

**PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: AB3855

Project Name	Second National Environmental Project - Phase II
Region	LATIN AMERICA AND CARIBBEAN
Sector	Sub-national government administration (89%); Central government administration (11%)
Project ID	P099469
Borrower(s)	FEDERAL REPUBLIC OF BRAZIL
Implementing Agency	Ministerio do Meio Ambiente Ministerio do Meio Ambiente SAIC Setor Autarquias Sul, Quadra 5, Bloco H Distrito Federal Brazil Tel: 0613-214-87-03 Fax: 0613-214-87-04 lorene.lage@mma.gov.br
Environment Category	<input type="checkbox"/> A <input checked="" type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> FI <input type="checkbox"/> TBD (to be determined)
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1. Country and Sector Background

Brazil has historically based its economy on exploiting the immense wealth of its natural resources. A significant part of its economy still relies on the use of natural resources, whether they are used as production inputs or as sinks for production waste. Despite the importance of its natural resource base, Brazil faces major challenges to reverse a trend of unsustainable use of its natural resources.

In recent years, the Government of Brazil, through the Ministry of Environment (MMA), has officially adopted a policy of decentralization of environmental management. Within this context, the Second National Environmental Project (NEP II) represented a priority and strategic program for the Ministry of Environment's decentralization policy due to its innovative design and national approach. Minister Marina Silva, who took office in 2002, presented her program of government as having four major pillars: (a) decentralization, (b) strengthening the national environmental system (SISNAMA); (c) social control, and (d) transversality. NEP II has contributed significantly to each one of these pillars. Progress has been achieved in strengthening environmental licensing procedures, managing pollution in selected watersheds, strengthening the management of conservation units, sharing responsibility with state environmental agencies, improving dialogue with the private sector on environmental management, sustainable economic activities, and stimulating greater interest in the use of economic instruments for environmental protection.

The environment has been a growing priority in Brazil because of: (i) growing public awareness of environmental issues¹ and the need for improved environmental management; (ii) increasing sensitivity to

¹ Especially since the United Nations Conference on Environmental and Development (UNCED) held in Rio de Janeiro in 1992

domestic and external criticism of poor natural resource management; and (iii) growing recognition in both the public and private sectors that better environmental management provides a competitive edge to Brazilian business. Environmental problems in Brazil have nevertheless continued to increase in severity.

Thus, while there has been progress in many areas, persistent problems of pollution and natural resource degradation remain in Brazil and, in some cases, the government has had little success in improving the situation. Environmental licensing procedures have not always been effective as instruments for environmental management and have often been time consuming and onerous to private enterprise, possibly discouraging public and private investment. Environmental enforcement is spotty and relies excessively on command-and-control while some environmental institutions have not become measurably more efficient in their environmental management and protection activities. Furthermore, Brazil has not been able to collect and disseminate reliable environmental information in a timely and comprehensive fashion. The kinds of public-private alliances needed for better environmental management have not emerged in most places.

The First National Environmental Project (NEP I) supported by the Bank was implemented from 1991 to 1998. It aimed at strengthening environmental management capacity at the federal level and protecting key endangered ecosystems at the national level. NEP I laid the groundwork for the Second National Environmental Program (NEP II) which was approved as a three-phased *Adaptable Program Loan* (APL) for a total of US\$150 million. Phase 1 of NEP II was implemented from July 7th 2000 to June 30th 2006. It focused on continuing some of the efforts of NEP I by solidifying the national environmental management system at the state level (For more information on Phase 1 please refer to Box 1 below).

The triggers for moving from Phase 1 to Phase 2 (through an eligibility criteria scoring system) were fulfilled earlier than anticipated during project implementation. All in all, 43 subprojects and activities were carried out in 17 states during Phase 1. A total of US\$ 8.8 million was disbursed under Phase 1.

The success of the project design and the consequent strengthening of the National Environmental System (SISNAMA) of which the states and municipalities are the building blocks, have motivated the Ministry of Environment (with the strong endorsement of the Association of State Environmental Agencies (OEMAs) to secure authorization to prepare Phase 2 of the project from the Inter-Ministerial Committee on External Finance (COFIEX). Consequently, COFIEX has authorized Phase 2 of NEP II for an amount of US\$63.43 million, out of which the loan would be in the order of US\$44 million. COFIEX has also indicated that the loan would have to be divided into two sub-phases (US\$ 22.11 million each).

The Ministry of Environment (MMA) has indicated that, among all programs seeking external financing, NEP II is the highest priority. Ministry officials recognize NEP II as one of the most successful programs executed in recent years and as the mainstay of its outreach to states and municipalities. NEP II has contributed to significant achievements including the consolidation of the National Environmental System, and concrete environmental gains in specific basins or ecosystems (See Box 1 for detail information). States bear prime responsibility for environmental management in Brazil. They are responsible for most of the environmental licenses issued, and for environmental monitoring and reporting. NEP II is currently the main mechanism by which the federal ministry interacts with states and strengthens environmental capacity at the state level. Both the MMA and the states acknowledge the accomplishments of the NEP which underscores the need to proceed to Phase 2. MMA has further recognized the importance of NEP II by incorporating it as a key program within the Ministry.

Box 1. Phase 1 of the Second National Environmental Program

Phase 1 of NEP was implemented from 2000 to 2006. The original amount for this phase was US\$15 million, but after cancellations in the order of US\$6.92 million, final disbursement was in the order of US\$8.8 million.

Structure & Design. Phase 1 implemented in parallel fashion two components: (i) *Institutional Strengthening* (covering activities in water quality monitoring, environmental licensing, and coastal zone management), and (ii) *Environmental Assets*. During first Phase of NEP II, 25 states carried out an environmental priority setting exercise which guided subsequent subprojects and interventions in the states. It is worth noting that priorities identified in Phase 1 included: (i) *water quality and livestock wastes* in three southern states (Santa Catarina, Rio Grande do Sul & Paraná); (ii) *protection of key watersheds and solid waste management* (São Paulo, Goiás, Bahia, Minas Gerais and Pernambuco); (iii) *natural resource conservation* (in the upper Araguaia basin in Mato Grosso) involving erosion control and sustainable tourism; and (iv) *protection of the caatinga biome* (Pernambuco).

Outcomes from Phase 1. NEP II contributed to a number of policy reforms and to a larger than expected participation by the states. Prior to the first phase, only four states (RS, PR, SP and BA) used any kind of computer system for environmental licensing. By the end of Phase 1, seven additional states (SC, MG, GO, MT, AC, PB and CE) had digital licensing systems, making the licensing process more transparent and efficient. Likewise, before NEP II, most states had not conducted an environmental assessment to identify key priorities. At the completion of Phase 1, twenty five of the twenty seven states had undertaken an identification of their environmental priorities and twenty states (from an initial target of 12 states) qualified for matching grants by fulfilling eligibility criteria. In addition, it was expected that only 5 states would develop water quality monitoring systems, but by the end of Phase 1, 10 states had working WQM systems. Similarly, it was projected that by the end of Phase 1, three states would be implementing environmental assets subprojects. At the end of Phase 1, nine states were implementing 10 subprojects. Overall, Phase 1 which lasted 6 years, contributed to the implementation of 43 specific interventions in 17 states, leading to improvements in decentralized environmental management. While small in size, many of these investments contributed to noticeable improvements. It is clear that neither NEP II (nor even project much larger in size) would be able to address all of Brazil's environmental priorities (i.e. such as air quality in Sao Paulo, deforestation in the Amazon, cleaning the Pinheiros or Tiete watersheds in Sao Paulo, etc.). Nonetheless, there were a number of success stories related to improvements in environmental quality in selected areas. For instance:

- The EA subproject in the Ipojuca basin in Pernambuco State identified some 120 springs that contribute to pollution in the Ipojuca River. The project applied treatments to about 20 of these sources to reduce contamination and maintain flow through appropriate revegetation and the exclusion of cattle from the stream heads. The EA component also contributed to the design and construction of two sanitary landfills in the Ipojuca basin (addressing 80% of the population in the area) that reduced the amount of solid waste and flow of leachate into ground and surface water. Through the WQM subcomponent it was concluded that the quality of (once polluted) sections of the basin had been improved.
- In Bahia, the EA project helped to reduce pesticide use, water use in irrigation and burning of agricultural plots in the middle Paraguaçu River Basin, a major source of water supply and energy for the state capital, Salvador, Bahia. The project also had a demonstration effect on local farms and ranches. The project also supported solid waste management plans for several municipalities in the middle-Paraguaçu basin. The subproject contributed to improving environmental quality by supporting sustainable agriculture pilots that demonstrated approaches to reducing water use in irrigation, reduced pesticide use, and the development of organic fruit and vegetable farming. These approaches not only had positive effects on environmental quality but also raised the income of small farmers by lowering their costs and adding value to their products. The project also supported detailed studies of solid waste management (SWM) in several municipalities in the Upper Tietê Basin and the redevelopment of a landfill, the management of which was transferred to a consortium of municipalities that operated the landfill jointly.
- Likewise there were environmental improvements in selected watersheds in the three southern states (Parana, Santa Catarina and Rio Grande do Sul) which implemented EA subprojects to control pollution from swine raising. The outcomes from these interventions contributed to a reduction of animal waste

flowing into key watersheds, with substantial quality improvements. Likewise a subproject in Mato Grosso (in the Araguaia River Basin) aimed at controlling soil erosion from agriculture led to noticeable improvements. (These examples are further detailed in the projects the Implementation Completion Report (ICR)).

NEP II also contributed to a number of institutional partnerships involving State Environmental Agencies, municipalities, NGOs, universities, research centers and training centers, water-resource management agencies, tourism agencies, regional development agencies, agricultural development agencies and the private sector.

Challenges in implementation. There were three amendments to the Loan Agreement during Phase 1 extending the closing dates and canceling proceeds from the loan. *The first amendment* (June 18, 2003) extended the Closing Date of the Project from 2003 to 2005 and cancelled an amount equivalent to US\$2.3 million at the request of MMA. This amendment was solicited based on: (a) changes of state officials and limitations on the ability to sign operating agreements (*convênios*) with participating states during electoral periods, causing delays and affecting the disbursement patterns; and (b) states took longer than anticipated to qualify for matching grants and in implementing subprojects. The first cancellation of loan proceeds was a result of the fiscal austerity package implemented by the Ministry of Finance which led to severe budgetary restrictions on all Federal projects in Brazil and which reduced budget allocations to MMA, affecting the resources destined to NEP II (Investments in various sectors also experienced similar budgetary constraints). *The second amendment* (May 25, 2005) extended the closing date of the project from June 30, 2005 to June 30, 2006, bringing cumulative extensions to 3 years. This extension requested by the Borrower was granted to: (i) allow the completion of ongoing Environmental Assets subprojects in qualified states; (ii) finalize key environmental licensing and monitoring activities; and (iii) allow time for the transition and preliminary preparation of Phase 2 of the Program. *The third amendment* (June 27, 2005) cancelled US\$3.6 million from Loan proceeds at the request of MMA. This cancellation followed the rearrangement of scheduled activities to be completed within the approved closing date (June 30, 2006). Thus, these cancellations contributed in providing limited support to all of the 21 qualified states. In spite of these budgetary reductions, perhaps one of the most impressive characteristics of Phase 1 was its overall administrative/coordination capacity, since the project consistently utilized about 98% of the total funds made available by MMA during the years of operation. This is almost certainly the best record of any MMA program under recent execution.

2. Objectives

The higher level objective to which the project contributes is to enhance environmental sustainability and the pattern of growth prevalent in Brazil. Experts have concluded that growth in Brazil has been at the expense of the environment, in terms of health impacts due to water and air pollution in urban and industrial areas, destruction of large areas of natural forest and critical ecosystems, soil loss to erosion resulting in the siltation and contamination of many of Brazil's waterways. Likewise, the delays of important development projects by inefficient and sometimes ineffective regulatory procedures have exacerbated these environmental costs. The proposed project aims to improve the environmental policy framework at the state level and to establish a methodology which states can follow to address key environmental priorities. By strengthening environmental management NEP II is expected to contribute to a reduction in some of the costs associated with environmental degradation and to promote an environmentally sustainable growth pattern in Brazil.²

3. Rationale for Bank Involvement

The Bank has accumulated significant experience related to environmental management over the past 25 years. The Bank has supported National Environmental Projects in countries as widely varied as India, Brazil, Mexico, and Poland, for instance. One of the earliest such projects was the first Brazil National Environmental Project (NEP I) that was approved in 1989.

² A detailed analysis to ascertain the costs of environmental degradation to the GDP in Brazil has not yet been conducted.

The Bank also has considerable experience in Brazil and elsewhere in the design of decentralized, demand-driven municipal development and natural resource management project components - including the highly successful matching grants (PED) component of NEP I - and in the design and implementation of social funds for rural poverty alleviation. While the latter operations aimed at strengthening municipal governments or address poverty alleviation rather than environmental protection, such projects shared many characteristics with NEP II by combining Institutional Strengthening goals and components with the financing of priority investments identified by local stakeholders. Likewise, in recent years, the Bank has implemented a number of Environmental Development Policy Loans (DPLs), aimed at the establishment of policy reforms and improvements in environmental management. These accumulated lessons have uniquely positioned the Bank in terms of technical and administrative experience which has been valued through the years by clients such as Brazil.

The Brazil Country Assistance Strategy (CAS) for 2004-2007 entitled “Towards a More Equitable, Sustainable and Competitive Brazil” stresses sustainability, pointing out that for the poor in the North and Northeast regions, 80% of their assets are natural resources. It also highlights the need to bridge the gap between environmental sustainability and social equity. Among the list of “opportunities,” the CAS mentions: “Greater capacity for management and implementation of environmental policies could stimulate more sustainable use of natural resources”. It also warns that “without greater capacity for management and implementation of environmental policies, current environmental trends could worsen, resulting in more environmental degradation.” (Brazil CAS 2004-2007, p. 43). Public consultation for the CAS found that civil society and NGOs concur that “the Bank could play a helpful role in supporting the mainstreaming of social, environmental and cultural concerns into development plans and programs.” The draft Country Partnership Strategy for 2008-2011 places similar emphasis on support to decentralization and on environmental sustainability.

4. Description

The proposed Phase 2 of NEP II seeks to improve environmental quality in selected areas by increasing the effectiveness of environmental institutions at local, state and national levels in Brazil. Phase 2 of NEP II would focus primarily on investments in the management of selected environmental assets at the state level. The proposed project would have 3 core components: (a) *Environmental Assets*; (b) *Institutional Development*; and (c) *Project Coordination, Articulation and Communication*.

Component 1. Environmental Assets:

1. The Environmental Assets (EA) component is based on the principle that states identify and address their key environmental priorities through specific subprojects. For Phase 2, the first requirement for participation is for participating states to update their top ranking environmental priorities (from those identified during Phase 1) to reflect current conditions.

2. The following stages would take place in this Component: (i) creation of a technical state group for the elaboration of subprojects; (ii) identification and/or update of environmental priorities; (iii) diagnosis of the selected area for subproject development (including the elaboration of baseline studies)³; (iv) preparation of subproject proposal (which would have to be discussed and endorsed by key

³ The proposed subproject should fall within the identified environmental priorities in the State, however, not all of the States’ priorities would be realistically financed under NEP-II (i.e. air pollution in the São Paulo metropolitan region). Nonetheless, the States would benefit from carrying out a priority setting exercise since they could seek for additional sources of funding for addressing the most pressing issues (not covered under the proposed project).

stakeholders through local workshops); (v) Assessment of subproject proposals by the Supervisory Commission; (vi) implementation of subprojects; and (vii) monitoring and evaluation of subprojects.

All states would be eligible for grants ranging from R\$200,000 up to R\$300,000 to carry out the identification/update of environmental priorities setting exercise. This exercise would follow a standard methodology from MMA (based on the health impacts, number of population affected, disruption to critical ecosystems, and key watersheds, economic costs, impediments for further investments etc.). For the Environmental Assets component, the size of the matching grant for which a state is eligible is based on the level of achievement demonstrated by the State on the matrix. Achievements under each basic category are divided into four Levels. The points accumulated by each state at any level in any category are summed and the total would determine the size of the grant for which a state would be eligible⁴. There is a minimum threshold for states to receive a matching grant for the Environmental Assets Component (as an incentive to improve their environmental policy performance, those states that fall under Class 1 would not qualify for resources under this component; States that fall under Class 2 would receive up to R\$1.0 million; States that fall under Class 3 would receive up to R\$2.0 million; and States that fall under Class 4 would be eligible to receive up to R\$4.0 million). Once a state has qualified for a grant, it must present a subproject proposal aligned with the priorities identified by the state⁵. As in Phase 1, technical assistance will be provided to states through MMA for the elaboration of subproject proposals and support to foster a participatory process and linkages among key stakeholders. Subprojects would be defined by their proponents, which may include municipalities, but should be selected in accordance to each State's environmental problems. As in Phase 1, municipalities can have an active role in the design and implementation of subprojects. The subprojects could include: minor works, rural extension, reforestation, erosion control, ecotourism infrastructure, infrastructure for conservation units, treatment and final deposition of solid and liquid wastes, etc., provided that the subprojects: (i) are realistic in its size and scope; (ii) have developed a baseline studies; (iii) are defined around measurable improvements in environmental quality; and (iv) are designed and implemented in a participatory fashion.

Component 2. Institutional Development:

3. Based on the lessons and core structure implemented during Phase 1, Phase 2 of NEP II will include the following subcomponents: (i) Strengthening Environmental Licensing policies and procedures in states and municipalities; (ii) Environmental Quality Monitoring; and (iii) Promotion of Economic Instruments for Environmental Management. As in the EA component, the classification of states within the Eligibility Criteria Matrix would allow them to qualify for resources (i.e, R\$800,000 in Class 1 up to R\$1,100,000 in Class 4 for Environmental Licensing subcomponent).

- i *Strengthening Environmental Licensing.* This subcomponent will seek to: (i) continue the implementation of custom computerized licensing systems in the 15 states that did not participate in Phase 1; (ii) update and improve the licensing systems in the 12 states that received support during the first phase to continue making them more efficient and agile; (iii) promote the decentralization of licensing systems to qualified municipalities; (iv) carry out technical assistance and capacity building to improve licensing systems. This subcomponent will aim to enhance the post-licensing monitoring of license conditions, clarifying the roles of different stakeholders to expedite licensing procedures, and will

⁴ Note that this ranking system could also serve as a benchmarking mechanism available to a wide variety of public and private institutions for evaluating environmental management risks at the state level.

⁵ EA subprojects developed under Phase 1 addressed a number of priority issues including: (i) reduction of pesticide use, water use in irrigation and burning of agricultural plots in the middle Paraguaçu River Basin in Bahia; (ii) development of sanitary landfills and protecting the fragile stream head areas in the Ipojuca basin in Pernambuco; (iii) encouragement of organic agriculture and reduction in pesticide use in the Tietê headwaters in São Paulo; (iv) erosion control in the Araguaia and Taquari headwaters in Mato Grosso, among others.

seek to integrate brown-green agendas into the state/municipal licensing systems. This subcomponent will incorporate into its design the main conclusions and recommendations from the ESW on Environmental Licensing (currently under preparation).

- ii *Development of **Environmental Quality Monitoring**.* This subcomponent will focus on: (i) developing environmental monitoring systems for pre-identified state environmental priorities (biodiversity, air quality, water quality, soil degradation, etc.); (ii) integrating the existing state and municipal environmental monitoring networks into MMA’s *Environmental Information System*; and (iii) enhancing the capacity to process and analyze information from monitoring networks. The activities under this subcomponent would aim at improving decision making process regarding critical environmental issues and complement, when applicable, the environmental licensing process.
- iii *Promotion of **Economic Instruments for Environmental Management**.* This subcomponent would seek to promote alternatives to the command and control approach to environmental management, leading to the adoption of innovative instruments such as environmental audits, payment for environmental services, environmental taxes based on the polluter pays principle, etc.

4. Phase 2 will continue to contribute to key institutional partnerships involving State Environmental Agencies, municipalities, NGOs, universities, research and training centers, water-resource management agencies, tourism agencies, regional development agencies, agricultural development agencies and the private sector for the development of this component. The municipal focus for this component would follow selection criteria based on size and capacity to develop and sustain licensing, and post-license monitoring and enforcement systems.

Component 3. Project Coordination, Articulation and Communication:

The project will support a unit with the technical and administrative capacity needed to articulate subprojects and activities at a decentralized level⁶. MMA is financing the existing Project Coordination Unit (PCU) for NEP II during the transition period between Phase 1 and 2 in order to give continuity to the Program. MMA has also “mainstreamed” NEP II by incorporating it into its organization chart as a major vehicle for strengthening the National Environmental System (SISNAMA). The project management component also includes a project communications unit that will develop a strategy to disseminate lessons learned from current and past project activities and help to build public support for environmental programs.

5. Financing

Source:	(\$m.)
Borrower	9.46
International Bank for Reconstruction and Development	22.12
Total	31.58

6. Implementation

The Project Coordination Unit (PCU) of NEP II has been active and operating since the implementation of Phase 1, and has been formally incorporated as part of the institutional

⁶ One of the most important characteristics of Phase 1 was its overall implementation capacity, since the project consistently utilized about 98% of the total funds made available by Treasury to MMA over the years of operation. This is almost certainly the best record of any MMA program under recent implementation. In spite of this achievement, the Program was hobbled, to some extent, by the reduced budgetary allocations, impoundments and freezes that have occurred each year since implementation began due to austerity measures imposed by Treasury to MMA.

structure of MMA under the Secretary for Institutional Articulation and Environmental Stewardship (*Secretaria de Articulação Institucional e Cidadania Ambiental* - SAIC). Most of the staff at the PCU have participated in the preparation and implementation of Phase 1 (some have even worked since the implementation of NEP I) ensuring technical and administrative continuity. Synergy among various externally funded programs and Secretaries within MMA will be assured through the key conveying role of SAIC which has, among other things, responsibility for coordinating the SISNAMA and ensuring that all programs under the Ministry are consistent with the Ministry's policy goals. This would prevent the duplication of efforts and potential conflicts among programs.

MMA has demonstrated an installed capacity to manage and coordinate multiple activities with a wide array of stakeholders and states. Through the implementation of Phase 1, MMA has acquired considerable expertise in budgeting, project accounting, procurement, financial management and coordination with external executing agencies at all levels of government and with the private sector. Likewise, many states and municipalities gained considerable expertise through the implementation of NEP I and Phase 1 of NEP II. This knowledge and positive experience and the relationships developed during Phase 1 will help in establishing and managing the subprojects contemplated under Phase 2.

MMA would directly contract all consultants providing technical assistance to the states for the implementation of both core components, as well as for the priority setting exercise. For the implementation of subprojects, the Ministry would enter into operating agreements (*convenios*) with the implementing agencies, which may include states and municipalities in order to transfer project resources directly to the implementing unit.

Each year the PCU would prepare an annual operating plan, outlining the investments to be made under the project. A Supervisory Commission (See Annex 6) would be established in order to review the fulfillment of the eligibility criteria matrix as well as the subproject proposals. The commission would also be in charge of reviewing the Annual Operating Plan.

7. Sustainability

Sustainability is a major strength of the project design. The Project is the second Phase of an APL that proved successful in its First Phase and which has evolved from the first National Environmental Project. NEP II has contributed to significant achievements including the consolidation of the National Environmental System (SISNAMA), and has also led to concrete environmental gains in specific basins or ecosystems. Some elements that would ensure sustainability of project activities are already imbedded in project design. For instance, states seeking additional matching grants for developing new subprojects under the *Environmental Assets* Component, would be eligible to receive up to two grants during the life of the project provided that (i) the previous subproject has been concluded; (ii) it can demonstrate a satisfactory and sustainable outcome of the subproject. Likewise, states which qualified and carried out subprojects during Phase 1, would only be able to qualify for phase 2 demonstrating sustainability and mainstreaming of the outcomes of the subprojects implemented in Phase 1.

By strengthening SISNAMA, MMA has internalized many of the products and outcomes and has developed a strong ownership of NEP II, particularly for the following activities: (i) the National Plan for Environmental Licensing; (ii) the WQM Plan; (iii) Coastal Zone Management; (iv) the development of Solid Waste Management Plans; and (v) the reference data for the Environmental Management System (SIGAB) and for the National Environmental System of Information (SINIMA). NEP II is currently the primary mechanism by which the federal ministry interacts with states and strengthens environmental capacity at the state level. Both MMA and the states recognize these accomplishments and the need to proceed to Phase 2. MMA has also recognized the importance of NEP II and has proceeded to incorporate it as a key program within the Ministry ensuring its continuity.

In addition, it is worth noting that NEP II has contributed to a number of institutional partnerships involving State Environmental Agencies, municipalities, NGOs, universities, research centers and training centers, water-resource management agencies, tourism agencies, regional development agencies, agricultural development agencies and the private sector. For instance, NEP II has served as a platform for significant sectoral agreements and environmental mainstreaming including: (i) an agreement between the *Itaipú Binational Power Company* and the Ministry of Environment (MMA); and (ii) an agreement between MMA and the National Water Regulatory Agency (ANA), whereby ANA has agreed to host one of NEP II's key products: the website on water quality in Brazil. It is foreseen that these agreements and synergies will continue throughout Phase 2 ensuring sustainability in the project's activities.

8. Lessons Learned from Past Operations in the Country/Sector

Among the lessons learned from Phase 1 was the reaffirmation of the **viability of a decentralized approach** to environmental management. By transferring decisions and implementation down to the state level, the federal government has been able to accomplish several important goals, including: (1) leveraging policy and regulatory change at the state level; (2) generating enthusiasm, energy and counterpart funding for state selected priorities; (3) building capacity for environmental management at the state level. Thus, Phase 1 demonstrated that there is a great deal more interest and capacity for environmental protection at the local level, especially when state-level entities are allowed to set their own priorities and develop their own methodologies. Phase 2 would continue to employ this valuable approach in its design by empowering states to identify their own environmental priorities, develop their subproject proposals, and determine their environmental monitoring needs.

Phase 1 also demonstrated that states are quite willing to have their capacity and performance evaluated objectively, especially when the financial incentive to support state-defined subprojects is added. Most state officials actually welcomed the opportunity to have their capacity evaluated externally because it gave them leverage for policy changes within their governments.

An important lesson was **the importance of building an effective communications component into the project**. During project implementation, there were times when the project received less funding from the budget envelope allocated to MMA than other programs that were

narrower in scope and performed less well than NEP II. This may have been partly a function of how well the project communicated with its various constituencies. The lesson derived is that the success of a project may often depend on its capacity to identify key stakeholders and to communicate with them effectively, in both directions. The current Phase has included as part of the project management component a communications and institutional articulation team.

The **lack of baseline data against which to measure actual improvements in environmental quality** through the implementation of subprojects at the state level is an important lesson from Phase 1. While many activities developed under the last Phase had means to measure its evolution, for the most part states had not developed solid baselines which could have improved project monitoring and establish the basis for comparing overall improvements in environmental quality at the end of a specific intervention. Thus, Phase 2 will establish the development of baseline studies as a requirement for subproject financing.

An additional lesson concerns the delays encountered in the signing of contracts **due to slow administrative procedures by UNDP**. MMA has relied on UNDP as a service provider for letting contracts, which often incurred delays affecting project implementation. Thus, the value-added of the administrative services rendered to MMA by UNDP for the implementation of project activities comes into question for future Bank financed projects. It indicates the need to further develop the administrative (i.e. procurement and financial management) capacity within MMA to curb reliance on external service support.

Lastly, an important lesson for subsequent phases is related to the **flexible methodology provided by MMA for determining the state's environmental priorities** which was often not closely monitored and which opened the door to arbitrary decisions (e.g. selecting priorities that matched well the expected size of the matching grant.). Thus, while it is valuable for States to understand the dimensions of their environmental priorities (some which are large and require additional financing from external sources), it is important that the proposed priorities to be addressed within the context of the project be realistic and commensurate to available resources.

9. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment (OP/BP 4.01)	[X]	[]
Natural Habitats (OP/BP 4.04)	[]	[]
Pest Management (OP 4.09)	[]	[]
Physical Cultural Resources (OP/BP 4.11)	[]	[]
Involuntary Resettlement (OP/BP 4.12)	[X]	[]
Indigenous Peoples (OP/BP 4.10)	[X]	[]
Forests (OP/BP 4.36)	[]	[]
Safety of Dams (OP/BP 4.37)	[]	[]
Projects in Disputed Areas (OP/BP 7.60)*	[]	[]
Projects on International Waterways (OP/BP 7.50)	[]	[]

* *By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas*

The proposed project may have some small scale infrastructure works, hence an Environmental Category B has been established in order for appropriate measures to be taken, and given the fact that the main objective of the project is to obtain environmental quality improvements.

During Phase I of the National Environmental Program, the only specific safeguard triggered was OP4.01 (Environmental Assessment), because of subprojects related to sanitary landfills. For Phase II, subprojects could potentially cause environment damage or involuntary resettlement, and would be screened for compliance with Bank safeguards prior to approval. As necessary, mitigatory measures would be taken to avoid or minimize environmental damage or involuntary resettlement. Indigenous peoples are eligible for subprojects benefits; in the event that such groups form part of a beneficiary group, the guidelines in OP 4.10 would be followed.

10. List of Factual Technical Documents

- Manual da componente Coordenação, Articulação e Comunicação do PNMA II Fase 2.
- Instrumentos Econômicos para a Gestão Ambiental do PNMA II Fase 2.
- Documento Salvaguardas PNMA II Fase 2.
- Manual de Ativos Ambientais do PNMA II Fase 2.
- Manual de Monitoramento Ambiental do PNMA II Fase 2.

Manual de Subcomponente de Licenciamento Ambiental do PNMA II Fase 2.

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