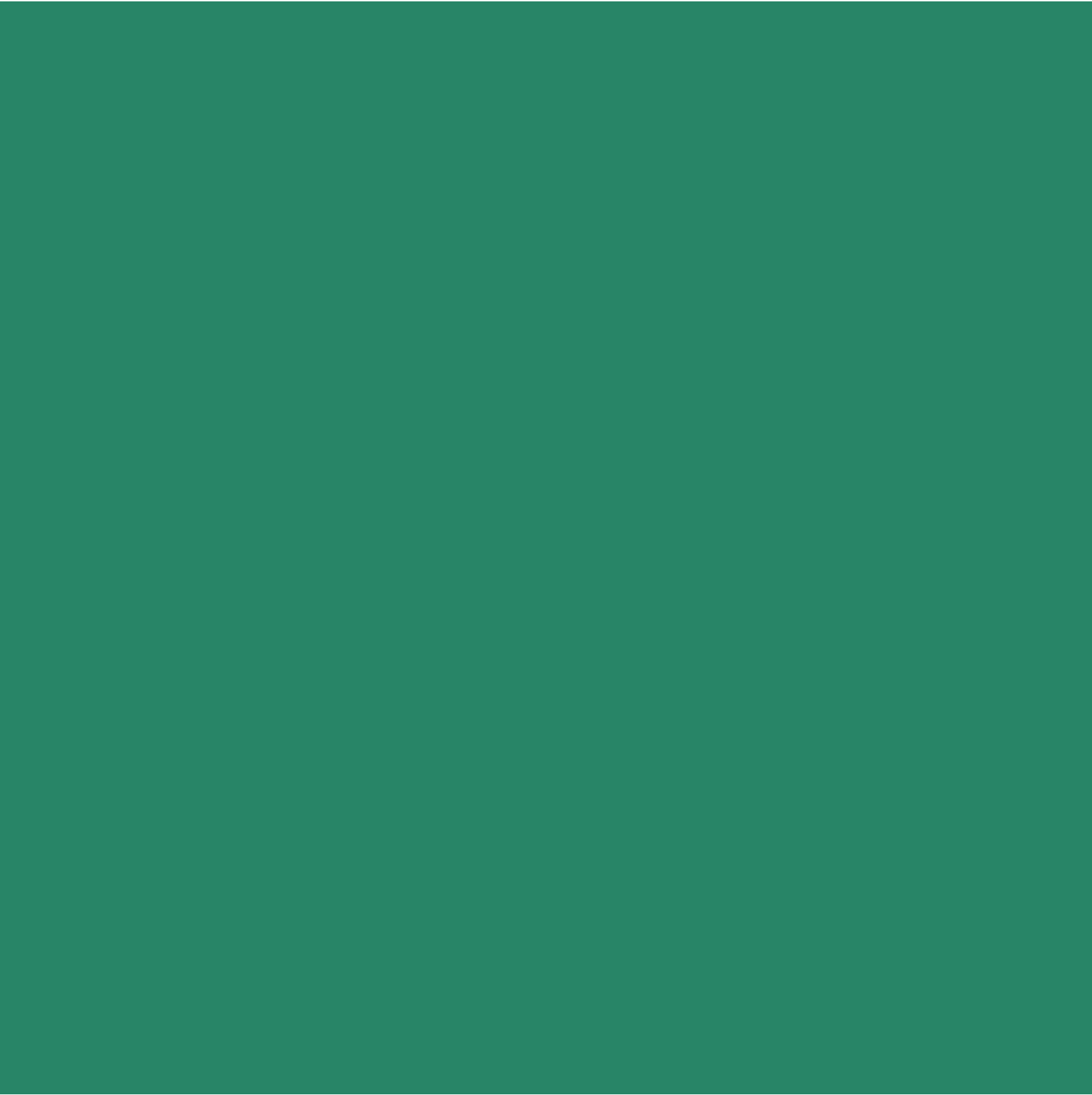




# AMAZON FUND

**ANNUAL REPORT 2011**  
BASIC CONCEPTS





# AMAZON FUND

**ACTIVITY REPORT 2011**  
BASIC CONCEPTS

Dear Reader,

The Amazon Fund is considered a pioneering initiative in financing efforts in Reducing Emissions from Deforestation and Degradation (REDD). Within this context, the account of its history, learning processes and results are relevant aspects to share.

With this, the publication of annual reports, besides being an instrument for accountability and transparency of information, is an opportunity to share stories and experiences. In the specific case of the Amazon Fund, it is also a way to record and disseminate to society how an innovative and participatory strategy is being built and consolidated, which fosters sustainable, social and environmental development of the region.

The 2011 Annual Activities Report of the Amazon Fund is divided into two parts, which are complementary to each other. This part, which is more conceptual, presents the following information:

- The Amazon Rainforest and the main factors driving deforestation;
- Objectives of the Amazon Fund and the correlation with the Federal Government's plans to prevent and combat deforestation in the states of the Legal Amazon;
- Rules for fundraising;
- Assignments related to its governance;
- Operational structure, eligibility criteria and processing of projects at the BNDES, manager of the Amazon Fund; and
- Instruments for dialog and dissemination of information to the various audiences and partners of the Amazon Fund.

The second and more descriptive part shows efforts developed throughout 2011 and the results achieved so far by the Amazon Fund. It is divided into the following topics:

- Message from the Minister of the Environment;
- Message from the BNDES' President;
- Evolution, prospects and challenges of the Amazon Fund;
- Data on deforestation in the Amazon in 2011;
- Donations formalized;
- Meetings held by the Guidance Committee and the Technical Committee of the Amazon Fund;
- Operational and financial performance of the fund, accounting and audits;
- Methodology for monitoring and assessing results;
- Detailed description of projects supported;
- Technical cooperation, communication efforts, dissemination and participation in events.

Enjoy the read.

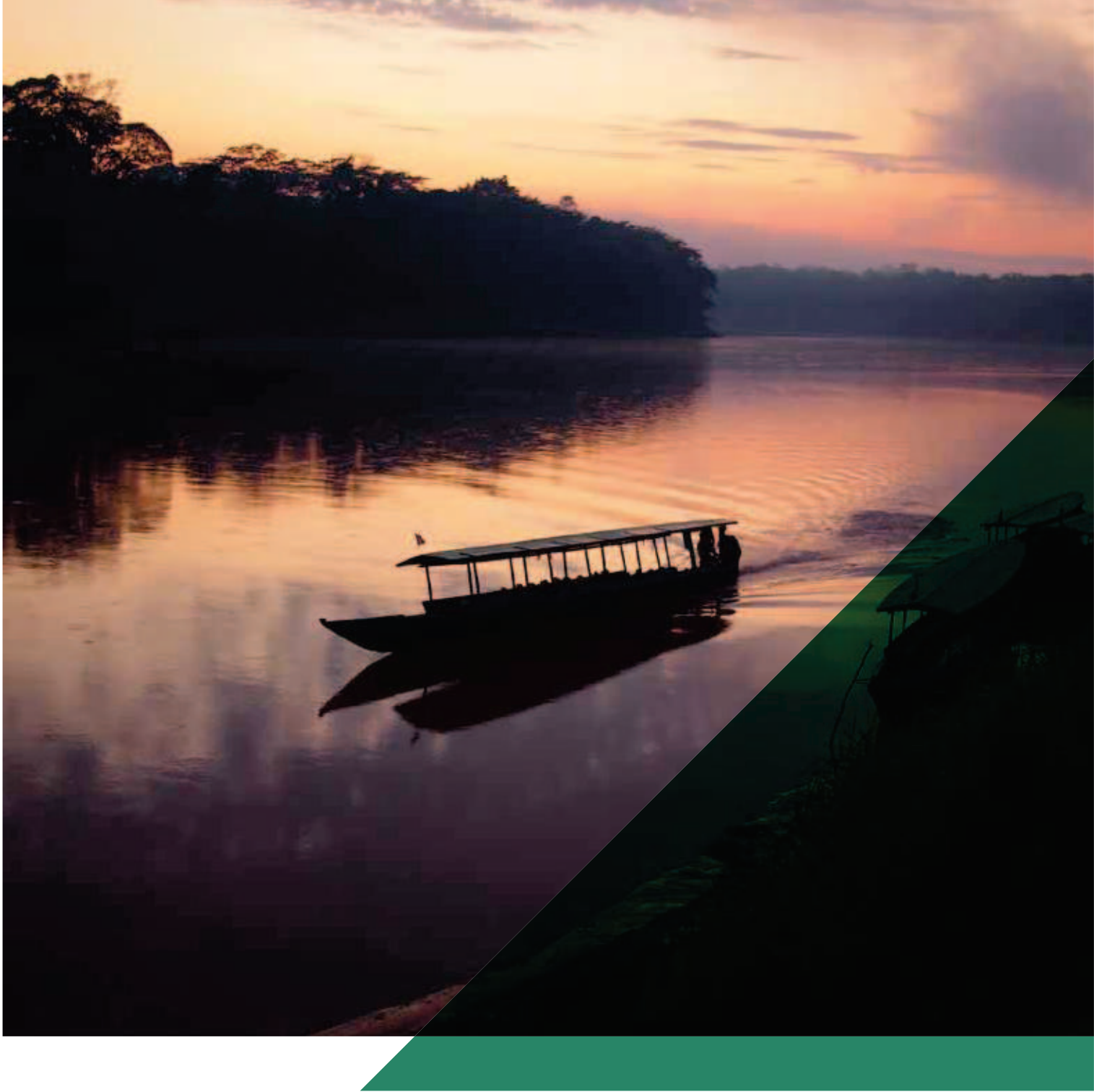
**AMAZON FUND. BRAZIL PROTECTS IT. THE WORLD SUPPORTS IT.  
EVERYBODY WINS.**





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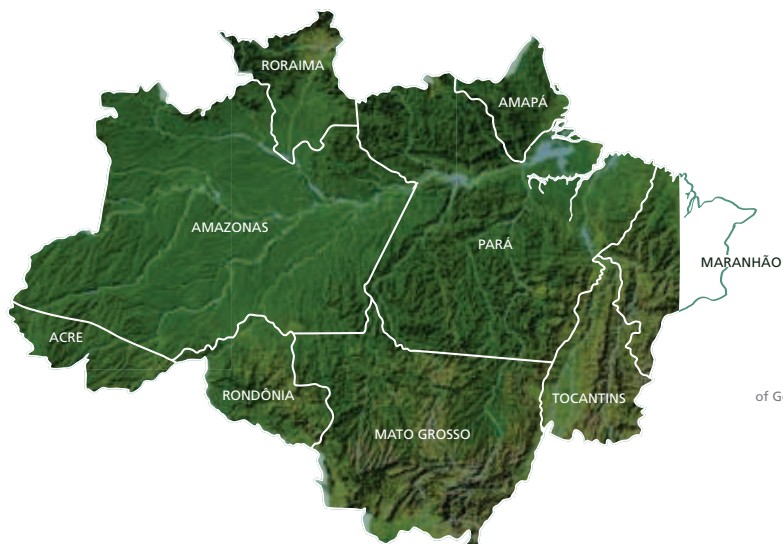
## MAIN FACTORS DRIVING DEFORESTATION

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

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

Sixty percent of the Amazon Basin is in Brazilian territory, where the Amazon Biome occupies not only five federation units (the states of Acre, Amapá, Amazonas, Pará and Roraima), but also a large part of the state of Rondônia (98.8%), more than half the state of Mato Grosso (54%), a part of the state of Maranhão (34%) and the state of Tocantins (9%), according to the Brazilian Institute of Geography and Statistics (IBGE).

FIGURE 1: LEGAL AMAZON



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

FIGURE 2: AMAZON: SOME CONCEPTS



The Amazon is one of the largest gene banks on the planet; a natural heritage of unique proportions, with vast rivers and diverse ecosystems along its plains, plateaus and mountains. It has natural gas and oil reserves, and it is also one of the biggest mineral deposits in the world.

The region's population comprises approximately 24 million inhabitants,<sup>1</sup> in contrast with the 3.8 million in 1950, representing an increase twice the national mean. Despite the predominating urban population, several indigenous groups and riverside communities, besides "quilombola" communities (maroons), formed by descendants of black slaves, live in the region.

Deforestation in the Brazilian Amazon is associated with the occupation of the region, especially throughout the second half of the twentieth century, which saw the opening of roads through the forest, heightened by active settlement policies to occupy the territory, and which attracted immigrants from other parts of the country.

Under the diagnosis terms that integrate the Sustainable Amazon Plan (PAS), released in May 2008, this occupation process did not occur in a harmonic, balanced and sustainable way. Cities grew because of the significant number of people drawn to them, and, although the economy has developed, this expansion was based mainly on the supply of raw materials with low added-value. Services provided by the State did not accompany the rapid growth in the region, and this contributed to making the socio-economic indicators in the region among the lowest in the country.<sup>2</sup>

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

*strictly regarding the 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 the forests in the Legal Amazon has been removed. This percentage is concentrated especially in an area called the*

<sup>1</sup> According to IBGE, the population in the Legal Amazon was 24,074,677 inhabitants in 2010.

<sup>2</sup> Chapter 1 of the Sustainable Amazon Plan (PAS) Diagnosis, May 2008.

*Deforestation Belt (or, in another perspective, Dense Population Belt), which extends from the west of the state of Maranhão, through Tocantins, a part of Pará and Mato Grosso, the entire state of Rondônia, the southern Amazon, reaching the state of Acre (page 9).*

Deforestation has many negative effects, among which we can highlight:

- greenhouse gas emissions;
- climatic imbalances associated with the water cycle (reduced evapotranspiration<sup>3</sup> of the forest);
- biodiversity loss; and
- reduction of territories belonging to populations that traditionally inhabit the forest.

The Plan for Prevention and Control of Deforestation in the Legal Amazon (PPCDAM) is a Federal Government plan underway since 2004 and which brings together efforts of more than 13 ministries to contain deforestation in the region and to enable alternative forms of protection and sustainable use of the forest.

The PPCDAM's Logical Model, used to define strategic macro-actions, outlined a wide sweeping network of cause and effect, and indicated seven critical causes of deforestation:

- practice of illegal appropriation of public land;
- impunity of environmental wrongdoing;
- fragility of the National Environment System (SISNAMA) agencies;
- public land with no determined purpose;
- fragility in the verification process of land-title legitimacy;
- large and medium-sized farmers extensively expanding cattle-raising by implementing pastures; and
- incipient sustainable economic activities.

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<sup>3</sup> Phenomenon that arises from the combination of water evaporation from soil and liquid surfaces from the transpiration of plants.

Despite significant advances – which resulted in a drop of approximately 75.4% in the deforestation rate between 2003 (25,396 km<sup>2</sup>) and 2011 (6,238 km<sup>2</sup>) –, reducing the deforestation area remains an urgent and highly complex task, given the numerous associations between economic, social, legal, political and cultural factors that require constant and firm confrontation.

The land situation in the Amazon is a rather complex, and it is also the cause of frequent and violent social conflicts, in which the efforts and public policies implemented by the Federal Government weigh decisively.

The challenge posed to monitoring the Brazilian Amazon, across its enormous area, is significant. Within this context, there is illegal logging and the subsequent opening of roads by illegal loggers in isolated areas of the Amazon.

Among the main factors related to deforestation, extensive cattle-raising can be highlighted. Concerning this activity, PPCDAM Phase 2 (2009-2011) estimates that

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

Settlements, in their different modalities, received large numbers of families in the Brazilian Amazon. However, many of them also represent pressure factors on the forest, where the lack of technical assistance, as well as unregulated environmental and land-title issues in these territories have been identified as critical factors. Several factors contribute to the low sustainability of economic activities in the region:



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

A forest economy that is economically viable, with a sustainable and competitive basis and appreciation of environmental assets, still lacks the necessary and proper conditions for its development, especially those relating to access to logistic infrastructure for production and distribution. However, several advances in this direction have already been accounted for: (I) Law 11,284/06 for Management of Public Forests; the implementation of the Brazilian Forest Service; (II) the indirect management of public forests through procured forest concessions; (III) the creation of credit lines to recover areas of permanent preservation and legal reserve; (IV) contracting management plans for extractive reserves; and (V) support for the commercialization of extractive products through its inclusion in the Minimum Price Guarantee Policy of the Federal Government.

By analyzing, to a greater or lesser extent, the critical causes of deforestation, we can emphasize the importance of the research and innovation system in the Brazilian Amazon, whose further development will require not only answers to existing problems, but also the discovery of opportunities, especially due to the still unknown resources related to the extraordinary biodiversity in this region.

## AMAZON FUND OBJECTIVES

The Amazon Fund aims at contributing to reducing greenhouse gas emissions from deforestation and forest degradation. It is a fundraising tool involving voluntary donations for non-reimbursable application 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 allocated to the BNDES, which is responsible for raising and applying resources, as well as accompanying and monitoring supported efforts and projects, accounting and reporting results in a constant and transparent fashion, in addition to acting as the executive secretariat of the Guidance Committee of the Amazon Fund (COFA).

To achieve its objectives, the Amazon Fund can support projects in the following areas, specified in Decree N°. 6,527/08:<sup>4</sup>

- 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 forests;
- V. Ecological-Economic Zoning, land-use planning and land-title regularization;
- VI. Conservation and sustainable use of biodiversity; and
- VII. Recovery of deforested areas.

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

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<sup>4</sup> The full text of the decree can be found in Annex 1 to this report.

Initiatives eligible for support from 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 the Prevention and Combating of Deforestation, the COFA's guidelines and criteria, 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. It was built based on a cooperation agreement signed in 2003 between the Federal Government and governors of the states of the Amazon Region, and it was based on a comprehensive diagnosis. PAS has contemplated public consultations with more than five thousand representatives of the region. In addition, the plan considered the general guidelines for structuring efforts of development present in the 2008-2011 Multi-Year Plan (PPA) and in the Growth Acceleration Plan (PAC), launched in 2007.

PAS aims to implement a model of development on a sustainable basis for the Brazilian Amazon, based on the recognition of different regional realities. As a necessary condition to achieve satisfactory results, the plan proposes that territorial units will be the central element of organization of efforts, this way considering the economic, social, cultural, environmental and political aspects of each region.

We can also highlight that in PAS the negotiation is the key element to achieve its general guidelines, by giving attention to the local point of view and by seeking the dialogue and consensus between the social forces in the region.

PAS also emphasizes the integration of the South American Amazon as a strategic element in the development of the region, requiring the construction of a common agenda with partners in neighboring countries.

PAS' strategic guidelines are organized around 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 of Action for Prevention and Control of Deforestation in the Legal Amazon (PPCDAM)**

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

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

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

After an assessment process of its first phase in November 2009, priorities for the second phase (2009-2011) were established in order to adapt the PPCDAM not only to the changes in the deforestation dynamics, but also to the matured efforts and to the success achieved over the first four years. New strategic guidelines were incorporated, totaling 12, and they are summarized below:

1. To add value to the forest aimed at conserving biodiversity, forest management of wood and non-wood products, as well as providing environmental services.
2. To encourage the best use of already deforested areas, covering technological innovation and sustainable systems for production.
3. To support certification processes and to add value to biodiversity products and to those from local activities, such as agriculture and cattle-raising.
4. To provide land-title regularization, combating illegal occupation of public lands and strengthening instruments for democratic and sustainable management of the territory, introducing alternative models for land reform that are suitable to the Amazon, in addition to creating and consolidating conservation units and indigenous lands.
5. To improve instruments to monitor, license and provide surveillance of deforestation using innovative methodologies, taking into account integration with incentives to prevent environmental damage.
6. To adopt a decentralized and collective management style for public policy through partnerships between the federal, state and municipal governments.
7. To encourage the active participation of different sectors throughout the Amazon society concerned with the management of policies related to preventing and controlling deforestation.
8. To encourage the implementation of the Rural Environmental Registry, an instrument through which environmental agencies can gain the georeference of rural properties in order to classify remote monitoring and effectiveness of surveillance operations in the field, as well as providing guidance in the environmental regularization of rural property.



9. To implement environmental accountability for illegal deforestation to enhance inter-institutional cooperation for effective administrative, civil and criminal accountability of offenders.
10. To support the implementation of State Plans for Prevention and Control of Deforestation in the Brazilian Amazon.
11. To expand and encourage sectorial agreements as a way to confirm the commitment of entities from the production sectors (soybean, wood, charcoal), aiming at preserving and conserving forests.
12. To give visibility to PPCDAM's efforts by disseminating information.

In this new phase, PPCDAM emphasizes the connection to efforts from state governments, according to the State Plans for Prevention and Control of Deforestation and the Green Belt Operation, focused on municipalities considered priorities in the control and reduction of 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 contribute to the compliance of objectives set forth in PPCDAM, had guidance from the Federal Government. In this vein, the plans contain components related to territorial and land-use planning, environmental monitoring and control, and to fostering sustainable production activities and governance.

The states of Acre, Amazonas, Amapá, Maranhão, 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. The state of Roraima held public hearings to present its State Plan to Combat Deforestation and Burn-offs.

### GREEN BELT OPERATION

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

To prevent a rise in the deforestation rate, the Federal Government took further measures, such as issuing Decree N°. 6,321, in December 2007, which reinforced monitoring and control efforts in priority municipalities. The Ministry of the Environment, as of 2008, began to publish annual ministerial directives 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 register, once again, their rural properties. On December 31, 2011, some 48 municipalities were on the list defined by Directive N°. 175 of the Ministry of Environment, of March 24, 2011.

Parallel to these efforts, in July 2008, Resolution N°. 3,545 of the National Monetary Council (CMN) came into force, which established environmental and land compliance as a condition for

public and private banks to grant rural credit for agriculture in the Amazon Biome.<sup>5</sup>

Also in 2008, the Federal Government started implementing the Fire Belt Operation aimed at combating deforestation and illegal timber trade in the Legal Amazon by the Federal Police and the Brazilian Institute of Environment and Natural Resources (IBAMA). The operation resulted in the closure of irregular sawmills, seizure of illegal timber and strengthening the supervision of wood transportation, among other measures.

Within this context, the Green Belt Operation steps forward as an agenda to support the transition of the development model to the municipalities in Directive N°. 175. The Green Belt seeks to legalize agricultural and forest activities in the Amazon Region.

Projects carried out in the municipalities defined in this Directive are a priority for support from the Amazon Fund, according to geographical criteria defined by COFA (see chapter on Governance in 2011, in the Actions and Projects section).

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<sup>5</sup> According to this resolution, owners and squatters of properties in the Amazon Biome must meet the following conditions to obtain rural credit: (1) obtain a valid Certificate of Rural Property Registration (CCIR); (2) have proof that all paperwork is environmentally legal; and (3) not possess impounded property listed at the Brazilian Institute of Environment and Natural Resources (IBAMA).

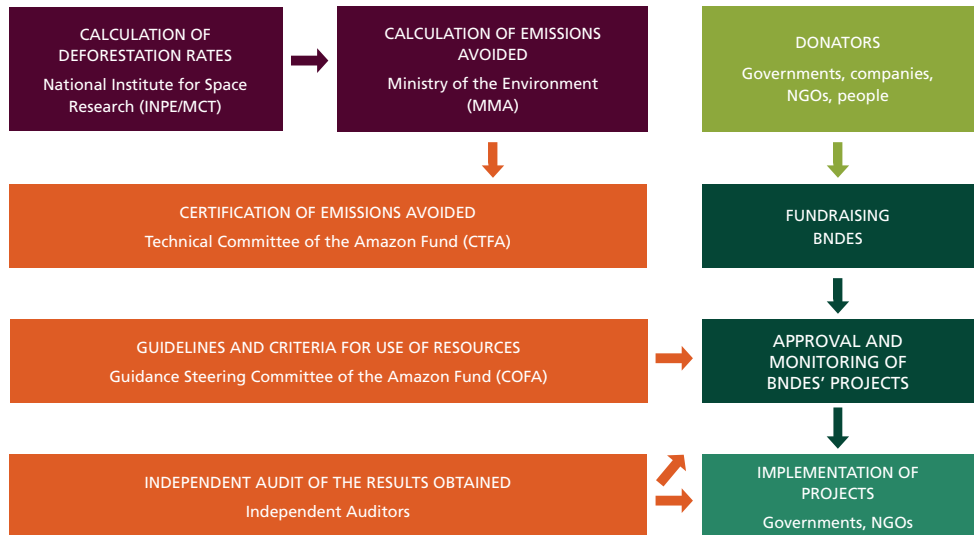


## AMAZON FUND GOVERNANCE

The model of governance for the Amazon Fund was designed to facilitate dialog among multiple audiences and to contribute to the full achievement of its goals and objectives.

The Amazon Fund has an inclusive governance structure, which comprises representatives of the Federal Government, the governments of the Brazilian states in the Legal Amazon involved in combating deforestation, civil society (NGOs, social movements, indigenous people and the business sector), the scientific community, as well as independent auditors responsible for verifying the proper use of funds donated, as illustrated in the figure below.

FIGURE 3: AMAZON FUND GOVERNANCE



Source: BNDES.



## Technical Committee of the Amazon Fund

The Technical Committee of the Amazon Fund (CTFA) was established by MMA Directive N°. 345, of October 22, 2008, and its task is to attest Carbon Emissions from Deforestation (ED) calculated by the Ministry of the Environment. To do so, the methodology for calculating the area of deforestation and the amount of carbon per hectare utilized to calculate emissions must be assessed.

The CTFA ordinarily meets once a year and consists of experts with renowned scientific-technical knowledge, appointed by the Ministry of the Environment after consultation with the Brazilian Forum on Climate Change. The term in office is three years, renewable once for the same period.

Participation in the CTFA is considered of public interest and does not result in remuneration of any kind.

## Guidance Committee of the Amazon Fund

The Guidance Committee of the Amazon Fund (COFA) is entrusted with establishing guidelines and criteria for applying funds, as well as approving information on the application of resources and the Annual Report of the Amazon Fund.

COFA also has the role of ensuring the alignment of initiatives supported by the Amazon Fund, in accordance with the public policies of the Plan to Prevent and Control Deforestation in the Legal Amazon and the strategic guidelines of the Sustainable Amazon Plan.

## RULES FOR FUNDRAISING

Fundraising for the Amazon Fund is conditioned to reduced greenhouse gas emissions from deforestation, i.e., it is necessary to prove a drop in deforestation in the Amazon to allow new funds to be raised.

To calculate the annual fundraising limit of the Amazon Fund, we chose a simple and conservative method to ensure that the values of emission reductions are not over-estimated. Briefly, the calculation for the values of carbon emission reductions from deforestation is the results of the difference between the average historical deforestation rate and the deforested area effectively measured in the year in review (average historical deforestation rate – annual deforestation rate), multiplying this result by the amount of carbon in the biomass in tonnes of carbon per hectare.

Mathematically, it can be represented as follows:

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

ED = Reduction in carbon emissions from deforestation in tonnes of carbon (tC)

TDM = Average rate of deforestation (in hectares)

TD = Annual deforestation rate for the period (in hectares)

tC/ha = Tonnes of carbon per hectare of forest

The parameters involved in calculating the estimated reduction in emissions from deforestation are: (I) annual deforestation rate measured by the INPE; (II) average historical deforestation rate; and (III) amount of carbon per hectare contained in the forest biomass, according to the methodology defined by the Ministry of the Environment.

Here is some information on these concepts.

## Annual deforestation rate measured by the National Institute for Spatial Research (INPE)

Since 1988, the INPE has used an efficient system to monitor the forest coverage of the Brazilian Amazon, which allows an estimation of the annual deforestation rates in the region.

Since 2002, these estimates have been obtained through a digital classification system of images, according to the PRODES (Program for Monitoring Deforestation in the Legal Amazon). Methodology from the INPE, which utilizes sensors that can capture all deforestation larger than 6.25 hectares, a feature that has made the system reliable.<sup>6</sup>

Rates are calculated annually for periods ranging 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.

## Average historical deforestation rate

The annual deforestation rates to be employed in the calculation of emission reductions are compared with the average deforestation rate from ten-year periods. These decades are updated every five years, and in the 2011-2015 period, annual deforestation rates will be compared with average deforestation from 2001 to 2010 (average deforestation rate – TDM 2001-2010). In the subsequent period, from 2016 to 2020, annual deforestation rates will be compared with the average rate of deforestation from 2006 to 2015.

In this context, the National Plan on Climate Change (PNMC) plays an important role. It was launched by the Brazilian government in December 2008 and has four-year targets to reduce deforestation in the Amazon established by the Interministerial Committee on Climate Change, in collaboration with other boards and agencies, among them the Brazilian Forum on Climate Change and the Interministerial Commission on Global Climate Change.

One of the goals was to reduce the average deforestation rate by 40% in the 2006-2009 period in relation to the 1996-2005 period. The reduction was 41%, according to the PRODES/INPE data,

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<sup>6</sup> According to CTFA, the base error of Prodes is about 8%.

which means that the goal was met. For the two following four-year periods,<sup>7</sup> the established target was a 30% reduction in relation to the immediately previous four-year period, as shown in Graph 1.

GRAPH 1: FOUR-YEAR TARGETS TO REDUCE DEFORESTATION IN THE AMAZON IN THE NATIONAL PLAN ON CLIMATE CHANGE



Source: PPCDAM phase 2.

The Amazon Fund contributes to achieving the targets set by PNMC, especially the permanent reduction of deforestation rates and stopping the loss of forest coverage up to 2017.

<sup>7</sup> The PNMC can be found in full on the Ministry of Environment website: <[www.mma.gov.br](http://www.mma.gov.br)>.

## Estimation of the carbon contained in forest biomass

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

In 2011, the standard price of US\$ 5.00/tCO<sub>2</sub> (five U.S. dollars per ton of carbon dioxide) was utilized. It is important to note that the estimate of carbon can vary depending on the location and characteristics of the forest area studied; and that data related to the degradation are not yet registered by PRODES. Thus, the result of emission reductions might change with the implementation of these two variables, which should occur when the data from the National Forest Inventory become ready and when future monitoring systems start operating.





It is up to the Ministry of the Environment to define the methodology for calculating the annual fundraising limit of the Amazon Fund, and it is up to the experts from the Technical Committee of the Amazon Fund (CTFA) to certify the effective reduction of carbon emissions from deforestation, evaluating the methodology for calculating the area of deforestation and the amount of carbon per hectare utilized to calculate emissions.

Based on emission reduction data, calculated by the Ministry of the Environment and validated by CTFA, the BNDES is authorized to raise donations and issue certificates to acknowledge donors' contributions to the fund.

FIGURE 4: FLOW OF FUNDRAISING

The Ministry of the Environment prepares Technical Note establishing emission reduction based on data produced by the National Institute for Spatial Research (INPE). Technical Note is assessed by the Technical Committee of the Amazon Fund.



The Ministry of the Environment sends a report to the BNDES and indicates the amount of reduction and value per ton of CO<sub>2</sub>.



The BNDES proceeds with fundraising, following the fundraising limit according to the procedure described above.

Source: BNDES.



## WHO WE ARE

The Brazilian Development Bank (BNDES), a federal public company created in 1952, is the main instrument for long-term financing for investments in all segments of the Brazilian economy, with operations that cover the social, regional and environmental magnitude.

The BNDES' mission is to foster the sustainable development of the country. In its track record, the Bank has a legacy of impressive results in Brazilian economic and social development and has introduced innovative management and environmental responsibility practices.

To fulfill its mission, its main objective is to create the right conditions and instruments for financial support to enable it to step up to the challenges of development. Fulfilling the wide array of activities poses several challenges in ongoing training for its employees, hired by means of nationwide civil servant recruitment exams.

The BNDES' decisions are based on technical guidelines and are subject to auditing and controlling bodies set up for this purpose, with different accountability mechanisms.

The BNDES is also a signatory to the Green Protocol and its Socioenvironmental Policy is public and transparent, striving for excellence in exercising its corporate responsibility.

FOR MORE INFORMATION ON THESE TOPICS:

- Socioenvironmental Policy:  
BNDES Website in English > Social and Environmental Responsibility > Socioenvironmental Policy
- Green Protocol:  
BNDES Website in Portuguese > Áreas de Atuação [Areas of Activity] > Meio Ambiente [Environment] > Nesta Seção [In this Section] > Outros compromissos [Other commitments]

In its Corporate Plan for the 2009-2014 period, the Bank chose innovation, local and regional development as well as social and environmental development as the most important aspects for economic development within the current context, and which should be fostered and emphasized in all projects it supports. Thus, the BNDES reinforces its historic commitment to the development of the entire Brazilian society.

## HISTORY OF THE AMAZON FUND IN THE BNDES

During the 12<sup>th</sup> Conference of Parties (COP) of the United Nations Framework Convention on Climate Change (UNFCCC) held in Nairobi, Kenya, in 2006, Brazil, backed by good results achieved in combating deforestation in the Amazon, presented a proposal where positive financial incentives from developed countries would be offered to proven emission reductions in developing countries, without the generation of carbon credits in return. The Brazilian proposal eventually led to the creation of the Amazon Fund, which was officially created by a presidential decree (Decree N<sup>o</sup>. 6,527) in 2008, and the BNDES was attributed with the responsibility to manage it. The Norwegian government played a key role in creating the fund by donating funds to the initiative.

After addressing tax and regulatory issues, operational structure, staffing and training, the BNDES, as the manager of the Amazon Fund, signed its first donation agreement with the Ministry of

Foreign Affairs of Norway on March 25, 2009. Since then, the Amazon Fund has received funds from two more donators: the Federal Republic of Germany and Petrobras, Brazil's largest oil company. For more information on this topic, see the section on donations in the Formalized Donations chapter, in the Projects and Efforts section.

Even receiving only non-reimbursable financing, the supported projects assume non-financial responsibilities and burdens. The criteria utilized in accepting proposals submitted to the BNDES must be in accordance with the Amazon Fund's guidelines which are determined by COFA. They should also be consistent with the Plan of Action to Prevent and Control Deforestation in the Amazon (PCCDAM) and with the Sustainable Amazon Plan (PAS), thus demonstrating the contribution to reducing deforestation and to fostering sustainable development, in the same way as planned actions must be consistent with the project's proposed objective, budget and implementation schedule.

Raising new funds, as well as the continuous flow of donations, is strongly influenced by the credibility not only demonstrated by the fund manager, but also by those carrying out the supported projects and other participants involved in its governance.

Thus, the criteria for accepting and approving projects – based on compliance, technical feasibility analysis, statement of achieved results, transparency of information and public accountability – are essential and mandatory requirements in the pursuit of excellence in the management of the Amazon Fund.

## DUTIES AND OPERATIONAL STRUCTURE

In early 2009, the Environment Division was established at the BNDES, which, in 1989, had established its first unit dedicated to environmental issues. With the increase in management initiatives and environmental investments carried out by the Bank, in conjunction with the strategic guidelines from the 2009-2014 corporate planning, the environmental issue took on a more significant institutional importance, which allowed the Bank to assume the management of the Amazon Fund. The fund was allocated to a department specially created to manage it: the Management Department of the Amazon Fund (DEFAM).

DEFAM focuses on the following activities:

- raising donations, together with the BNDES' Finance and International divisions, as well as the issuance of certificates that acknowledge donators' contributions to the Amazon Fund;
- development, structure, analysis, contracting and monitoring of non-reimbursable operations in efforts to prevent, monitor and combat deforestation, as well as fostering conservation and the sustainable use of the Amazon Biome;
- preparation of reports containing accounting and management information;
- publication of the Annual Report of the Amazon Fund, including opinions on financial statements and on compliance issued by audits that are external, independent and internationally recognized;
- development and update of the Logical Framework (Results Matrix) of the Amazon Fund and implementation of its monitoring plan;
- in conjunction with the recipient of the Logical Framework (Results Matrix), development of the supported projects and implementation of its monitoring plan; and
- development of communication channels and institutional relations with the general public and interested parties.



DEFAM also has the task of convening and holding the Annual Meeting with donators to inform them of the results achieved by the fund and the fulfillment of contractual obligations, in addition to acting as the Executive Secretariat of COFA.

DEFAM also works with other departments at the BNDES to identify and support operations where there is synergy with its area of expertise or with the geographic region in which its activities are developed.







## ELIGIBILITY CRITERIA

While operating through non-reimbursable funds, the Amazon Fund follows the usual rules adopted for the projects financed by the BNDES.<sup>8</sup>

Some projects may receive financial applications without requiring repayment. These are investments of a social, cultural (education and research), environmental, scientific or technological nature.

The sources of the resources for the Amazon Fund (donation) reinforce the need to adopt procedures that ensure proper implementation, accountability and financial statements.

The donation of international resources to the Amazon Fund implies that donators are accountable in their countries of origin. The willingness of donators to continue donating is linked to the financial statements, credibility and trust in institutions that are managing and putting the funds donated into operation.

These requirements are goals not only for the Amazon Fund but also its system of governance and management, to ensure that they are applied in synergistic, coordinated and integrated efforts, aimed at serving a wide array of audiences and not just specific interests, even if they are actually deserving.

Since 1986, the BNDES has supported non-reimbursable projects aimed at the social area and, since 1995, has done the same in the cultural area, always

<sup>8</sup> More information at: [www.bndes.gov.br](http://www.bndes.gov.br).

attentive to the sectorial specificities. The nature of non-reimbursable resources of supported projects does not mean the application grants or removes the need for a clear statement of expected results and their relevance.

To be approved, projects must comply with the guidelines and criteria of the Amazon Fund and must demonstrate the contribution to reducing deforestation and forest degradation. Good projects should be grounded in more than just good ideas: to put abstract statements into practice, programs and projects are needed, and they should be shaped into concrete efforts.

Moreover, the envisaged efforts are expected to demonstrate that they are consistent with the proposed objective, as do the project's budget and implementation schedule. Last but not least, applicants must have the managerial capacity to implement the project.

Such managerial capacity is essential to enable applicants to manage the funds received. The use of such resources and the expected outcomes should be monitored, recorded and reported.

Monitoring outcomes and impacts of efforts and supported projects is a key element in funds that receive donations and that should be accountable for their activities. Much more than an instrument of control, the Logical Framework is an important tool for planning, monitoring, demonstrating and communicating the results achieved.

## PROCESSING OF PROJECTS

The complete cycle of a project in the BNDES comprises such steps eligibility, analysis, approval, contracting and disbursement. Managing and taking responsibility for these steps are tasks charged to two units of the BNDES – the Priority Department (DEPRI) and the Management Department of the Amazon Fund (DEFAM) –, part of the Planning Division and the Environmental division, respectively.

Technical assessments are submitted at different times to two boards, the Eligibility and Credit Committee and the BNDES' Board of Directors.

Requests to the Amazon Fund for financial support are initiated by sending Previous Consultation, a model provided by the BNDES to present proposals which serves as a guide for the information required for the initial understanding of the project, as well as its compatibility with the guidelines and objectives of the fund.

Previous consultations are received and assessed by the Priority Department (DEPRI), which verifies the preliminary documentation and suitability of the project in relation to the guidelines and criteria applicable to the Amazon Fund.

In the Previous Consultation, basic characteristics about the applicant institution are presented, as are the fundamental aspects of the project that requires financial support. Based on this information, there is a pre-assessment of the applicant institution, including its managerial capacity, history of projects undertaken and registration classification, among other issues. At this stage, the BNDES' Credit and Environmental Divisions are also consulted.

An applicant institution, for the Bank, is a company that submits the Previous Consultation to the Amazon Fund and signs the contract for non-reimbursable financial cooperation with the BNDES. The applicant is accountable to the BNDES and is responsible for implementing the project and all other obligations associated with it, such as sending reports on the project's progress and providing support to the BNDES in monitoring the physical and financial implementation of the project.

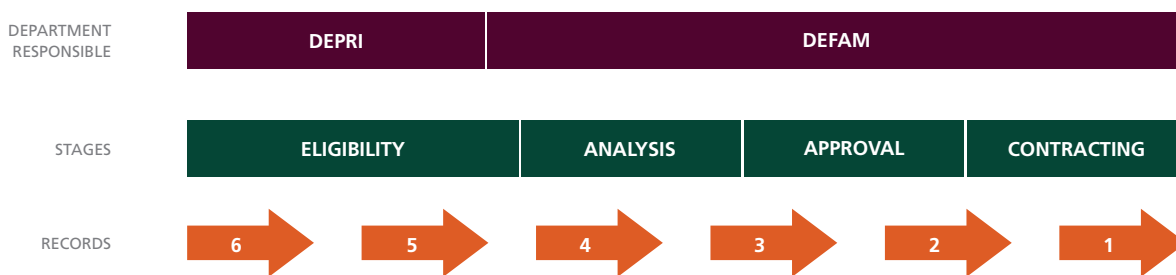
After the request for financial support is deemed eligible, the applicant must then submit the detailed project. Only then does the team from the Management Department of the Amazon Fund (DEFAM) start the analysis phase, which includes technical visits, meetings and other dialog to define

costs involved, the implementation schedule, items eligible for financing, presentation of counter-investments and the conditions for contracting and releasing funds, among other issues defined in agreement with the applicants. Once the analysis has been completed, the operational department makes a technical recommendation concerning the financial support for the project, which will be decided by the BNDES' Board of Directors. If approved, the project can be contracted.

After signing the contract, the implementation phase of the project starts. Funds are disbursed in tranches according to the terms of contract signed, to the established financial and physical schedule, and to the progress of the project, which is verified in the technical monitoring carried out by the team from the BNDES/Amazon Fund.

The following flowchart summarizes the steps, their protocol records, and the departments responsible for the processing of projects described above, beginning with the submission of the Previous Consultation.

FIGURE 5: BNDES' OPERATIONAL STAGES



Records correspond to the protocol levels used by the BNDES in light of not only the amount and comprehensiveness of the information presented and required, but also the time required for the applicant to obtain and submit the requested information, the definition and detailing stages of the proposed project, as well as the time needed to review and make technical recommendations to the operation in order for decisions to be handed down by the relevant competencies. These levels correspond to how the information on the Amazon Fund portfolio is disclosed so far.

The main instructions for filling in the Previous Consultation are outlined in the Guidelines and Information Guide for Previous Consultation to the Amazon Fund.<sup>9</sup>

The operational flow is published on the Internet, where all stages of analysis and financial support are described, including the definition of responsibilities. The procedures for submitting requests for support are made widely available and are also published on the Internet, including the documentation required at each stage.

Additionally, newsletters and reports on the portfolio of the Amazon Fund are published periodically.

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<sup>9</sup> It is also available at the Amazon Fund website: <[www.fundoamazonia.gov.br](http://www.fundoamazonia.gov.br)>.





## TRANSPARENCY OF INFORMATION

The Amazon Fund maintains a constant dialog with its various audiences in order to provide transparency on its activities, obtain information and establish partnerships aimed at improving its efforts.

Among the instruments of dialog, communication and dissemination of information, we can highlight:

► **Website – [www.fundoamazonia.gov.br](http://www.fundoamazonia.gov.br)**

The BNDES has, on the Internet, a site on the Amazon Fund, which also has an English and Spanish version. Since the launch of its first version in 2008, the Amazon Fund website has undergone successive improvements in conjunction 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 broad and across-the-board information on the Internet, such as the operational flow for project approval and documentation required at each stage of the project. Customer assistance is accessible via the Contact Us icon or by phone, and there is a Frequently Asked Questions section.

The Amazon Fund discloses its portfolio of projects in detail, with the following information: purpose, amount (project and request), location, area, applicant's company, operational stages and contracted projects.

The BNDES does not disseminate information resulting from analysis it is required to carry out as manager of the fund, and which, somehow, may compromise the image or reputation of the applicants.

### ► Newsletters

From 2010, to account for its activities to COFA and donators, and to broaden its communication with the general public, the Amazon Fund began publishing a newsletter with the main events related to the work performed. In all, approximately 21 newsletters have been published, which reported on seminars, Amazon Fund presentations in Brazil and abroad, meetings, projects approved, among other events. Newsletters are published on the Amazon Fund's website, but they can also be distributed in print or by e-mail.

### ► Dialog with the public

To provide more transparency and security to the flow of information, the BNDES created the electronic addresses listed below:

1. *FundoAmazonia-SecretariaComite@bndes.gov.br*

Aim: to send or receive any calls, information on dismissal and appointment of members, requests to include topics on the agenda for meetings etc.

2. *FundoAmazonia-FaleConosco@bndes.gov.br*

Aim: to answer questions from the general public via the site.

3. *FundoAmazonia@bndes.gov.br*

Aim: to send invitations to seminars, arrange meetings etc.



All messages received at the addresses above are registered and answered. Queries addressed directly to the BNDES' technical staff and those sent, for example, via a spokesperson from the BNDES are not computed.







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

DECREE N°. 6,527, 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 N°. 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. rrecovery 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 donors to the Amazon Fund.

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

- I. name of the donor;
- 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 – O 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 entitie:
  - 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; 187<sup>th</sup> of the Independency and 120<sup>th</sup> of the Republic.*

Luiz Inácio Lula da Silva

Miguel Jorge

Carlos Minc



PRESIDENT OF THE REPUBLIC

**Dilma Rousseff**

MINISTER OF THE ENVIRONMENT

**Izabella Teixeira**

MINISTER OF DEVELOPMENT, INDUSTRY AND FOREIGN TRADE

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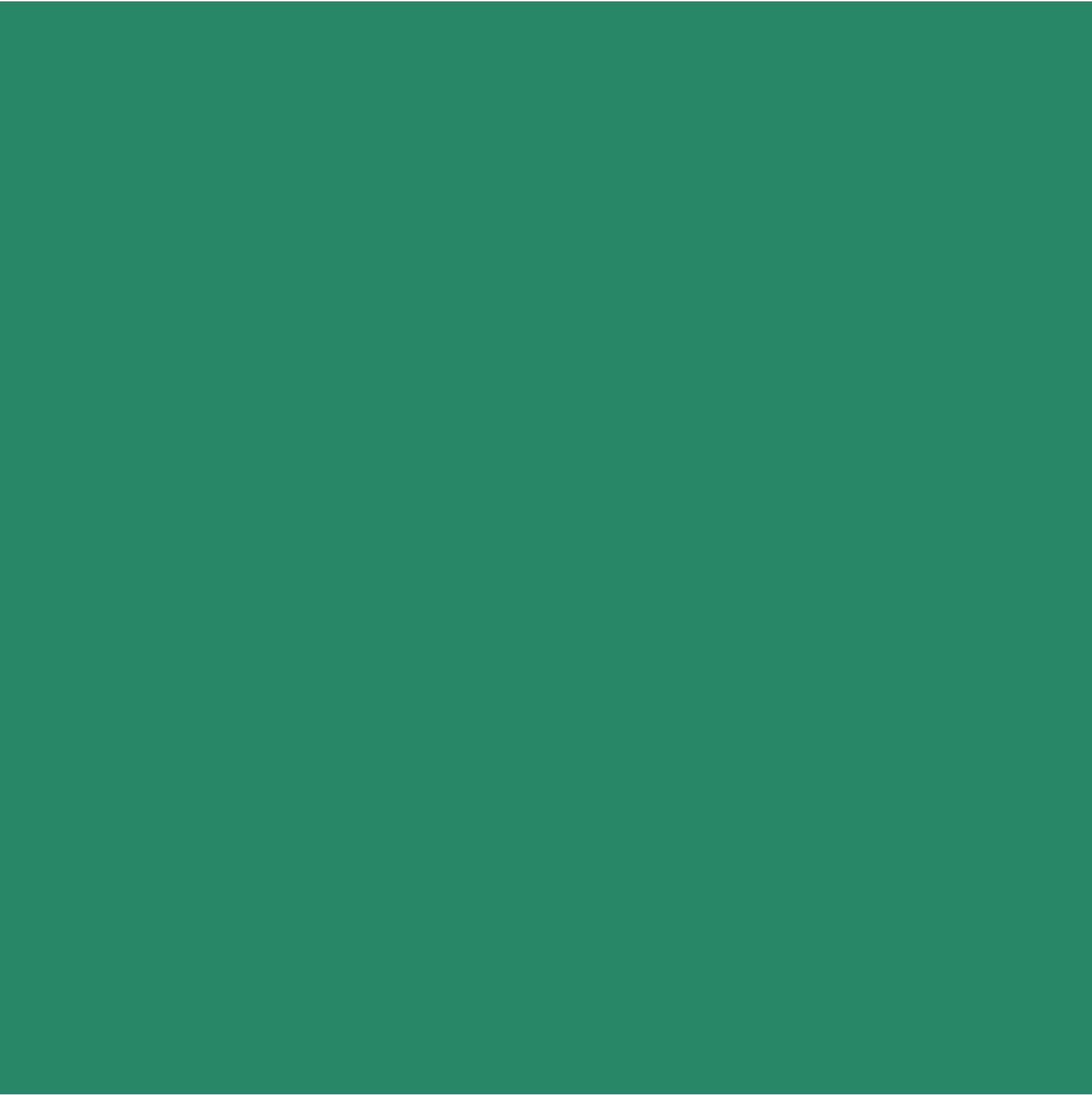
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**BNDES** *The Brazilian  
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