

## Governance deficiencies of environmental and forest funds in Pará and Mato Grosso

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Many international and domestic government and civil society actors see the use of environmental and forest funds as an important tool for raising and managing funds to create incentives for maintaining standing forests, as part of the international discussions on reducing emissions from deforestation and forest degradation (REDD+). As a contribution to current discussions about creating and implementing such funds at a state level, we analyzed four existing forest and environmental funds in the States of Pará and Mato Grosso. Our analysis reveals serious shortcomings in the management of those funds and their ability to achieve the environmental and social objectives for which they were created. To improve the governance of these funds we recommend: increasing transparency of operating rules; adopting mechanisms for civil society participation and expanding transparency and access to information on financial administration of the funds and on the impact of the projects being supported.

### REDD+ AND FOREST FUNDS

Deforestation and forest degradation contribute to approximately 17% of global emissions of greenhouse gasses (GHG)<sup>1</sup>. Since 2005, Parties to the United Nations Framework Convention on Climate Change (UNFCCC) have been negotiating the creation of incentives for countries willing to mitigate those emissions. In 2010, Parties clarified a number of the aspects about what the incentive would seek to achieve as part of the Cancun Agreements, during the 16<sup>th</sup> Conference of the Parties for the UNFCCC (COP-16) held in Mexico. As part of the Cancun agreements, the activities to be incentivized were listed and include: reducing deforestation and forest degradation, the conservation and enhancement of forest carbon stocks, and the sustainable management of forests. This set of actions is known as REDD+.

In parallel to the international discussions, different levels of government in Brazil have debated the creation of a REDD+ strategy that would offer incentives for conservation and sustainable use of forests in various biomes, especially the Amazon. At the federal level, the issue has been addressed by both the Executive and Legislative branches. For example, in 2010 the Ministry of the Environment (MMA in Portuguese) created Working Groups to discuss a national system for REDD+. In the National Congress, the Bill 195/2011, which intends to create a national REDD+ system, is under consideration.

There are three key points being discussed regarding the establishment and governance of a national REDD+ system in Brazil: i) institutional arrangements (who will manage the mechanism and how the various levels of government will be integrated); ii) generating and sharing benefits (how financial benefits will be calculated and who may receive them); and iii) financing (what will be the sources of funds). In all three cases, the capacity for administering and directing financial resources for REDD+ will be fundamental.

In that regard, over the last few years Brazil has created funds for obtaining and applying financial resources linked to REDD+, as is the case of the Amazon Fund and the Climate Fund (although the latter is not specifically for REDD+)<sup>2</sup>. In the Amazon States, funds are also to be an element of the financial framework for REDD+. In Acre, for example, State Law 2308/2010, which institutes the Environmental Services Incentive System, determines that the resources in this system will be administered by two state funds: Forest State Fund and Special Fund for the Environment<sup>3</sup>. Three other States in the Amazon (Mato Grosso, Amazonas and Pará) have draft bills which include the creation of funds for REDD+<sup>4</sup>.

If governments want those funds to efficiently contribute towards implementing REDD+ actions, they must administer them according to principles of transparency, public participation, capacity for implementation and accountability. Furthermore, that new funds must be constructed based on lessons learned from existing environmental and forest funds so as to avoid repeating problems and to encourage good practices. In this *The State of the Amazon* we evaluate the governance in four state funds in Pará and Mato Grosso.

### METHOD FOR EVALUATING FOREST FUNDS

We selected four forest or environmental funds that are related to forest area activities in Mato Grosso and in Pará, the States with the highest deforestation rates in the Amazon<sup>5</sup>. The funds selected were Environmental State Fund in Mato Grosso (Femam/MT), MT Floresta, Forest Development State Fund in Pará (Fundeflor) and Environment State Fund in Pará (Fema/PA). Each fund has an administrative agency and its own objectives (Table 1).

For the analysis, we collected information through a review of legislation and interviews with employees at the fund management agencies and at their respective overseeing institutions (State Public Prosecution Service – MPE and State Audit Court – TCE). Data collection was oriented by eight governance indicators based on the principles cited in

the previous section. Each indicator has elements of quality that guided evaluation (Table 2)<sup>6</sup>. Based on the information collected we categorized the indicators as “weak, moderate or strong”. A moderate ranking corresponds to a partial fulfillment of those elements, whereas the weak ranking refers to insufficient fulfillment or non-fulfillment of those elements.

**Table 1: Characteristics of state forest funds in Pará and Mato Grosso**

Funds		Year created	Legal instruments that created and regulate the fund	Main purpose	Managing agency	Fund Resources (R\$)
Mato Grosso	Femam	2005	Mato Grosso Complementary Law 232/2005	Finance the implementation of actions seeking to: restore or reconstitute harmed forest assets; protect the environment; regularize conservation units; implement forest and water policies; develop environmental education programs; agency expenses linked to funding and investment activities including expenses for capacity-building; improvement, development and modernization of environmental activities	Environmental State Agency in Mato Grosso (Sema/MT)	Information not available to the public <sup>a</sup> .
	MT Floresta	2005	Mato Grosso Complementary Law 233/2005	Supporting forest development in the State through collecting forest replacement fees	Rural Development State Agency in Mato Grosso (Seder/MT)	6.9 million Brazilian Reals <sup>b</sup>
Pará	Fema	1995	State Law 5887/1995 and State Decree 1523/1996	Finance plans, programs, projects, research and technologies that seek to ensure the rational and sustained use of natural resources and the implementation of actions directed towards enforcement, defense and recovery of the natural resources	Environmental State Agency in Pará (Sema/PA)	Information not available to the public
	Fundeflor	2007	State Law 6963/1995 and State Decree 2237/1996	Promote, encourage and support the organization, diversification, verticalization and dynamization of sustainable forest-based activities in the State	State Institute for Forest Development in Pará (Ideflor)	Still in implementation phase and without resources so far

<sup>a</sup> The expense authorized for fiscal year 2009 by Sema/MT was 89.8 million reais (Official Press from 03/09/2010, number 25275, p. 33). However, it is not specified if this number corresponds or not to the funds managed by Femam/MT.

<sup>b</sup> Funds for fiscal year 2007 (TCE/MT, 2009, Technical audit report from TCE/MT)

**Table 2: Indicators of governance evaluation for environmental and forest funds**

Indicators	Elements of Quality
<b>Public participation in creation/revision of fund rules</b>	Fund priorities and objectives established through a transparent and participatory process.
	Regulation of the fund and operational procedures established through a transparent and participatory process.
	Revision of fund objectives and rules integrate contributions from civil society.
<b>Clarity of rules for collection and distribution of resources</b>	Collection and distribution of funds based on rules that are clear and accessible to public.
	Procedures for application to fund clear and accessible to public.
	Norms and criteria for evaluating proposals are clear and accessible to public.
	Fund employees send feedback on the evaluation of project proposals.
<b>Clarity in administrative responsibilities</b>	Roles and responsibilities of the fund's management structure are clearly defined by law.
	Clarity regarding who is the authority for deciding project approval.
<b>Specific support for more vulnerable groups</b>	Specific procedures for access to the fund by vulnerable groups.
	Technical support for vulnerable groups.
	Support for vulnerable groups in fulfilling norms and requirements.
	Access by vulnerable groups to the fund monitored.
<b>Forest and Fundraising expertise</b>	Fund employees have forest expertise.
	Employees consult specialists in evaluating proposals.
	Employees consult stakeholders in evaluating proposals.
	Employees consult project proponents for clarification in evaluating proposals.
	Employees have expertise in obtaining funds.
<b>Administrative capacity</b>	Financial and human resources sufficient for administering fund.
	Field monitoring team has access to information needed.
<b>Financial monitoring</b>	Financial report available to public in various formats (printed, online, etc.).
	Reports include all fund operations.
	Reports generated in a regular fashion.
	Information contained in reports clearly presented and easily understandable.
<b>Monitoring of impacts and effectiveness</b>	Monitoring of contribution of the fund to the established objectives.
	Monitoring of other social and environmental impacts.
	Monitoring mechanisms include consultations of interested parties.
	Efforts to correct the main problems identified by monitoring.

## GOVERNANCE EVALUATION FOR FOREST FUNDS

We identified several failures in governance that hinder the functioning of the funds analyzed. The majority of indicators evaluated obtained a *weak* ranking (Figure 1). In fact, a *strong* ranking was obtained only in evaluating clarity in administrative responsibilities in the management of MT Floresta and Fundeflor (PA), as well as the administrative capacity at Femam (MT). In general, the main problems shared by the four funds were:

- **Lack of transparency in procedures for selecting projects:** Access to funds by third parties is limited

by the lack of dissemination of the procedures for selecting projects. None of the funds evaluated disclose the norms and criteria used for evaluating proposed projects. Furthermore, the funds do not provide feedback to proponents regarding evaluation of proposals when they are not accepted;

- **Nonexistence of technical support to help groups with difficulties in elaborating proposals:** There is no specific technical-administrative support for facilitating access to the funds by groups that have difficulties in elaborating proposals (e.g. populations that depend on the forest but have a low level of formal education);

- **Monitoring insufficiency:** The funds do not have adequate mechanisms for monitoring the impact of the activities they support. This makes it impossible to evaluate the efficiency of the economic incentives provided by those funds or their contribution to the implementation of sustainable forest-based activities.
- **Lack of transparency in rendering accounts:** None of the evaluated funds disclose comprehensive financial reports in a regular fashion. Limited information can be found in the annual reports of the State Audit Courts, but they are insufficient to allow a proper understanding of the funds activities. In the case of Fema (PA) for example, the State Audit Court publishes in its website only the summaries of the assessments made upon the fund financial report, but this information is only available for some years of this fund operation. In addition, the contents of these court assessments do not present the complete content of the reports and the state audit court does not allow public access to the full report<sup>7</sup>.

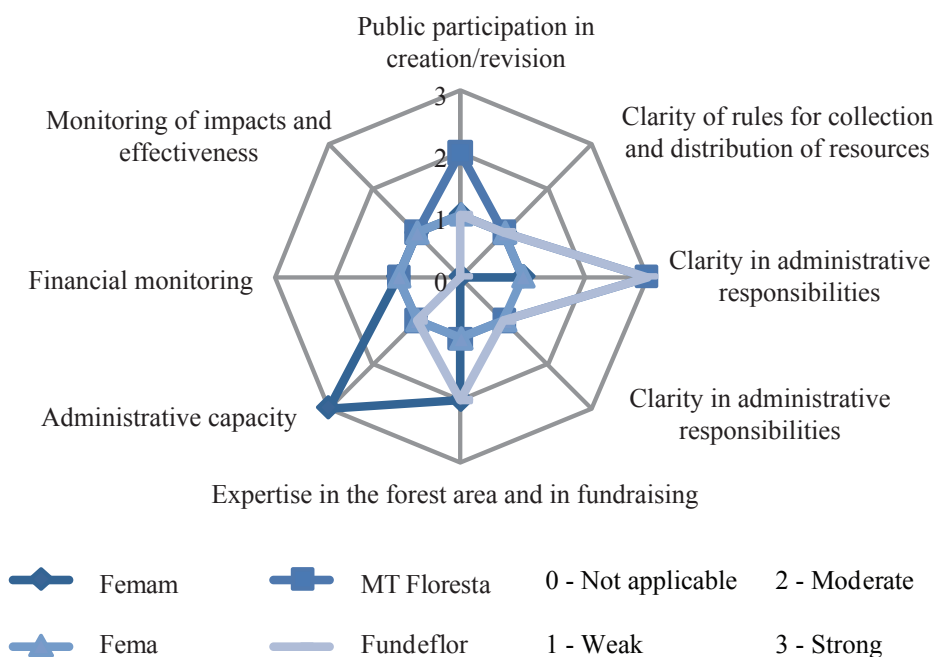
Besides these problems in common, we have also observed the lack of mechanisms for participation by civil society in three funds. Participation by different sectors of society in this type of board is vital for balancing the priorities and choices of the support offered. The exception in this case is MT Floresta, which has a board of representatives from civil society responsible for selecting the projects to be supported. However even the board does not have information regarding the progress

of the supported projects or even the volume of resources annually obtained and distributed by this fund.

Our analysis also identified some specific aspects of failures in the governance of each fund. For example, Femam/MT and Fema/PA present serious problems of consistency between their rules and operating practices. In the case of Fema/PA, State Decree 1523/1996 establishes that its financial resources will be administrated by a Board of Directors and by an Executive Secretariat linked to it. However, we verified that there is no staff designated as members to perform these functions<sup>8</sup>.

In the same way, in the case of Femam/MT, Mato Grosso Complementary Law 232/2005 indicates that there should be a single body specifically designated for its administration, but in practice, the fund is managed by several coordinating offices within Sema/MT<sup>9</sup>. Furthermore, although the law indicates various areas for applying the resources of the funds, including support for agencies outside of the environmental secretariats, in practice Femam and Fema have been used only to support projects from the respective Semas in Mato Grosso and Pará.

Among the funds evaluated, Fundeflor/PA is the only one still in initial implementation phase and that has not yet begun its activities for distributing resources. Its principal source of resources will be the state forest concessions, which should only begin operating in 2012<sup>10</sup>. Even so, we observe that there are still no clear rules for access to fund resources, which need to be defined by the State Institute for Forest Development in Pará (Ideflor) throughout 2011.



**Figure 1: Summary of evaluation of governance indicators in four environmental and forest funds in Mato Grosso and in Pará**

## RECOMMENDATIONS FOR PUBLIC POLICIES

Our analysis reveals that the four state funds evaluated need major improvements in their administrative and financial management in order to achieve their objectives. These results can guide the creation of a new state fund directed towards obtaining and administering resources for REDD+, in addition to directing reforms in the funds evaluated. The major recommendations for the existing funds and those yet to be created are:

### ***Disclose rules for access to the funds resources.***

The rules determining the distribution of the funds resources should be made available to the public, including the requirements for presenting projects and criteria for evaluation. Moreover, the justifications for approval and rejection of proposals should be forwarded to proponents and disclosed to general public. We also recommend the elaboration of how-to manuals with these access rules so that this information will be accessible in simple language to groups with low levels of literacy.

***Adopt mechanisms for civil society participation.*** The fund administrators should create committees or boards to define priorities for annual application of resources, revise objectives and even evaluate projects supported by the funds. The committee members should be professionals with knowledge in the areas the fund is supporting and there should be representation by different sectors (productive, business, academic, traditional populations, indigenous peoples and non-governmental organizations). This practice will guarantee greater trans-

parency in management and will contribute to keep the funds working towards their objectives.

***Monitor impacts and effectiveness of the application of fund resources.*** Monitoring the impact of projects supported by the funds is fundamental for evaluating the fulfillment of the funds objectives, which are usually related to encouragement of sustainable practices and command and control actions. Thus, the projects supported by them must be monitored throughout their lifetime through technical assessments (by the fund team or independently). They must also be evaluated at the end of the support in terms of their contribution to the funds objectives.

***Disseminate annual financial reports.*** Transparency of the annual financial reports including disclosure of complete financial information increases the fund's credibility and contributes towards attracting more financial resources. Therefore, fund managers need to annually disclose complete reports in a format that is understandable to the public. They should also disseminate the results of evaluation by overseeing institutions or independent audit agencies.

***Provide technical-administrative support for groups with difficulties in preparing proposals.*** To facilitate access to the fund by groups that depend on the forest, but who do not have training for elaborating proposals (e.g. traditional populations and indigenous peoples), the funds should offer capacity-building in preparing and administering projects (e.g. training in structuring project proposals and in preparing financial reports).

## Notas

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<sup>1</sup> Nabuurs, G.J. *et al.* 2007. Forestry. In Metz, B., *et al.* (Org.) *Climate Change. Cambridge. Mitigation. Contribution of Working Group III to the Fourth Assessment Report of the Intergovernmental Panel on Climate Change.* Cambridge, Cambridge University Press.

<sup>2</sup> The Amazon Fund was created by Decree 6.527/2008 aiming at obtaining donations for non-reimbursable investments in actions for preventing, monitoring and combating deforestation and promoting conservation and sustainable use of forests in the Amazon biome. The Climate Fund was created by Law 12114/2009 and regulated by Decree number 7343/2010 aiming at guaranteeing resources to support projects or studies and financing of enterprises that seek mitigation and adaption to climate change and its effects.

<sup>3</sup> The Forest State Fund was created by State Law number 1117/1994 Special Fund for the Environment was created by State Law number 1426/2001.

- <sup>4</sup> In Mato Grosso the first draft of the State Policy on Climate Change calls for creation of a State Fund for Climate Change to administer resources from REDD+. Pará has discussed a State Fund for Climate Change and Payments for Environmental Services in the first draft bill of the State Law on Climate Change. More recently, Amazonas has proposed establishing stimulus funds to encourage adoption of conservation practices and improvement of environmental services, according to the first draft of a bill that institutes the Policy on Environmental Services and Management System for Environmental Services.
- <sup>5</sup> According to annual deforestation rates recorded by the Program for Monitoring the Amazon Forest by Satellite (Prodes), Mato Grosso led the deforestation ranking among Amazon States up to 2006, followed by the State of Pará. As of then, Pará became the first followed by the State of Mato Grosso. Data available at: <[http://www.obt.inpe.br/prodes/prodes\\_1988\\_2010.htm](http://www.obt.inpe.br/prodes/prodes_1988_2010.htm)>. Access on April 7, 2011.
- <sup>6</sup> We used governance indicators presented in the methodology proposed by the Governance of Forests Initiative, a project implemented by the *World Resources Institute*, Imazon and ICV. More information available at: <<http://www.wri.org/project/governance-of-forests-initiative>>. Access on March 3, 2011.
- <sup>7</sup> Imazon filed a request with the 3<sup>rd</sup> Controllershship of the State Audit Court of Pará (TCE) on November 9, 2010, requesting access to the financial reports, including budget, financial and asset balances all the way back to the creation of Fema. However, on February 23, 2011, TCE denied the request and stated that only legitimate parties to process, their successors or legally enabled proxies could access that information (Official Communication number 2011/00958-TCE-CG/GP).
- <sup>8</sup> Information collected in interviews with Getúlio Bicudo – Administrative and Financial Director at Sema/PA (DGAF – Directorate for Administrative and Financial Administration); Leopércio Fôro – Financial Coordinator (DGAF); Henrique Silva – Technician for the Coordination for Shared and Regionalized Management of the Planning Department (Diplan) at Sema/PA and member of the team that used to analyze projects for Fema in previous years; and Nelita Paes – Coordinator of the projects office at Sema/PA.
- <sup>9</sup> Management activities at Femam/MT today are carried out by the coordinating offices for accounting, planning and finance. There is also a specific department for obtaining resources.
- <sup>10</sup> The Director of the fund in 2010 (Emanuel Chaves) informed the authors that Fundeflor would begin to operate with its own resources in 2012. The fund would support projects with a duration of one year, ranging from R\$ 50,000 to R\$ 100,000 up to the limit of fund resources.

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