Brazil (PPGSCA/UFAM FUND. FORD – MMA – MDS).*

*From July 2005 to December 2010, some 105 editions were produced with communities located throughout Brazil, organized in different series.*

*Each edition is the result of a group of efforts and social relations between communities, traditional peoples and research teams, which begins to take form in the mapping workshop and ends with the mapping and the publication of the edition.*

FIGURE 37: PROJECT'S INTERVENTION AREAS



## PROJECT SECRETARIA DE MEIO AMBIENTE (SEMA) DO PARÁ

TERRITORIAL RANGE	State of Pará
RESPONSIBLE FOR THE PROJECT	State of Pará www.sema.pa.gov.br
BENEFICIARIES	Rural producers and the population in the state of Pará
OBJECTIVE	To strengthen environmental management in the state of Pará by issuing CAR, decentralization and delegating it's the State Secretary of the Environment's activities, as well as improving the legal process for environmental licensing
VALUE OF THE PROJECT	R\$ 15,923,230.00
VALUE OF THE SUPPORT	R\$ 15,923,230.00 (US\$ 9,556,613.85)
TERM FOR EXECUTION	24 months (from the contracting date)
SITUATION ON 12/31/2010	Contracted (10/6/2010)
VALUE DISBURSED	-

### Contextualization

Pará is the second largest state in Brazil and the most populated in the whole Amazon Biome.<sup>30</sup> Besides this, it is also the state that has the highest deforestation rate in the Amazon forest, a result of expanding vegetation extraction, cattle-raising, and most recently, soybean farming.

In past years, however, the state's public administration has been putting effort into combining environmental protection with social and economic development, which has resulted in a drop in deforestation in the region. In 2010, according to Inpe's data, the deforestation rate in Pará fell 13% in comparison with the previous year.

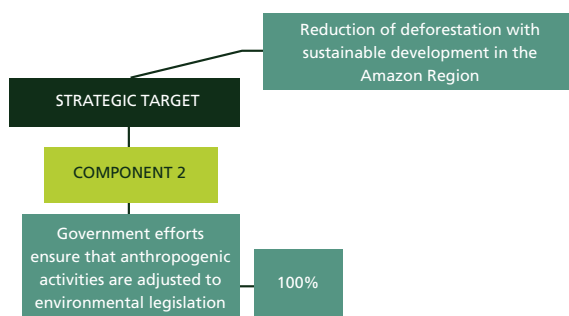
### INTERVENTION LOGIC

The goal of the project in the state of Pará is to strengthen municipalities and regions aiming at greater efficiency in environmental management in the state.

The strategy is to decentralize and delegate the activities of the Pará State Secretary of the Environment (Sema/PA) by structuring the municipalities' environmental headquarters and implementing and strengthening regional units.

<sup>30</sup> In Brazilian territory, according to the IBGE, the Amazon Biome occupies a surface of 3.6 million km<sup>2</sup>, covering the total of the states of Acre, Amapá, Amazonas, Pará, and Roraima, a large part of Rondônia (98,8%), more than half of Mato Grosso (54%), and part of the states of Maranhão (34%) and Tocantins (9%).

FIGURE 38: INTERVENTION LOGIC



For decentralization of the activities of Sema/PA, efforts will focus on physical and operational structuring of the environment administrative units in 44 municipalities,<sup>31</sup> including the reinforcement of technological infrastructure and capacity-building of human resources to support the issuance of CAR and to improve the legal process for environmental licensing.

Delegation of state environmental management includes implementing strengthening regional units, taking Sema/PA closer to the inhabitants and to the economic agents in regions more distant from Belém. To reach this objective, the project establishes the structuring of regional units in the municipalities of Marabá, Santarém, Paragominas, Redenção, Itaituba, and Bragança, besides the Sema/PA headquarters itself in Belém.

#### *Expected results*

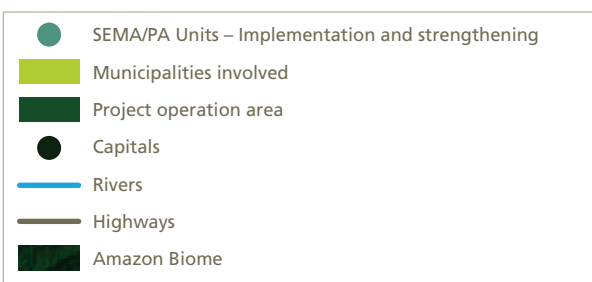
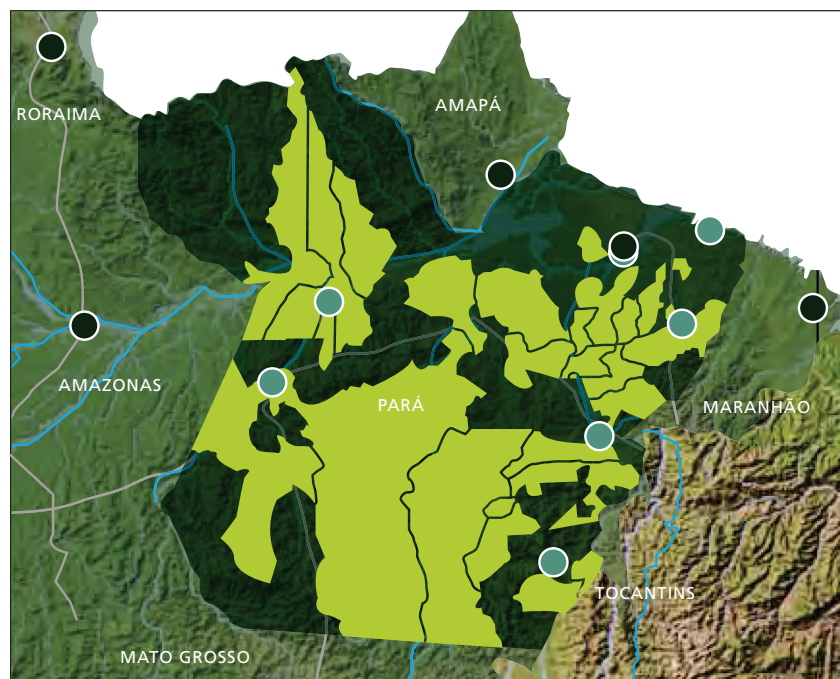
- *Structuring municipality environment units (decentralization of Sema/PA activities).*
- *Delegation of Sema/PA's environmental management activities.*

<sup>31</sup> Of the 44 municipalities, some 28 already meet the criteria for decentralizing environmental management: Alenquer; Altamira; Ananindeua; Augusto Corrêa; Barcarena; Belém; Concórdia do Pará; Eldorado dos Carajás; Goianésia do Pará; Itaituba; Jacundá; Marabá; Marituba; Moju; Ourilândia do Norte; Paragominas; Parauapebas; Portel; Rondon do Pará; Santa Izabel do Pará; Santa Maria das Barreiras; Santarém; São Félix do Xingu; Tailândia; Tomé-Açu; Tucumã; Tucuruí; and Xinguara. The 16 remaining municipalities (Baião; Belterra; Breu Branco; Cametá; Capanema; Conceição do Araguaia; Irituia; Juruti; Monte Alegre; Muana; Óbidos; Pacajá; Porto de Moz; São Geraldo do Araguaia; Terra Santa; and Vitória do Xingu) are in the process of meeting these criteria and, in the event of success, will also be included in this effort.



- *Reinforcement of the technology infrastructure and capacity-building of human resources to issue CAR.*
- *Improvement of the legal process for environmental licensing.*

**FIGURE 39: PROJECT'S INTERVENTION AREAS**



## Annexes



# Annex 1

## Office of the President's Chief of Staff Deputy for Legal Affairs

### **DECREE Nº. 6,527, OF AUGUST 1, 2008.**

This Decree provides for the establishment of the Amazon Fund by the Brazilian Development Bank (BNDES).

THE PRESIDENT OF THE REPUBLIC OF BRAZIL, employing the powers attributed by Article 84, Item VI, Subitem "a", and in view of the provisions in the preamble of Article 225, and in Paragraph 4, both from the Constitution,

DECLARES:

**Article 1** The Brazilian Development Bank (BNDES) is authorized to allocate the amounts of donations received in cash, acquired through a specific account called the Amazon Fund, to conduct non-reimbursable investments in efforts to prevent, monitor, and combat deforestation and to foster conservation and sustainable use in the Amazon biome, covering the following areas: **(As worded in Decree Nº. 6,565, 2008)**

- i. management of public forests and protected areas;
- ii. environmental control, monitoring and inspection;
- iii. sustainable forest management;
- iv. economic activities developed from the sustainable use of the forest;
- v. Ecological and Economic Zoning, land-use planning and land-title regularization;
- vi. conservation and sustainable use of biodiversity; and
- vii. recovery of deforested areas.

Paragraph 1 – Up to twenty percent of the resources in the Amazon Fund may be used in the development of systems to monitor and control deforestation in other Brazilian biomes and other tropical countries.

Paragraph 2 – The efforts addressed in the preamble shall comply with the guidelines of the Sustainable Amazon Plan (PAS) and the Plan of Prevention and Control of Deforestation in Legal Amazon (PPCDAM), except as provided for in Paragraph 1.

Paragraph 3 – The BNDES shall separate an amount equivalent to three percent of the amount of donations referred to in the preamble to cover its operating costs and expenses related to the Amazon Fund, including expenses related to the operation of the Technical Committee of the Amazon Fund (CTFA), the Guidance Steering Committee of the Amazon Fund (COFA), and the costs for contracting auditing services. (As worded in Decree N°. 6,565, 2008).

Paragraph 4 – The Amazon Fund's resources are, in addition to the donations referred to in the preamble, the product of financial investments of amounts not yet disbursed.

Paragraph 5 – The BNDES shall represent the Amazon Fund, judicially and extrajudicially.

**Article 2** The BNDES shall receive donations and issue certificates acknowledging contributions made by donators to the Amazon Fund.

Paragraph 1 – The certificates issued shall contain the following information:

- i. name of the donator;
- ii. amount donated;
- iii. date of contribution;
- iv. equivalent value in tons of carbon; and
- v. year emission were reduced.

Paragraph 2 – The certificates shall be nominal, non-transferable, and shall not generate rights or claims of any nature.

Paragraph 3 – The issued certificates can be found on the World Wide Web – the Internet.

Paragraph 4 – To issue the certificate addressed in the preamble, the Ministry of the Environment shall, annually, set the limits for fundraising.

Paragraph 5 – The Ministry of the Environment shall regulate the methodology for calculating the limit on fundraising addressed in Paragraph 4, taking into account the following criteria:

- i. effective reduction in Carbon Emissions Arising from Deforestation (ED), attested by the CTFA; and
- ii. equivalent contribution value, per reduced ton of ED, expressed in Brazilian reais per ton of carbon.

**Article 3** The Amazon Fund shall have a Technical Committee (CTFA) to certify the ED calculated by the Ministry of the Environment, and, to do so, it shall evaluate:

- i. the methodology to calculate the area of deforestation; and
- ii. the amount of carbon per hectare used in calculating emissions..

Sole Paragraph. The CTFA shall meet once a year and shall consist of six experts of unblemished reputation and renowned scientific-technical knowledge, appointed by the Ministry of the Environment, after consultation with the Brazilian Forum on Climate Change, for a term of three years, renewable once for the same period.

**Article 4** The Amazon Fund shall have a Guidance Committee (COFA) comprising the following segments, represented as:

- i. Federal Government – a representative from each of the following agencies and entities:
  - a. Ministry of the Environment;
  - b. Ministry of Development, Industry, and Foreign Trade;
  - c. Ministry of Foreign Affairs;
  - d. Ministry of Agriculture, Cattle-Raising, and Supply;
  - e. Ministry of Agrarian Development;
  - f. Ministry of Science and Technology;
  - g. Office of the President's Chief of Staff;
  - h. Secretariat for Strategic Affairs of the Presidency; and
  - i. The Brazilian Development Bank (BNDES);
- ii. state governments – a representative from each of the governments of the Legal Amazon States that have a state plan for preventing and combating deforestation; and
- iii. civil society – one representative from each of the following organizations:
  - a. Brazilian Forum of NGOs and Social Movements for the Environment and Development (FBOMS);
  - b. Coordination of Indigenous Organizations of the Brazilian Amazon (COIAB);
  - c. National Confederation of Industry (CNI);

- d. National Forum of Forest-Based Activities (FNABF);
- e. National Confederation of Agricultural Workers (CONTAG); and
- f. Brazilian Society for the Advancement of Science (SBPC)..

Paragraph 1 – COFA members shall be nominated by heads of agencies and entities referred to in items I to III of the preamble and appointed by the president of the BNDES, for a term of two years, renewable once for the same period.

Paragraph 2 – The COFA, which shall ordinarily meet once every six months and extraordinarily at any time when called by its President, shall ensure the commitment of the Amazon Fund's initiatives to PAS and PPCDAM, establishing:

- i. guidelines and criteria for allocating resources; and
- ii. COFA internal regulations.

Paragraph 3 – The COFA shall be chaired by a representative of the federal government agencies referred to in item I of the preamble, with a term of two years, of which the first term shall be exercised by a representative of the Ministry of the Environment.

Paragraph 4 – The COFA deliberations should be adopted by consensus among the segments defined in items I to III of the preamble.

Paragraph 5 – The COFA Executive Secretary shall be managed by the BNDES.

**Article 5** Participation in the CTFA and the COFA shall be considered a service of relevant public interest and shall not entail any remuneration of any nature.

**Article 6** The BNDES shall present to the COFA, for approval, biannual information on the allocation of resources and the Amazon Fund's annual report.

**Article 7** The BNDES shall annually contract external auditing services to verify the correct allocation of the resources referred to in the preamble of Article 1.

**Article 8** This Decree shall enter into force on the date of its publication.

*Brasília, August 1, 2008; 187th of the Independency and 120th of the Republic.*

**Luiz Inácio Lula da Silva**

Miguel Jorge

Carlos Minc

# Annex 2

## COFA's composition in 2010

### Members and deputies of COFA in 2010

#### FEDERAL GOVERNMENT

##### MINISTRY OF THE ENVIRONMENT

Izabella Teixeira  
Thais Linhares Juvenal

##### MINISTRY OF DEVELOPMENT, INDUSTRY AND FOREIGN TRADE

Armando de Mello Meziat  
Marcos Otávio Bezerra Prates

##### MINISTRY OF FOREIGN AFFAIRS

André Odenbreit Carvalho  
Renato Barros de Aguiar Leonardi

##### MINISTRY OF AGRICULTURE, LIVESTOCK AND SUPPLY

Derli Dossa  
Helinton José Rocha

##### MINISTRY OF AGRARIAN DEVELOPMENT

Marco Aurélio Pavarino  
César José de Oliveira

##### MINISTRY OF SCIENCE AND TECHNOLOGY

Luiz Antonio Rodrigues Elias  
Maria Luiza Braz Alves

##### CHIEF OF STAFF OF THE PRESIDENCY OF THE REPUBLIC

Tereza Helena Gabrielli Barreto Campello  
Johaness Eck

##### SECRETARIAT FOR STRATEGIC AFFAIRS OF THE PRESIDENCY OF THE REPUBLIC

Alberto Carlos Lourenço Pereira  
Pedro Lucas da Cruz Pereira Araújo

##### THE BRAZILIAN DEVELOPMENT

BANK - BNDES  
Eduardo Rath Fingerl  
Sergio Eduardo Weguelin Vieira

#### AMAZON STATES

##### ACRE

Fábio Vaz de Lima  
Eufran Ferreira do Amaral

##### AMAZONAS

Nadia Cristina D'Avila Ferreira  
Graco Diniz Fregapani

##### AMAPÁ

Antonio Pinheiro Teles Júnior  
Raimundo Nonato Pires

##### MARANHÃO

Fábio Gondim Pereira da Costa  
Maria Olindina Medeiros Moreira

##### MATO GROSSO

Vivaldo Lopes Sias  
Ernandy Maurício Bacarat de Arruda

##### PARÁ

Aníbal Pessoa Picanço  
Rodolfo Fernando Moraes Pereira

##### RONDÔNIA

Paulo Roberto Ventura Brandão  
Maria Dolores dos Santos da Costa

RORAIMA  
Haroldo Eurico Amóras dos Santos  
Sérgio Pillon Guerra

TOCANTINS  
David Siffert Torres  
Marcelo Olímpio Carneiro Tavares

### **CIVIL SOCIETY**

NATIONAL CONFEDERATION OF INDUSTRY (CNI)  
Justiniano de Queiroz Neto  
Mario Augusto de Campos Cardoso

COORDINATION OF INDIGENOUS ORGANIZATIONS  
OF THE BRAZILIAN AMAZON (COIAB)  
Antonio Marcos de Oliveira Alcântara Apurinã  
Sonia Boné de Souza Silva Santos

NATIONAL CONFEDERATION OF AGRICULTURAL  
WORKERS (CONTAG)  
Fani Mamede  
Rosicleia dos Santos

BRAZILIAN FORUM OF NGOS AND SOCIAL MOVEMENTS  
FOR THE ENVIRONMENT AND DEVELOPMENT (FBOMS)  
Adriana Ramos

NATIONAL FORUM OF FOREST-BASED  
ACTIVITIES (FNABF)  
João Carlos Baldasso  
Fernando Castanheira Neto

BRAZILIAN SOCIETY FOR THE ADVANCEMENT  
OF SCIENCE (SBPC)  
Marco Antonio Raupp  
Helena Bonciani Nader

**During the year 2010, the following members  
also played a role:**

### **FEDERAL GOVERNMENT**

MINISTRY OF THE ENVIRONMENT  
Carlos Minc  
*Member until May 13, 2010*

Tasso Rezende de Azevedo  
*Deputy until May 13, 2010*

MINISTRY OF FOREIGN AFFAIRS  
Daniella Oppius Brichta  
*Deputy until October 22, 2010*

MINISTRY OF AGRICULTURE,  
LIVESTOCK AND SUPPLY  
Marcio Antonio Portocarrero  
*Member until October 22, 2010*

SECRETARIAT FOR STRATEGIC AFFAIRS  
OF THE PRESIDENCY OF THE REPUBLIC  
Daniel Augusto Vila-Nova Gomes  
*Deputy until March 16, 2010*

### **AMAZON STATES**

ACRE  
Carlos Ovídio Duarte da Rocha  
*Deputy until October 22, 2010*

AMAZONAS  
Aldenira Rodrigues Queiroz  
*Deputy until August 11, 2010*

MARANHÃO  
Washington Luis Campos Rio Branco  
*Member until October 22, 2010*  
Antonio Moyses da Silva Netto  
*Deputy until October 22, 2010*

MATO GROSSO  
Alexander Torres Maia  
*Member until October 22, 2010*  
Elaine Corsini  
*Deputy until October 22, 2010*  
Luiz Henrique Chaves Daldegan  
*Member until June 20, 2010*

PARÁ  
Sonia Sfair Kinker  
*Deputy until March 17, 2010*



RONDÔNIA  
Cletho Muniz de Brito Ferreira  
*Member until March 16, 2010*

TOCANTINS  
Stalin Beze Bulcar  
*Member until October 22, 2010*  
Raul Rodrigues de Freitas Júnior  
*Deputy until March 16, 2010*

#### **CIVIL SOCIETY**

COORDINATION OF INDIGENOUS ORGANIZATIONS  
OF THE BRAZILIAN AMAZON (COIAB)  
Francisco Avelino Batista  
*Member until October 22, 2010*  
Kleber Luiz Santos dos Santos  
*Deputy until October 22, 2010*

BRAZILIAN FORUM OF NGOS AND SOCIAL MOVEMENTS  
FOR THE ENVIRONMENT AND DEVELOPMENT (FBOMS)  
Jean Pierre Leroy  
*Deputy until October 22, 2010*

NATIONAL FORUM OF FOREST-BASED  
ACTIVITIES (FNABF)  
Jose Pereira Dias  
*Member until October 22, 2010*

## Annex 3 BNDES/Amazon Fund Team

#### **THE BNDES' ENVIRONMENTAL DIVISION**

SUPERINTENDENT  
Sergio Eduardo Weguelin Vieira

#### **MANAGEMENT DEPARTMENT OF THE AMAZON FUND (DEFAM)/ENVIRONMENTAL DIVISION**

HEAD OF DEPARTMENT  
Cláudia Soares Costa

THE TEAM THAT, THROUGHOUT 2010,  
INTEGRATED DEFAM  
Ana Luiza Landim, Ana Paula de Almeida Silva,  
Anderson Márcio de Oliveira, André Banhara Barbosa  
de Oliveira, Antonio Carlos da Silva Sá, Bernardo  
Martim Ferreira Saavedra Félix, Bernardo Von Haehling  
Braune, Cleber Zambarda, Daniel Rossi Soeiro, Dilson  
Ojeda Pires, Eduardo Bizzo de Pinho Borges, Eduardo  
Fonseca Brasil, Fábio Maciel Plotkowski, Gil Vidal Borba,  
Guilherme Arruda Accioly, Israel Blajberg, Jorge Reis  
de Vasconcellos Sandes, Júlio Salarini Guiomar, Marcos  
Vinicius da Silva Rocha, Mariana Bloomfield Coutinho,  
Mariana Guimarães Lima, Natália Faria de Souza, Renata  
Del Vecchio Gessulo, Roberto Pereira Riski, Rubem Carlos  
de Souza Studart, Simone Marafon Schneider, Telma de  
Castro Guimarães and Wagner Gonzalez de Oliveira.

INTERNS  
André Luis Ferreira Lemos, Flávia Ozório José and Luís  
Fernando Correa Pinto.

## Annex 4

**Deloitte.**

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### INDEPENDENT AUDITOR'S REPORT

To the Management of  
The Amazon Fund  
(Managed by the Brazilian Development Bank - BNDES)  
Rio de Janeiro, RJ

We have audited the accompanying financial statements of the Amazon Fund (the "Fund"), which comprise the balance sheet as at December 31, 2010, and the statement of surplus, statement of changes in net assets and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

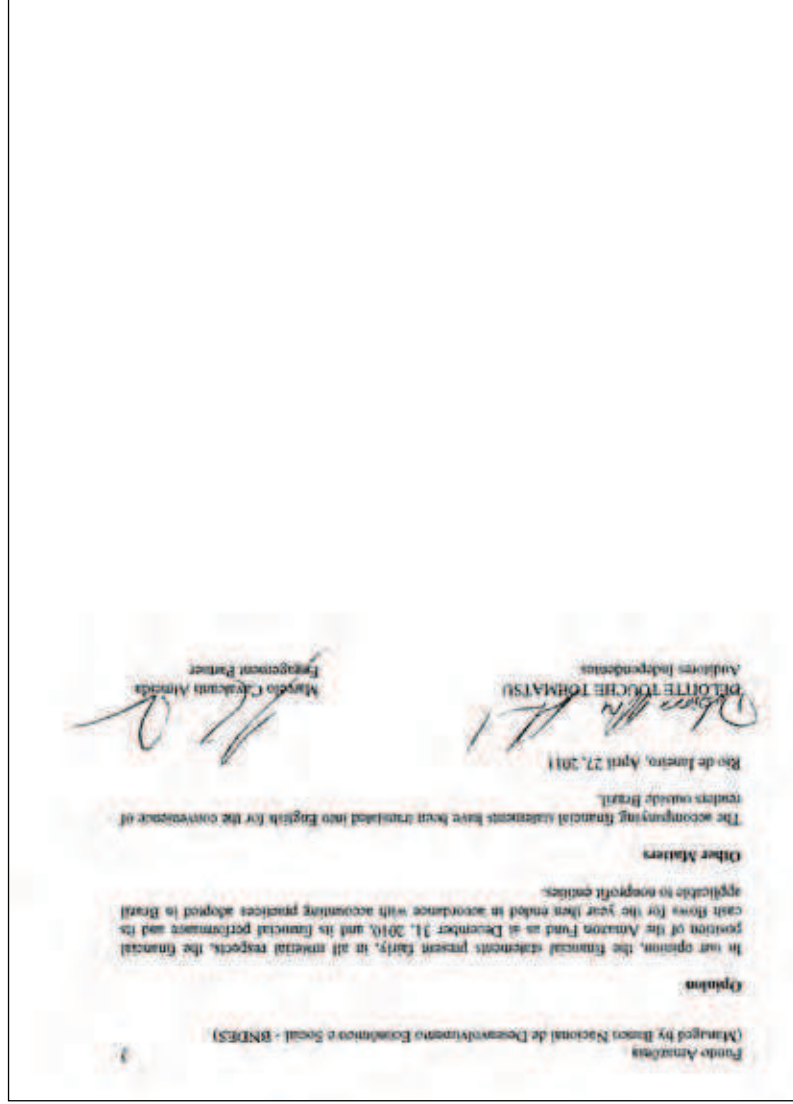
The Fund's management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting practices adopted in Brazil applicable to nonprofit entities, as well as for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Brazilian and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion.



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**THE AMAZON FUND**

(Managed by the the Brazilian Bank - BNDES)

**BALANCE SHEET**

As at December 31, 2010 and 2009 and  
(In thousands of Brazilian reais - R\$)

	Note	2010	2009
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	4	85,994	37,105
Total assets		<u>85,994</u>	<u>37,105</u>
<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT LIABILITIES</b>			
Project funds	5	84,394	36,000
<b>EQUITY</b>			
Accumulated surplus		1,600	1,105
Total Liabilities and Net Assets		<u>85,994</u>	<u>37,105</u>

The accompanying notes are an integral part of these financial statements.

THE AMAZON FUND  
(Managed by the Brazilian Development Bank - BNDES)

STATEMENT OF SURPLUS  
As at December 31, 2010 and 2009 and  
(In thousands of Brazilian reais – R\$)

	2010	2009
REVENUES		
Donations for investments	11,106	-
Donations for support	1,687	1,093
Financial income	5,244	665
EXPENDITURES		
Expenses on donations for investment	(11,106)	-
Expenses with interest paid on project loans	(5,086)	(643)
Administrative expenses	(1,352)	(8)
SURPLUS FOR THE YEAR	495	1,105

The accompanying notes are an integral part of these financial statements.

THE AMAZON FUND  
(Managed by the Brazilian Development Bank - BNDES)

STATEMENT OF CHANGES IN EQUITY  
As at December 31, 2010 and 2009 and  
(In thousands of Brazilian reais – R\$)

	Accumulated surplus	Total
Surplus for 2009	1,105	1,105
Balance as at December 31, 2009	1,105	1,105
Surplus for 2010	495	495
Balance as at December 31, 2010	1,600	1,600

The accompanying notes are an integral part of these financial statements.

**THE AMAZON FUND**  
(Managed by the Brazilian Development Bank - BNDES)

**STATEMENT OF CASH FLOWS**  
As at December 31, 2010 and 2009 and  
(in thousands of Brazilian reais - R\$)

	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Surplus for the year	495	1,105
Capitalized interest paid on project funds	5,086	645
Interest paid to the BNDES for advances on expenses with	(143)	-
donations for investments		
Funds from operating activities	5,438	1,750
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Funds raised to finance projects	54,557	35,355
Funds used in projects	(111,106)	-
Funds from financing activities	43,451	35,355
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>48,889</b>	<b>37,105</b>
Cash and cash equivalents at beginning of year	37,105	-
Cash and cash equivalents at end of year	85,994	37,105
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>48,889</b>	<b>37,105</b>

The accompanying notes are an integral part of these financial statements.

**THE AMAZON FUND**  
(Managed by the Brazilian Development Bank- BNDES)

**NOTES TO THE FINANCIAL STATEMENTS**  
As at December 31, 2010 and 2009 and  
(In thousands of Brazilian reais – R\$)

**1. GENERAL INFORMATION**

The Amazon Fund, created under BNDES Resolution N°. 1,640, of September 3, 2008, is engaged in raising funds for non-reimbursable investments to prevent, monitor, and combat deforestation, and to foster the preservation and sustainable use of the Amazon rainforests, pursuant to Decree N°. 6,527, of August 1, 2008.

The Amazon Fund supports projects in the following areas:

- Management of public forests and protected areas;
- Environmental control, monitoring and inspection;
- Sustainable forest management;
- Economic activities developed from the sustainable use of forests;
- Ecological and economic zoning, land-use planning and land-title regularization;
- Preservation and sustainable use of biodiversity; and
- Recovery of deforested areas.

The Amazon Fund is managed by the Brazilian Development Bank (BNDES), which is also responsible for raising funds, contracting and monitoring the sponsored projects and efforts.

The Amazon Fund has a Guidance Committee (COFA), which is responsible for establishing guidelines and monitoring its performance.

The Amazon Fund became operational on October 9, 2009, with funds from donations.

The Amazon Fund is not a legal entity on its own and, thus, its transactions are recorded in the BNDES' specific accounts.



## (Managed by the Brazilian Development Bank - BNDES)

As at December 31, 2010 and 2009

(In thousands of Brazilian reais – R\$)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

cash and cash equivalents (including bank deposits and highly liquid short-term investments) subject to an investment and risk of change in value. These investments are classified as securities held for trading and recorded at cost plus income earned through the reporting date. Securities are recognized in income for the period.

Recorded in liabilities, since the amounts do not result in the entity's equity to be increased or decreased, as the Fund acts solely as an agent collecting and transferring amounts for the projects to be examined.

**Donations for support**

Explanations for supporting the Fund's activities are recorded in surplus for the period when actually received.

### STATEMENT OF CASE

The Fund elected to present the statement of cash flows using the indirect method. The project funds were treated as financing activities, as the Fund acts solely as an agent collecting and transferring such funds.

**THE AMAZON FUND**  
(Managed by the Brazilian Development Bank - BNDES)

**NOTES TO THE FINANCIAL STATEMENTS**  
As at December 31, 2010 and 2009  
(In thousands of Brazilian reais - R\$)

**4. CASH AND CASH EQUIVALENTS:**

Cash and cash equivalents are broken down as follows:

	2010	2009
Unused funds	6,647	-
Short-term investments - Gaia Fund	79,323	37,105
Income receivable	24	-
<b>TOTAL</b>	<b>85,994</b>	<b>37,105</b>

The Gaia Fund is backed by government bonds, and the resources available at the BNDES yield the same as the Gaia Fund.

**5. PROJECT FUNDS:**

Project funds were received from the Norwegian Ministry of Foreign Affairs and are earmarked for specific projects related to the purposes of the Amazon Fund. Through December 31, 2010, the following projects had already been contracted:

Party Requesting Support	R\$ mil	
	Operations contracted	Amount disbursed
State of Acre	80,000	-
State of Amazonas	20,000	-
Sustainable Amazon Foundation - FAS	19,169	3,999
The Brazilian Biodiversity Fund - Fubio	20,000	4,599
Amazon Institute of People and the Environment - Imazon	9,736	-
Oran Verde Institute	5,433	1,335
State of Pará's Department of Environment	15,923	-
The Nature Conservancy (TNC) do Brasil	16,086	773
<b>Total</b>		<b>11,106</b>

The amount of R\$11,106 is recorded under item lines Revenue from donations for investments and Expenses on donations for investments. This amount is recorded in both line items, resulting in a zero balance, as the Amazon Fund is a nonprofit organization.

The project funds yield interest based on the same index as that used to adjust cash and cash equivalents.

THE AMAZON FUND  
 (Managed by the Brazilian Development Bank - BNDES)  
 NOTES TO THE FINANCIAL STATEMENTS  
 As of December 31, 2010 and 2009  
 (In thousands of Brazilian reais - R\$)

LUCIANO COUTINHO  
 President

ARMANDO MARIANTE CARVALHO JUNIOR  
 Vice-President

JOAO CARLOS FERRAZ  
 Managing Director

ELVIO LIMA GASPARE  
 Managing Director

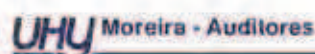
WAGNER BITTENCOURT DE OLIVEIRA  
 Managing Director

EDUARDO RATH FINGERL  
 Managing Director

MAURICIO BORGES LEMOS  
 Managing Director

YÂNIA MARIA DA COSTA BORGERTH  
 Head of the Accounting Department  
 Accountant  
 CRC-RJ 064.817-4

## Annex 5



TO:  
MANAGEMENT OF  
BRAZILIAN DEVELOPMENT BANK – BNDES  
RIO DE JANEIRO – RJ

### LIMITED ASSURANCE REPORT

#### 1. INTRODUCTION

We were retained to apply limited assurance procedures to verify compliance of projects supported by the Amazon Fund in 2010, with regard to standards and guidelines applicable to it.

Our responsibility is to issue a limited assurance report on compliance of projects supported by the Amazon Fund.

#### 2. APPLIED PROCEDURES

Limited assurance procedures were applied in accordance with Norm NBC TD 01 – Assurance Work different from Audit and Review (3000), issued by the Federal Accounting Council (CFC) and approved by Resolution CFC 1.160/2009, and with ISAE 3000 – International Standard on Assurance Engagements issued by the International Auditing and Assurance Standards Board (IAASB), both for assurance engagements other than audit or review of historical financial information.

Limited assurance procedures included:

- a) Work planning, considering relevance, coherence, and volume of quantitative and qualitative information;
- b) Understanding project analysis methodology through interviews with managers responsible for information;
- c) Review of Analysis Reports, Management Decisions, and Contracts, verification of compliance in accordance with Decree 6.527, of 1 August 2008, which provides for the establishment of the Amazon Fund by the National Bank of Economic and Social Development (BNDES), especially Article 1, and the norms and guidelines issued by the Amazon Fund Guidance Committee (COFA);
- d) verification and analysis of the object of transactions analyzed and contracted, or to be contracted, to verify their compliance with strategic directions contained in the Sustainable Amazon Plan (PAS) and tactical operational guidelines of the Action Plan for Prevention and Control of Deforestation in the Legal Amazon (PPCDAM); and
- e) Comparison of quantitative and qualitative information of Analysis Reports and their findings with Management Decisions and elaboration of contracts.

### 3. SCOPE AND LIMITS

Our work's objective was applying limited assurance procedures on standards and guidelines of the Amazon Fund Guidance Committee (CGFA), as well as implementation of provisions contained in Decree 6.527/2008, not including assessment of compliance, by project beneficiaries, with duties connected with BNDES.

The evaluation of procedures and of relevant analysis was restricted to documents made available by BNDES, and was not subject to validation of their authenticity.

Applied procedures do not represent an examination according to Brazilian and international financial reports auditing standards.

Our report does not provide limited assurance on the extent of future information (for example, goals, expectations, and ambitions) and descriptive information that is subject to subjective evaluation.

Additionally, the work was not intended to conduct documentary survey and to apply fraud identification procedures.

### 4. APPROVED AND CONTRACTED OPERATIONS

In carrying out limited assurance work, approved and/or contracted non-reimbursable financial cooperation operations in the course of fiscal 2010 were analyzed, including the following organizations and current stage of each operation:

#### a) Operations approved in 2009 and contracted in 2010:

Operation of 2,119,668	Amazonas Sustainable Foundation (FAS)
Operation of 2,182,528	Environmental Conservation Institute - The Nature Conservancy in Brazil (INC. BRAS)
Operation of 1,944,537	Amazon Institute of People and Environments (AMAZONI)
Operation of 2,752,088	Brazilian Biodiversity Fund (FUNBIO)
Operation of 2,305,301	Gran Viana Foundation (GVF)

#### b) Operations approved and contracted in 2010:

Operation of 2,266,072	State of Acre
Operation of 2,188,247	State of Pará
Operation of 2,477,828	State of Amazonas

#### c) Operations approved in 2010 and contracted to be contracted in 2011:

Operation of 2,552,958	Ally Florida Municipality (AF)
Operation of 2,353,687	Municipality of the Amazon (MUNAM)
Operation of 2,350,729	Municipal Foundation / Amazonian State University (FPA)
Operation of 2,819,291	Forquilha Lodge (FLOP)
Operation of 2,408,510	Marabá Municipality (M)



## 5. ENVIRONMENTAL ISSUES IN ANALYZED PROJECTS IN THE SCOPE OF THE AMAZON FUND

At the end of this work, we have elements that contribute to a better understanding of the subject, in relation to its current stage and future prospects, so as to aid the decision making process. During the analysis, we perceived the real dimension of the need for deeper knowledge about the vulnerability of biome in question, with impacts and adaptation strategies. There is a great opportunity to promote environmental, social, and economic development, and for forest preservation in the areas of scope of the Fund, with a real prospect of containing deforestation in the Legal Amazon and the viability of protection alternatives and sustainable forest use, based on mechanisms and processes set out in PPCDAM – Action Plan for Prevention and Control of Deforestation of the Legal Amazon, PAS – Sustainable Amazon Plan, and on the legal basis, by Decree 6.527/2008 and Law 12.187/2009.

In the analysis of proposed projects and of procedures and criteria used in awarding resources from the Amazon Fund, the axes that guide the scope of these projects and granting of resources were made explicit: Territorial and Agrarian Ordainment; Environmental Monitoring and Control; Promotion of Sustainable Productive Activities; Scientific and Technological Development; Modernization and Development of bodies acting in the Amazon biome.

## 6. CONCLUSIONS

- a) We compared Analysis Reports of operations related to item 4, sub-items b and c (projects approved and contracted in 2010 and projects approved in 2010 and contracted to be contracted in 2011), with guidelines and criteria issued by the COFA, with purposes provided for in Decree 6.527/2008, of the Sustainable Amazon Plan – PAS, and in the Action Plan for Prevention and Control of Deforestation in the Legal Amazon – PPCDAM.

We verified that the purpose of the projects was kept in the approval of BNDES management.

No nonconformities were found.

- b) We verified the maintenance of the contracted object in relation to management decisions that approved projects' operations related to item 4, sub-item b (projects approved and contracted in 2010).

No nonconformities were found.

- c) We verified the maintenance of the contracted object in relation to management decisions adopted in the fiscal year 2009, concerning operations related to item 4, sub-item a (projects approved in 2009 and contracted in 2010).

No nonconformities nor alterations were found that could have affected the conformity of projects to Decree 6.527/2008, and to COFA, PAS, and PPCDAM directives.

These operations were the object of assurance analysis as to Management Reports on Analysis and Decisions, done in 25/05/2010 by Deloitte Touche Tomatsu whose audit report did not indicate nonconformities in relation to Decree 6.527/2008 and to COFA, PAS, and PPCDAM directives.

4

**UHY** Moreira - Auditores

Rio de Janeiro, July 14, 2011.

UHY MOREIRA - AUDITORES

CRC RJ 3.717,5 RJ

JORGÊ LUIZ M. CEREJA

Accountant CRC RJ 43679,5 RJ

Partner - Responsible Technical Officer

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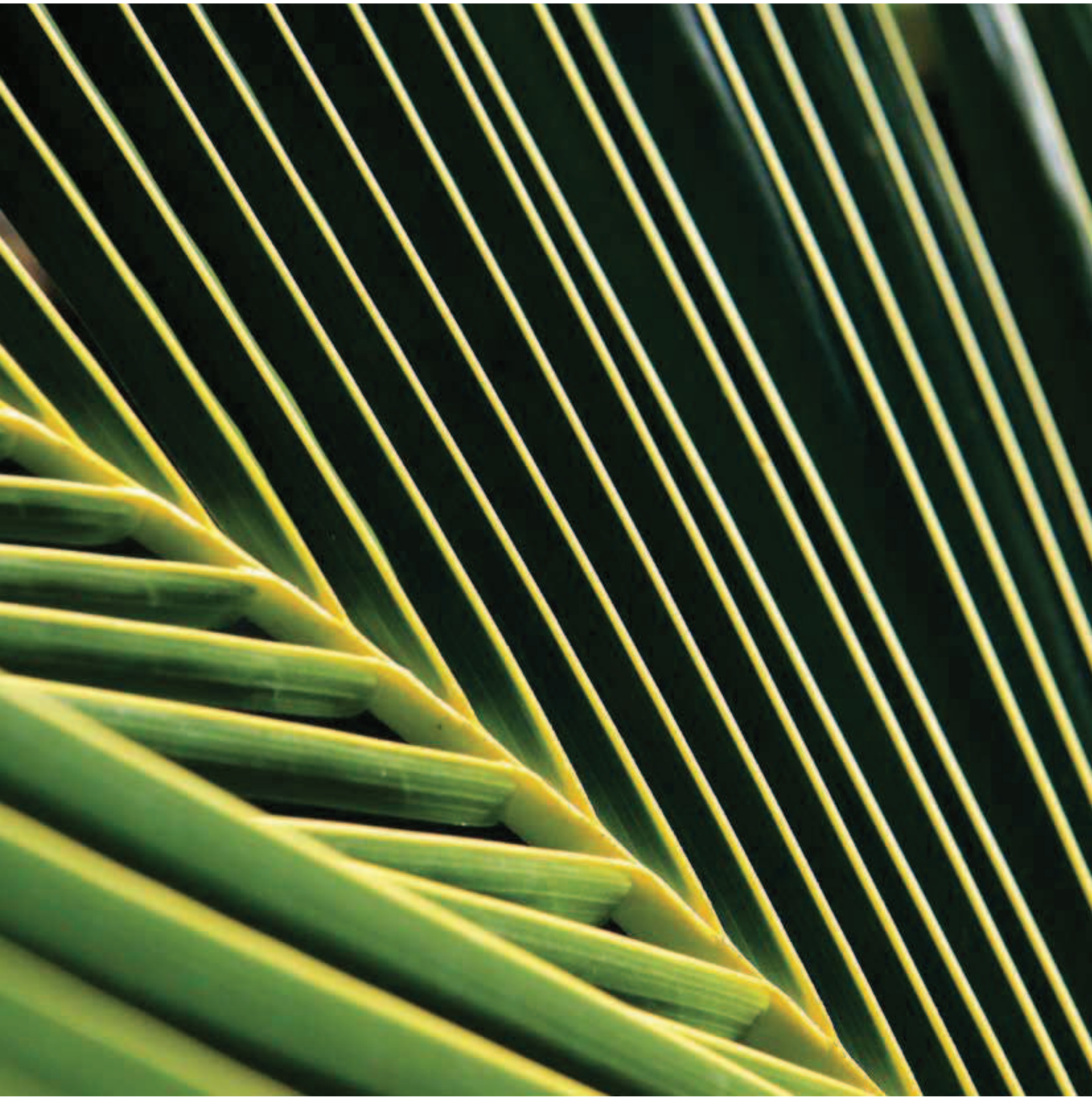
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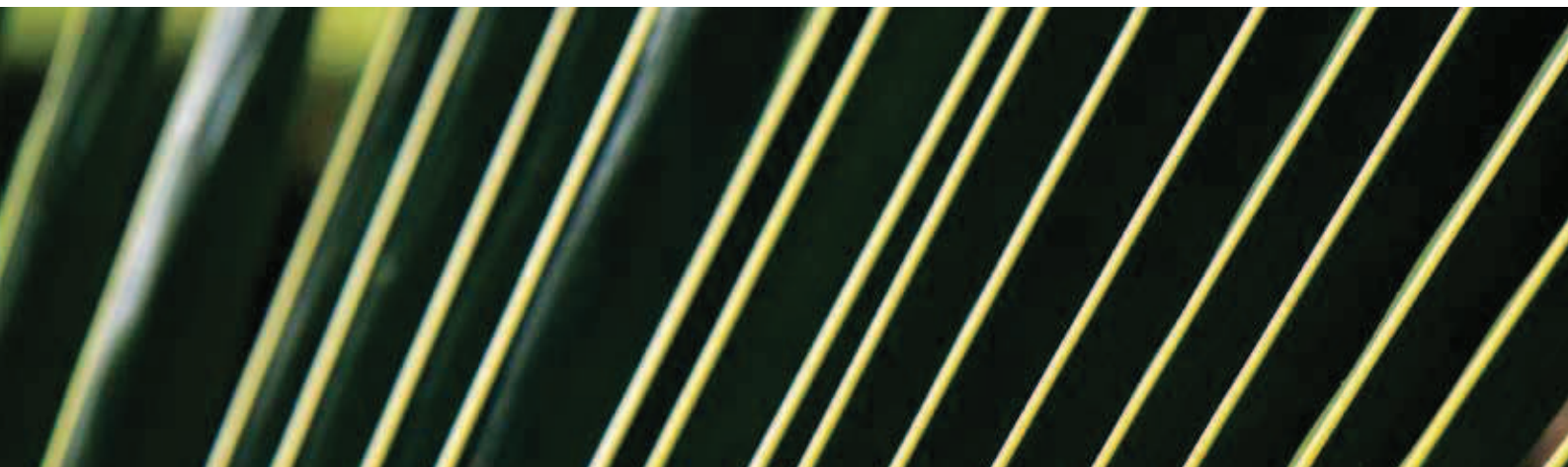
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