

## Cross-country study

# Amazon Fund

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### About this study

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## CASE 1 - AMAZON FUND

We have selected two case studies in Brazil to investigate how international climate finance contributes to domestic climate policy discussion, design and implementation. The Amazon Fund was chosen because of its magnitude, large reliance on international resources, aims associated with a topic of critical importance to the country's environmental agenda (deforestation control) and uncertainties over its future (as international donors have suspended new donations).

Drawing on secondary data<sup>1</sup> and semi-structured interviews<sup>2</sup>, this chapter is divided into four sections. The first section offers a brief description of the Amazon Fund. The second part analyses which factors and conditions have contributed to or hindered the attainment of the Amazon Fund's objectives. The third section analyses which outcomes have been achieved in terms of policy development and implementation. The final part summarises lessons learned and develops a number of hypotheses.

### 1. Brief description

At the 2007 UNFCCC Climate Change Summit (COP13), Norwegian Prime Minister Jens Stoltenberg announced the creation of Norway's International Climate and Forest Initiative (NICFI), pledging that Norway would allocate up to 3 billion NOK (EUR 378 million<sup>3</sup>) to halt greenhouse gas emissions from deforestation and forest degradation in developing countries.<sup>4</sup>

The first project financed by NICFI was the Amazon Fund, the direct result of a proposal presented by the Brazilian government at COP12, in 2006, suggesting that developed countries provided financial incentives to developing countries that could prove emission reductions<sup>5</sup>.

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<sup>1</sup> A bibliographical reference should be highlighted in the development of this case study. In December 2019, a team of independent consultants (Garcia, Ree, Boas, & Gramkow, 2019), under the technical coordination of The United Nations Economic Commission for Latin America and the Caribbean (ECLAC), published a mid-term assessment evaluating the effectiveness of the Amazon Fund between 2008 and 2018. The assessment was based on bibliographical and document analysis, and on interviews with 96 stakeholders from BNDES, the federal government, state governments, NGOs, donors and academia. This study was commissioned by the Brazilian Development Bank (BNDES) to ECLAC, and financed by GIZ.

<sup>2</sup> We have interviewed two representatives of organisations involved in the implementation of the Amazon Fund and in assessing its performance.

<sup>3</sup> Currency rate from 31/12/2007

<sup>4</sup> (NORAD, 2020)

<sup>5</sup> (BNDES, 2012)

Created in 2008 by an agreement between the Brazilian and the Norwegian governments, the Amazon Fund aims to raise funds and disburse for projects that contribute to preventing, monitoring and combating deforestation, and to promoting the conservation and the sustainable use of the Legal Amazon region<sup>6</sup>. It also supports the development of deforestation monitoring systems in other Brazilian biomes and in other tropical countries<sup>7</sup>.

As shown in Table 1, nearly 94% of the resources from the Amazon Fund have been donated by the Norwegian government. The remaining 6% have been donated by the German government (through KfW) and by Brazilian state-controlled oil company Petrobras.

Table 1 – Historical donations to the Amazon Fund

Donors	Amount (EUR) <sup>8</sup>	%
<b>Norwegian government</b>	1,079,578,331.92	93.8%
<b>German government (KfW)</b>	60,679,429.14	5.7%
<b>Petrobras</b>	6,870,138.97	0.5%
<b>Total</b>	<b>1,147,421,940.46</b>	<b>100%</b>

Source: Fundo Amazônia (2019b)

Since its creation, the Amazon Fund has approved disbursements of BRL 1.8 billion (EUR 336.7 million<sup>9</sup>, representing 55% of total donations) and has financed 103 projects, distributed in four themes (Table 2):

Table 2 – Volume of funds and activities financed by the Amazon Fund

Theme	Amount (EUR) <sup>10</sup>	%	Activities financed
<b>Sustainable production</b>	87,179,096.114	26%	Extractive activities (e.g. açai, honey, cacao, rubber), industrialisation of extractive products, familiar agriculture, food production for consumption, handicraft and community-based tourism
<b>Monitoring and control</b>	160,576,169.72	47%	Strengthening the Rural Environmental Registry (CAR);

<sup>6</sup> Until 2016, the Fund only financed projects in the Amazon biome. Subsequently, the Fund's Steering Committee decided to widen its operations to the Legal Amazon region, which encompasses the Amazon biome, 37% of the Cerrado biome and 40% of the Pantanal biome (Garcia, Ree, Boas, & Gramkow, 2019).

<sup>7</sup> Limited to 20% of the Fund

<sup>8</sup> Currency rate from 12/03/2020

<sup>9</sup> As above

<sup>10</sup> As above

Theme	Amount (EUR) <sup>10</sup>	%	Activities financed
			improving environmental monitoring by satellite; inspection activities for deforestation control; preventing and combatting forest fires
<b>Territorial planning</b>	45,823,634.30	14%	Managing protected areas and supporting traditional populations who live in these areas
<b>Science, innovation and economic instruments</b>	44,084,792.729	13%	Scientific and technological development and economic instruments to value forest conservation
<b>Total</b>	<b>336,711,328.676</b>	<b>100%</b>	

Source: Fundo Amazônia (2019d)

The Amazon Fund is managed by the Brazilian Economic and Social Development Bank (BNDES), the country's sixth largest bank in terms of assets<sup>11</sup>, that is responsible for fundraising, for selecting and monitoring the financed projects and for reporting the Amazon Fund's activities and results.<sup>12</sup> Besides fund manager, BNDES could also be considered a donor to the Amazon Fund as the management fee that the bank receives is insufficient to cover all of its operational costs, particularly staff costs. Organisations managing similar funds often charge over 10%<sup>13</sup>, while BNDES receives 3% of total donations.<sup>14</sup>

Up to April 2019, the governance of the Amazon Fund was composed of two committees (which were extinct by Decree 9,759<sup>15</sup>):

- **Steering Committee:** responsible for producing the guidelines and the criteria on how the Fund's resources should be spent, for monitoring the Fund's expenditures and for approving the Fund's annual report. The Steering Committee was composed of 23 representatives from the federal government, the state governments and civil society.<sup>16</sup> Donor representatives participated in most meetings, but had no voting rights or the right to speak.<sup>17</sup>

<sup>11</sup> Data from September 2019

<sup>12</sup> (Fundo Amazônia, 2019c)

<sup>13</sup> The World Bank typically retains 10-15% of funding (Forstater, Nakhoda, & Watson, 2013).

<sup>14</sup> (Garcia et al., 2019) and interviews

<sup>15</sup> In 2019, President Bolsonaro issued Decree 9,759, extinguishing most boards, committees, commissions and forums from public federal administration. This Decree caused the extinction of the Amazon Fund's committees.

<sup>16</sup> (Fundo Amazônia, 2019a)

<sup>17</sup> (Garcia et al., 2019)

- **Technical Committee:** comprised by specialists responsible for ratifying the calculations performed by the Ministry of the Environment on annual emission reductions from deforestation.<sup>18</sup>

## 2. Processes

We provide a brief analysis of the factors that have contributed to or hindered the attainment of the goals of the Amazon Fund up to the present date.

### 2.1. Economics

#### **Simple and reliable results-based payment methodology**

The Amazon Fund is a revolving fund for non-refundable investments and a results-based mechanism. The annual emission reductions from deforestation set the limit that the Amazon Fund can raise with donors in that year. The calculation of such financial limit is the difference between the average deforestation rate from a ten-year period (that changes every five years) and the deforestation rate from the previous year, which is then multiplied by the amount of carbon stored in the Amazon Forest's biomass (132.2tC/ha) and by the carbon price (USD 5.00/tCO<sub>2</sub><sup>19</sup>).<sup>20</sup>

Three points can be made in favour of this methodology. The first relates to the source of deforestation data used in the calculation. The deforestation monitoring system from the National Institute of Spatial Research (INPE) is considered trustworthy – by some actors, the best remote sensing system of any developing country<sup>21</sup> - and its methodology is internationally renowned.<sup>22</sup>

The second positive factor is that the calculation method is considered simple and easily replicable by any organisation, offering transparency to the fund-raising potential of the Amazon Fund.

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<sup>18</sup> (Fundo Amazônia, 2019b)

<sup>19</sup> According to the interviews, the USD 5.00 value was set based on the carbon price adopted by existing voluntary carbon market projects when the Fund was created.

<sup>20</sup> BNDES issues certifications acknowledging the contribution of each donor, which are non-transferrable and which do not generate rights or carbon credits (Garcia et al., 2019).

<sup>21</sup> (Angelsen, 2017)

<sup>22</sup> (Garcia et al., 2019)

Finally, the fact that the adopted estimate for carbon storage (132.2tC/ha) was deemed a conservative measure added further confidence that donors were paying for real results.<sup>23</sup>

However, recent deforestation trends have showcased the existence of clashing interpretations between Brazil and donor countries regarding the temporal aspects of the results. In order to assess how much the fund could collect via donations (financial limit) Brazil's Ministry of Environment, BNDES and Petrobras took into consideration cumulative emissions reductions from 2006 onwards. Such an approach sees the Amazon Fund as deserving almost EUR 20 billion in donations for the 2006-2016 period. In contrast, Germany, has only donated money relative to reductions observed from 2009 onwards, while, since 2013, Norway has based its contributions exclusively on reductions achieved in the preceding year<sup>24</sup>.

## 2.2. Policy processes and governance

### **The role of BNDES<sup>25</sup>**

The fact that BNDES was selected by the Brazilian government as fund manager of the Amazon Fund was a key success factor in the negotiations that have led to its creation. The Norwegian government sought a financial institution with capacity to manage a substantially large fund, a role which BNDES was prepared to assume given its expertise in fund management, its solid operational practices, qualified staff and positive international reputation<sup>26</sup>. Moreover, the fact that BNDES is a Brazilian entity was viewed as positive by donors for contributing to sustain the national ownership of the Fund, whilst meeting Brazil's demands regarding its national sovereignty<sup>27</sup>.

Prior to acting as fund manager of the Amazon Fund, BNDES had until then no experience in selecting grant-financed projects in forest protection. Although fund disbursements were slow in the initial years, the team was found to develop into an entity familiar with the environmental issues in the Amazon biome and possessing good contacts with many players in the Amazon region. Deutsche Gesellschaft für Internationale (GIZ) provided technical support to BNDES to adapt existing procedures

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<sup>23</sup> Interviews

<sup>24</sup> (van der Hoff, Rajão, & Leroy, 2018)

<sup>25</sup> This section is based on (Garcia et al., 2019; KfW, 2016), except where explicitly indicated otherwise.

<sup>26</sup> (Klinger, 2018) also mentions that there was a personal and professional interest of BNDES chairman at the time, Luciano Coutinho, to place the Amazon Fund in the bank.

<sup>27</sup> (van der Hoff et al., 2018).

and design new processes (e.g. calls for proposals, monitoring socioeconomic impacts) which were tailored to the objectives and target groups of the Amazon Fund.<sup>28</sup>

The proximity between a large development bank and public and private actors dedicated to sustainable development in the Legal Amazon region is viewed as positive by bringing together two relatively disconnected worlds and to transform BNDES' *modus operandi*<sup>29</sup>.

The importance of BNDES as fund manager is reflected in the size of the financial contribution that NICFI has provided to Brazil. The Amazon Fund has received a substantially larger sum if compared to other countries financed by the Norwegian initiative (e.g. Indonesia, Guyana), which do not possess a financial institution capable of managing such magnitude of resources.<sup>30</sup>

Indeed, the authority for disbursement of Norwegian forest-related donations has been handed over to third parties under the first round of bilateral agreements between NICFI and developing countries. For instance, in Tanzania, the Norwegian Embassy in Dar es Salaam became responsible for contracting local NGOs directly. In Guyana, the World Bank is the trustee of the Guyana REDD+ Investment Fund (GRIF). In Indonesia, the UNDP/UN-REDD Programme was selected to disburse the funds, partially to lend more credibility to the conditionality of payments according to the achievement of specific targets and goals<sup>31</sup>.

The decision to channel donations bypassing local governments may increase aid efficiency under certain conditions, such as poor local governance and high risk of aid capture (for other purposes)<sup>32</sup> and could possibly mitigate the risks of project discontinuity due to political changes. On the other hand, it can decrease recipients' ownership of the projects and enhance other political risks, as the absence of bilateral negotiations before the donor country start operating in the recipient country may lead to a diplomatic conflict.<sup>33</sup>

### **Composition of the Steering Committee**

The multistakeholder nature of the Steering Committee has added to the legitimacy of the Amazon Fund by gathering a diverse group of stakeholders from different sectors.

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<sup>28</sup> Interviews

<sup>29</sup> Interviews

<sup>30</sup> (Garcia et al., 2019; KfW, 2016)

<sup>31</sup> (Angelsen, 2017)

<sup>32</sup> (Dietrich, 2013)

<sup>33</sup> Interviews



Its composition reflects the understanding of the Fund that the responsibility to combat deforestation must be shared by different sectors of society.

In the first years, interaction between members was considered challenging in view of the wide range of interests, the lack of trust in each other, and the fact that different stakeholders (e.g. civil society, BNDES, the Ministry of the Environment) claimed ownership to the Fund. At a later stage, relationships improved, in part because BNDES organised meetings with each sector (federal government, the state governments and civil society) prior to the Committee's meetings, facilitating the reach of consensus. Despite the reach of consensus, the Steering Committee was found to be an important space for stakeholders to discuss and express their views, opinions and disagreements<sup>34</sup>.

The decision-making process of the Steering Committee has helped to ensure equality between the three groups that compose the Committee. According to regulations from the Steering Committee, decisions must be approved by consensus by all three groups, contributing to balance dominant government representation.<sup>35</sup>

Not only was the Steering Committee responsible for high-level monitoring of the Fund, but it also participated in project selection. When there were calls for proposals, the Steering Committee established a Technical Selection Committee, with representatives from the Ministry of the Environment, the states, civil society and BNDES, to select the projects. This represented a cultural change for BNDES, which, for the first time, counted with external agents in project assessment and selection.<sup>36</sup>

A criticism that can be made to the composition of the Steering Committee is the absence of representatives from the private/productive sector, especially considering that sectors like agriculture and mining contribute to drive deforestation in the country and, therefore, could also be part of developing solutions<sup>37</sup>.

### **Policy initiatives**

Since its creation in 2004, the Brazilian public policy Action Plan to Prevent and Control Deforestation in the Legal Amazon (PPCDam) has been successful in curbing deforestation. Between 2004 and 2008, deforestation rates dropped from 27,772 km<sup>2</sup>

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<sup>34</sup> (Garcia et al., 2019) and interviews

<sup>35</sup> (Garcia et al., 2019)

<sup>36</sup> Interviews

<sup>37</sup> This lack of private sector engagement, however, is not an unique feature of the Amazon Fund as most climate funds have struggled to involve the sector (Nakhooda et al., 2014).

to 12,911 km<sup>2</sup>, a 54% decrease.<sup>38</sup> These successful efforts have become a critical factor for international donors to support a results-payment mechanism like the Amazon Fund.<sup>39, 40</sup> Moreover, complementarity between the Amazon Fund and existing public policies was encouraged as projects financed by the Fund had to be aligned with PPCDAM, the Sustainable Amazon Plan, the state plans to prevent and combat deforestation, and REDD+'s National Strategy. As discussed further below, the projects supported by the Fund have contributed to achieve the objectives of the above policies as deforestation would have been more pronounced without them<sup>41</sup>.

Given the successful implementation of PPCDam and the consequent decrease in deforestation rates, in 2013, the government decided to change the responsibility for PPCDam coordination from the Civil Cabinet (at presidential level)<sup>42</sup> to the Ministry of the Environment, thereby reducing the ability of the government to work with other ministries (e.g. Ministries of Agriculture and Mining) to address the structural causes of deforestation. Aligned with PPCDam and reflecting this approach, the projects financed by the Amazon Fund have a more operational and less structural approach.<sup>43</sup>

Indeed, the projects and operations of the Amazon Fund have failed to support innovative approaches or the development of a national strategy to continue reducing deforestation such as revising subsidy and pricing instruments that incentivise business as usual approaches, for instance, to infrastructure development in the region<sup>44</sup>.

### **Political environment**

When the Amazon Fund was created, the Brazilian government had a successful track record in working in cooperation projects with both the Norwegian and the German governments. The German government had been an important donor to programmes and projects implemented in cooperation in Brazil for decades. The Norwegian government also had a record of supporting social and environmental projects in Brazil in partnership with the federal government and civil society entities through its international cooperation agency NORAD. Moreover, both the Brazilian and the Norwegian governments in office when the Fund was created had an 'ideological'

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<sup>38</sup> (INPE, 2019)

<sup>39</sup> (Garcia et al., 2019)

<sup>40</sup> In this sense, Angelsen (2017, p. 254) states that "The Brazil–Norway agreement could be viewed as a reward for past performance".

<sup>41</sup> (Fundo Amazônia, 2019d)

<sup>42</sup> The Civil Cabinet of the Federal President assists the President to perform their duties, including the coordination of government actions (Casa Civil, 2020).

<sup>43</sup> (Forstater et al., 2013)

<sup>44</sup> (Forstater et al., 2013; Nakhoda et al., 2014)

connection (from Labour Parties)<sup>45</sup>, a factor that tends to facilitate bilateral agreements and government-to-government transfers<sup>46</sup>.

Even though Norwegian and German officials had already manifested certain criticisms regarding the Fund's lack of focus, priorities and clear results since 2015<sup>47</sup>, the cooperation with the two European countries in the Amazon Fund has been more clearly compromised by the new Brazilian administration. The government under President Jair Bolsonaro has removed climate change issues from its priority agenda. Since his presidential campaign, Mr. Bolsonaro has demonstrated a lower propensity to engage in climate change issues, illustrated, for example, by his decision not to host COP-25 in 2020 in Brazil<sup>48</sup> as well as considerations about extinguishing the Ministry of the Environment<sup>49</sup> and withdrawing Brazil from the Paris Agreement<sup>50</sup>.

When Mr. Bolsonaro took office in January 2019, other measures were implemented to remove climate change from the priority agenda, including abolishing secretaries from the Ministry of the Environment and from the Ministry of Foreign Affairs that dealt with climate change or deforestation<sup>51</sup>. The Bolsonaro administration has also been openly hostile toward non-governmental organisations, especially those defending the environment and indigenous people's rights<sup>52</sup>. One of the measures in that regard was extinguishing most federal councils, committees and working groups, many of which had representatives of civil society, and reducing NGO representation in committees that were not eliminated.<sup>53</sup>

Particularly in relation to the Amazon Fund, the government has extinguished the Steering and the Technical Committees. In addition, the Minister of the Environment, Ricardo Salles, has announced that his team had found several problems in contracts of the Amazon Fund with NGOs, such as incomplete reporting and excessive expenditures with personnel.<sup>54</sup> As a result, Mr. Salles recommended that BNDES suspended analysis of new projects until his analysis was completed, causing no new projects to be approved in 2019<sup>55</sup>.

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<sup>45</sup> (Angelsen, 2017)

<sup>46</sup> (Tingley, 2010)

<sup>47</sup> (van der Hoff et al., 2018)

<sup>48</sup> (Watts, 2018)

<sup>49</sup> (Weterman & Girardi, 2018)

<sup>50</sup> (Gaier, 2018)

<sup>51</sup> (Folha de São Paulo, 2019; Girardi, 2019)

<sup>52</sup> (Human Rights Watch, 2020)

<sup>53</sup> (Fundo Amazônia, 2019c)

<sup>54</sup> (Amorim, 2019)

<sup>55</sup> (Figueiredo, 2019)

Due to such recent changes, in August 2019, the German and the Norwegian governments decided to suspend donations to the Amazon Fund, arguing that the terms of the deal had been broken.<sup>56</sup>

Therefore, changes in the political sphere have the ability to quickly compromise the functioning of a financial mechanism that depends on cooperation between national governments. Within less than one year of the new presidential mandate, the main sources of finance were suspended and no new projects were selected for financing.

It is also worth to highlight that, given the deforestation trends registered since 2013 and the adjustment of the reference level to the years between 2006 and 2015, the monetary value of deforestation reductions decreased to as low as EUR 38 million in 2017. In this sense, there was already an expectation that donations would dry up<sup>57</sup>. In effect, some members of both Brazilian and Norwegian institutions involved with the fund were not surprised when Germany and Norway announced that they would be cutting funds to the Amazon Fund in 2017.<sup>58</sup>

### 2.3. Political economy

#### **Presence of a strong civil society**

Another reason that motivated international donors to support the Amazon Fund is the presence of a well-developed civil society in the country, which was more prepared to implement projects than government entities. On the other hand, the Amazon states were found to be poor project implementers, both in terms of quality and speed of implementation.<sup>59</sup>

In total, 42 civil society institutions have received support from the Amazon Fund, whilst well-known NGOs like The Nature Conservancy (TNC)<sup>60</sup>, Instituto Socioambiental (ISA)<sup>61</sup>, Fundo Brasileiro para a Biodiversidade (Funbio)<sup>62</sup> and Instituto do Homem e do

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<sup>56</sup> (Phillips, 2019)

<sup>57</sup> (van der Hoff et al., 2018)

<sup>58</sup> (Klinger, 2018)

<sup>59</sup> Interviews

<sup>60</sup> Projects: Strengthening Territorial and Environmental Management of Indigenous Lands in the Amazon and “Virada Verde”

<sup>61</sup> Projects: “Productive Sociobiodiversity at Xingu” and “Management of Indigenous Lands in the Negro and Xingu River Basins”

<sup>62</sup> Projects: “Amazon Protected Areas” and “Kayapó Fund for Conservation in Indigenous Lands”

Meio Ambiente da Amazônia (Imazon)<sup>63</sup> had more than one project financed by the Fund.

The requirements imposed by BNDES also contributed to professionalise these organisations as abiding by those rules improved their financial and project management skills. Furthermore, GIZ has offered technical assistance to project implementers by training public entities to better implement projects and organising workshops to assist project candidates to develop proposals, furthering the skills of project implementers.<sup>64</sup>

A criticism to relying on environmental NGOs as project implementers rather than having different categories of project implementers (e.g. multilateral organizations, public-private partnerships, private contractors, universities, research facilities and international networks) is the political risk. The fact that the new administration does not have a positive perception of the work of environmental NGOs in the country have further contributed to the suspension of the Fund's activities, while a broader set of project implementers could have potentially reduced this risk.

### **Third Sector organisations as project implementers**

By granting resources to Third Sector organisations, the Amazon Fund managed to widen its field of action, reaching distant locations and a more diverse group of beneficiaries, who had limited access to public services. The Amazon Fund has also managed to reach small organisations by granting resources to Third Sector organisations (e.g. Funbio; Fundação Amazonas Sustentável) that acted as intermediary entities which then supported subprojects. BNDES did not have the capacity to analyse, approve and monitor a large number of small projects, given that the same processes would have to be applied to both large and small projects. By employing these intermediary agents, the coverage of the Fund has expanded considerably.<sup>65</sup>

### **3. Outcomes**

As the Amazon Fund is a results-based payment mechanism, Brazil had to prove that it was successful in its efforts to reduce deforestation **before** it was rewarded and supplied with funds from donors.

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<sup>63</sup> Projects: "Strengthening of Environmental Management in Amazon", "Forest Forever" and "Socioenvironmental Management in the Municipalities of Pará"

<sup>64</sup> (Garcia et al., 2019)

<sup>65</sup> (Garcia et al., 2019)

Nonetheless, change was also achieved through the projects financed by the Amazon Fund, contributing to implement existing policies, encouraging the development of new policies (State Plans for Deforestation Prevention and Control) and achieving a reduction in deforestation, as discussed below.

### 3.1. Policy outcomes

According to the 2018 Annual Report, the projects financed by the Amazon Fund attained the following outcomes in the 2009-2018 period:

- 746,905 rural properties registered at the Rural Environmental Registry, representing over 90 million hectares (implementation of the Forest Code);
- 7,500 sustainable productive activities financed, benefitting 162,195 individuals (implementation of PPCDam and the Sustainable Amazon Plan);
- 6,091 public employees trained;
- BRL 142 million produced in revenues from the commercialisation of products (implementation of PPCDam and the Sustainable Amazon Plan);
- 687 environmental monitoring missions concluded (implementation of PPCDam);
- 101 indigenous lands supported, benefitting nearly 50,000 indigenous people (implementation of PPCDam);
- 190 Conservation Units supported (implementation of PPCDam);
- 338 institutions supported either directly or through partners;
- 344 people trained in monitoring technologies;
- 23,630 forest fires combatted by the military fire forces (implementation of PPCDam);

In terms of advancing regional indicators (e.g. Amazon GDP, deforestation rates), it is difficult to measure the contribution of the Amazon Fund as there are numerous public policies that have an influence on the Amazon territory. For instance, the Amazon Fund was neither the only nor the most relevant actor financing activities for deforestation control in the region. In 2014, the amount disbursed by the Fund (BRL 208 million) represented less than 15% of the amount disbursed by the government for PPCDam (BRL 1.4 billion)<sup>66</sup>.

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<sup>66</sup> Moreover, funds and policies were also available for activities that tend to increase deforestation, including within BNDES portfolio, such as the “Inova Mineral” fund under the Ministry of Science and Technology. The fund is endowed with BRL 1.2 billion (EUR 210 million) and provides non-reimbursable support to new mining and mineral processing projects (Klinger, 2018).

Nonetheless, Crisostomo & Machado (2019) estimated that **deforestation would have been more pronounced without its implementation**. According to the authors, the projects financed by the Amazon Fund that have equipped state agencies to register properties in the Rural Environmental Registry (CAR) helped to avoid 8,571km<sup>2</sup> of deforestation. This is because the average deforestation rate in registered areas (0.71% in the Amazon biome and 0.93% in the Cerrado) is lower than deforestation in non-registered areas (2.1% in the Amazon and 2.4% in the Cerrado). Hence, in the 2014-2018 period, the registry of 40.9 million hectares of small properties contributed to avoid 8,244 km<sup>2</sup> in the Amazon and 327 km<sup>2</sup> in the Cerrado, the equivalent of 404 million tonnes of avoided CO<sup>2</sup> emissions.<sup>67</sup>

### 3.2. Improved implementation of existing policies

Another important contribution of the Amazon Fund was improved implementation of existing policies through activities of deforestation control. In principle, the Amazon Fund had to comply with the additionality rule, which meant that the Fund could only finance activities that complemented public policies rather than delivering services which were the State's responsibility.

In view of the economic crisis and the State's budget constraints, the Steering Committee was concerned about the government capacity to control deforestation and fires in the Amazon. As a result, the Ministry of the Environment and BNDES proposed, and the Steering Committee approved, to exceptionally suspend the additionality rule in 2016 to support projects that maintained or improved activities of environmental inspection and deforestation control performed by public bodies. In total, BRL 140 million were employed in Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renováveis' (Ibama)<sup>68</sup> environmental monitoring missions.<sup>69</sup>

### 3.3. Development of new policies

The Amazon Fund has also encouraged the development of new policies by incentivising the Amazon states to develop their State Plans for Deforestation Prevention and Control. Having those Plans was a requirement for states to appoint representatives for the Fund's Steering Committee and to submit projects proposals for funding. Today, all nine Amazon states have State Plans.<sup>70</sup>

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<sup>67</sup> (Crisostomo & Machado, 2019)

<sup>68</sup> IBAMA is a federal autarchy linked to the Ministry of the Environment that is responsible to exercise powers of environmental police and to perform tasks associated with environmental national policies.

<sup>69</sup> (Garcia et al., 2019)

<sup>70</sup> (Garcia et al., 2019)



A criticism to the use of the Amazon Fund's resources relates to the type of financed projects. Given that (i) BNDES' project management structure favoured the selection of more operational-type of projects, (ii) from 2013, the responsibility for PPCDam was no longer at the presidential level and (iii) the economic crisis caused part of the Amazon Fund to be used in Ibama's inspection activities, the outcome was that the Amazon Fund did not finance more structural projects, such as policy-making projects, national projects that addressed the drivers of deforestation or projects that had more innovative structures (such as payment for environmental services programs).<sup>71</sup>

#### 4. Lessons learned

The Amazon Fund has been successful in fund raising for projects that contribute to preventing, monitoring and combating deforestation, and to promoting the conservation and the sustainable use of the Legal Amazon region. Particularly, the financed projects have managed to achieve positive results by contributing to implement existing policies (particularly PPCDam), encouraging the development of new policies (the State Plans for Deforestation Prevention and Control) and achieving avoided deforestation (through projects that supported CAR implementation).

A number of factors and conditions have contributed to the attainment of such outcomes. We can highlight:

- A successful track record of the Brazilian government with the Norwegian and the German governments developing socioenvironmental projects in cooperation has facilitated the creation of the Amazon Fund. On the other hand, changes in the federal government and subsequent changes in political priorities showed that the maintenance of a results-based payment instrument that is agreed between nations is critically dependent on political will.

**Hypothesis 1:** Changes in the political sphere have the ability to quickly compromise the functioning of a financial mechanism that depends on cooperation between national governments.

- The capacity of BNDES to manage such magnitude of financial resources has met the professional standards required by the donors. In the process, the bank has also developed its ability to select and monitor grant-financed projects in forest protection.

<sup>71</sup> (Nakhoda et al., 2014) and interviews



- The presence of a solid civil society, with capacity to implement projects, has contributed to widen the Fund's field of action and to reach a larger number of beneficiaries.
- Technical assistance offered by GIZ and BNDES' selection and monitoring requirements have contributed to further professionalise civil society organisations.

**Hypothesis 2:** The existence of strong institutions in the recipient country (e.g. strong development bank, legitimate/strong civil society) offers enhanced assurance to international donors about management and implementation capacity, facilitating the attraction of ICF.

**Hypothesis 3:** The provision of technical assistance enhances implementation capacity.

- The multistakeholder nature of the Steering Committee has given legitimacy to the Fund and has contributed to give voice and responsibility to different sectors of society. The presence of representatives from the private sector would contribute to further improve the decision-making process.
- BNDES has been successful in fostering consensus in the Fund's Steering Committee by organising bilateral meetings with different sectors prior to the Committee's meetings.

**Hypotheses 4:** The evenly balanced participation of different sectors of society in the decision-making and project implementation processes contribute to provide legitimacy to the ICF and to widen its field of action.

**H4a.** In these processes, an enabling organization can facilitate discussions between stakeholders with different views.

- Civil society organisations have acted as intermediary agents which then supported subprojects, helping the Amazon Fund to reach smaller organisations and distant locations.

**Hypotheses 5:** The adoption of intermediary agents (e.g. larger NGOs) with capacity to channel funds to smaller institutions contributes to widen the ICF's field of action.

- To maintain coherence with the national government strategy, the projects financed by the Amazon Fund were aligned with PPPCDam, the Sustainable Amazon Plan, the state plans to prevent and combat deforestation, and REDD+'s National Strategy.

**Hypothesis 6:** ICF strengthens government implementing capacity when aligned with existing public policies as long as there is political will.

- Successful efforts from the Brazilian government to curb deforestation in the past were critical to the creation of the Amazon Fund.

**Hypothesis 7:** In results-based payment mechanisms, successful government efforts at implementing existing policies in the recipient country are critical to the attraction of ICF.

- The presence of a national monitoring system (INPE), that is internationally recognised, provided the Fund with reliable data on deforestation monitoring.
- The simplicity of the methodology for calculating payment for results has provided additional transparency to the Amazon Fund.
- Donor countries have, however, increasingly voiced concerns over the relationship between the Fund's activities and clear results, requiring better monitoring at project-level as well.

**Hypothesis 8:** A simple method to calculate donor disbursements brings transparency to results-based payment instruments.

**Hypothesis 9:** Monitoring, reporting and verification (MRV) processes in place to evaluate the financed projects provide more legitimacy to the ICF instrument.

Recent changes to the Amazon Fund, particularly to its governance, have suspended its operations and have raised doubts about whether its activities will continue with donations from Norway and Germany. Moreover, deforestation trends since 2013 and the new reference level (from 2006-2015) had already substantially decreased the monetary value of annual emissions reductions and, without measures to significantly reduce deforestation in the Amazon region, the fund already seemed unlikely to attract new, large donations.

Although it is early to evaluate how these changes will impact the Amazon Fund in the long-term, one of the issues that this situation raises is whether the functioning of a financial instrument could be shielded from political changes. For example, perhaps a private fund could be more effective than a national trust fund in sustaining transformational outcomes when political conditions change. Indeed, non-

governmental third parties were responsible for disbursing the NIFCI funds in Tanzania, Guyana and Indonesia. Alternatively, a fund of this magnitude could be created and linked to a specific federal law. This was the case of the Paris Agreement whose ratification in Brazil was also approved by the National Congress via Legislative Decree 140/2016, which explicitly stated that, in accordance with Brazil's Federal Constitution, "any acts that may result in the revision of the Agreement" are to be subjected to congressional approval<sup>72</sup>. Such a provision is also found in the Promulgation of the Paris Agreement, by then President Michel Temer, via Presidential Decree # 9,073, from June 5, 2017<sup>73</sup>. Although initially more complex, time-consuming and susceptible to political capture, linking the financial instrument to a federal law would require eventual changes to be approved by both the executive and legislative branches, minimizing the risk of abrupt discontinuation.

**H1a.** In countries with poor local governance and/or political instability, international donors may decide to bypass local governments (disbursing grants through international organisations like the World Bank and UNDP).

**H1b.** In countries with poor local governance and/or political instability, international donors may link their grants to instruments under federal laws (in which changes will have to be approved by both the executive and legislative branches of government).

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<sup>73</sup> (Brasil, 2017)

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