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Report No: 86405-BR

PROJECT PAPER

FOR

A SMALL RETF GRANT

IN THE AMOUNT OF US\$4,400,000

TO THE

FUNDAÇÃO AGENTE

FOR A

BRAZIL CERRADO CLIMATE CHANGE MITIGATION

RURAL ENVIRONMENTAL CADASTRE AND FIRE PREVENTION IN PIAUÍ STATE
PROJECT

April 8, 2014

Sustainable Development Department
Brazil country Management Unit
Latin America and the Caribbean Region

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CURRENCY EQUIVALENTS
(Exchange Rate Effective September 18, 2013)

Currency Unit = Brazilian Real

US\$1.00 = R\$2.3

FISCAL YEAR
January 1 – December 31

ABBREVIATIONS AND ACRONYMS

APP	<i>Área de Preservação Permanente</i> (Area of Permanent Preservation)
BCCCMTF	Brazil Cerrado Climate Change Mitigation Trust Fund
CAR	<i>Cadastro Ambiental Rural</i> (Rural Environmental Cadastre)
CPS	Country Partnership Strategy
CQS	Selection Based on Consultant's Qualifications
CRAD	<i>Centros de Referência em Recuperação de Áreas Degradadas</i> (Degraded Areas Recovery Centers)
FBS	Fixed-Budget Selection
FM	Financial Management
GHG	Greenhouse Gases
GoB	Government of Brazil
GoP	Government of Piauí
IFR	Interim Financial Report
INCRA	<i>Instituto Nacional de Colonização e Reforma Agrária</i> (National Institute for Colonization and Agrarian Reform)
IPR	Independent Procurement Review
LCS	Least-Cost Selection
M&E	Monitoring and Evaluation
MMA	<i>Ministério do Meio Ambiente</i> (Ministry of Environment)
NCB	National Competitive Bidding
NGO	Nongovernmental Organization
PPCerrado	<i>Plano de Ação para Prevenção e Controle do Desmatamento e das Queimadas no Cerrado</i> (Action Plan to Prevent and Control Deforestation in the Cerrado Biome)
PRADs	<i>Planos de Recuperação de Áreas Degradadas</i> (Plans for Recovery of Degraded Areas)
QBS	Quality-Based Selection
QCBS	Quality- and Cost-Based Selection
RL	<i>Reserva Legal</i> (Legal Reserve)
SBD	Standard Bidding Document
SEMAR	<i>Secretaria de Meio Ambiente e Recursos Hídricos do Estado do Piauí</i> (Piauí State Secretariat of Environment and Water Resources)
SICAR	<i>Sistema Nacional de Cadastro Ambiental Rural</i>

SISNAMA (Rural Environmental Cadastre System)
Sistema Nacional do Meio Ambiente
(National Environmental System)
SOE Statement of Expenditure
SSS Single-Source Selection
TORs Terms of Reference

Regional Vice President:	Hasan Tuluy, LCRVP
Country Director:	Deborah Wetzel, LCC5C
Sector Director:	Ede Jorge Ijjász Vásquez, LCSSD
Sector Manager:	Emilia Battaglini, Acting LCSEN
Task Team Leader:	Bernadete Lange, LCSEN

BRAZIL
Brazil Cerrado Climate Change Mitigation
Rural Environmental Cadastre and Fire Prevention in Piauí State Project

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DATA SHEET

BRAZIL

Brazil Cerrado Climate Change Mitigation
Rural Environmental Cadastre and Fire Prevention in Piauí State Project

Small RETF Grant Project Paper

LCR

LCSEN

Basic Information			
Date:	July 3, 2014	Sectors:	General agriculture, fishing and forestry sector: 50% Public administration–Agriculture, fishing and forestry: 50%
Country Director:	DeborahWetzel	Themes:	Climate change: 50% Land administration and management: 35% Biodiversity: 15%
Sector Manager/Director:	Emilia Battaglini, Acting/ Ede Jorge Ijjász Vásquez	EA Category:	B
Project ID:	P143362		
Instrument::	Technical Assistance		
Team Leader(s):	Bernadete Lange, LCSEN		
Recipient: Fundação Agente			
Executing Agency: Fundação Agente			
Contact:	Milcíades Gadelha de Lima	Title:	Director-President
Telephone No.:	55-86-3233-0200	Email:	gadelhaenator@gmail.com
Project Implementation Period: Start Date: April 7, 2014 End Date: June 30, 2016			
Expected Effectiveness Date:	April 7, 2014		
Expected Closing Date:	June 30, 2016		
Project Financing Data(US\$M)			
<input type="checkbox"/> Loan	<input checked="" type="checkbox"/> Grant	<input type="checkbox"/> Other	
<input type="checkbox"/> Credit	<input type="checkbox"/> Guarantee		
For Loans/Credits/Others			
Total Project Cost:	4.4	Total Bank Financing:	4.4
Total Cofinancing:	00	Financing Gap:	00
Financing Source	Amount(US\$M)		
RECIPIENT			
IBRD			
IDA: New			
IDA: Recommitted			
Others: DEFRA	4.4		
Financing Gap			

Expected Disbursements (in US\$ Million)

Fiscal Year	2014	2015	2016	2017					
Annual	400	1500	2000	500					
Cumulative	400	1900	3900	4400					

Project Development Objective(s)

The Project's main objective is to promote the reduction of climate change impacts in the Cerrado of Southern Piauí State by: (i) promoting the environmental regularization of landholdings in the targeted municipalities; and (ii) preventing and combating forest fires through the integration of local actors and promoting the adoption of sustainable production practices in the targeted municipalities.

Components

Component Name	Cost (US\$ Million)
Rural Environmental Regularization	2.4
Prevention and Control of Forest Fires	1.5
Project Administrative and Financial Management	0.44

Compliance**Policy**

Does the project depart from the CAS in content or in other significant respects?	Yes []	No [X]
Does the project require any exceptions from Bank policies?	Yes []	No [X]
Have these been approved by Bank management?	Yes []	No [X]
Is approval for any policy exception sought from the Board?	Yes []	No [X]
Does the project meet the Regional criteria for readiness for implementation?	Yes [X]	No []

Safeguard Policies Triggered by the Project

	Yes	No
Environmental Assessment OP/BP 4.01	X	
Natural Habitats OP/BP 4.04	X	
Forests OP/BP 4.36	X	
Pest Management OP 4.09		X
Physical Cultural Resources OP/BP 4.11		X
Indigenous Peoples OP/BP 4.10		X
Involuntary Resettlement OP/BP 4.12		X
Safety of Dams OP/BP 4.37		X
Projects on International Waters OP/BP 7.50		X
Projects in Disputed Areas OP/BP 7.60		X

Legal Covenants

Name	Recurrent	Due Date	Frequency

Description of Covenant

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Team Composition**Bank Staff**

Name	Title	Specialization	Unit	UPI
Bernadete Lange	Sr. Environmental Specialist	TTL, Environment	LCSSEN	322535
Daniella Arruda	Operations Analyst	Operations	LCSSEN	286713
Alberto Costa	Sr. Social Development Specialist	Social Safeguards	LCSO	83629
Danilo Pereira de Carvalho	Procurement Specialist	Procurement	LCSPT	380047
João Vicente	Financial Management Specialist	Finance	LCSFM	328583
Mariana M. Montiel	Senior Counsel	Law	LEGLE	202290
Sophia Guerrier-Gray	Legal Analyst	Law	LEGLE	202981

Non-Bank Staff

Name	Title	Office Phone	City

Locations

Country	First Administrative Division	Location	Planned	Actual	Comments
Brazil	State of Piauí	Cerrado Biome			

I. STRATEGIC CONTEXT

A. Country Context

Deforestation in the Cerrado Biome of Brazil

1. Brazil's territory encompasses a broad diversity of landscapes and seascapes. These include the Cerrado Biome, which is considered the world's richest savanna in terms of biodiversity. This biome has faced high rates of elimination of its native vegetation cover since the 1970s due to mechanized agriculture, livestock and charcoal production to meet the demands of the steel industry.

2. In 2010, the biome had lost about 49 percent, or 1.0 million km², of its native vegetation cover: about 4.5 percent in the 2002–2010 period. Although the Cerrado's deforested area in 2010 was the same size as that of the Brazilian Amazon in the same year (6,400 km²), it represented a larger percentage of the biome (0.32 percent versus 0.15 percent). However, annual deforestation has declined in recent years, both in the Cerrado and the Amazon.

3. Deforestation in the Cerrado is associated not only with the clear cutting of natural vegetation, but with the uncontrolled use of slash-and-burn practices. In 2010 alone, 74,120 hotspots were detected in the biome, 70 percent of which were located in areas with remnant native vegetation.

Greenhouse Gas (GHG) Emissions

4. In Brazil, by far the largest share of net CO₂ emissions comes from land-use change, especially the conversion of natural vegetation to crop land and pasture (77 percent of total net CO₂ emissions in 2005). The Cerrado is the second largest biome in Brazil and South America (24 percent of the country's total land area). In this context, land-use change in the Cerrado contributed 22 percent of net anthropic emissions in 2005.

5. It is estimated that the Cerrado's relative contribution to deforestation has increased: since 2005, deforestation levels in the Amazon have fallen more steeply than those in the Cerrado. The Cerrado is important not only as the savanna with the world's largest biodiversity, but also because of the large amounts of carbon it stores, with about 70 percent occurring in the soil and underground biomass.

6. Additionally, recent estimates from the Brazilian Ministry of Science, Technology, and Innovation (MCTI) suggest a substantial decrease in Brazil's GHG emissions in 2010 (1,246 MtCO₂ e, compared to 2,032 MtCO₂e in 2005), with agriculture becoming the country's main source of GHG emissions (35%), followed by the energy (32%) and the land use change and forest (22%) sectors¹. In 2010, agricultural emissions in Brazil were mainly due to enteric fermentation (56%) and agricultural soils (35%), and to a lesser extent due to animal waste management (5%), rice cultivation (2%) and burning of agricultural residues (1.5%).

¹ Ministério da Ciência, Tecnologia e Inovação (MCTI), 2013. Estimativas anuais de emissões de gases de efeito estufa no Brasil. Available at: <http://gvc.es.com.br/arquivos/177/EstimativasClima.pdf>

National Policy on Climate Change

7. Through the National Policy on Climate Change (Law 12.187/2009 and Decree 7.390/2010), the Government of Brazil (GoB) made a voluntary commitment to reduce by 40 percent the annual rates of deforestation in the Cerrado Biome, based on average deforestation between 1999 and 2008.

8. Launched in September 2010, the aim of the Action Plan to Prevent and Control Deforestation in the Cerrado Biome (PPCerrado; Decree 5.577/2005) is to promote sustained reductions in the rates of deforestation and forest degradation, as well as in the incidence of burnings and forest fires in this biome.

National Policy for Prevention and Control of Forest Fires

9. The Forest Code (Law 12.651/2012) requires landholders to ask the State environmental agency for prior authorization to use fire on vegetation in locations or regions whose characteristics justify its use in agro-pastoral or forestry practices. It also states that Federal, State and Municipal environmental agencies, which comprise the National Environmental System (*Sistema Nacional do Meio Ambiente, SISNAMA*), shall update and deploy contingency plans for fighting forest fires and that the Federal Government should establish a National Policy for Prevention and Control of Deforestation and Forest Fires.

National Police for Rural Environmental Cadastre

10. A key tool to monitor and control deforestation in landholdings is the Rural Environmental Cadastre (*Cadastro Ambiental Rural, CAR*). The CAR is an electronic register of rural landholdings maintained by an official environmental entity whose aim is to effectively monitor, supervise, control, plan and ensure the environmental compliance of landholdings. This register contains georeferenced details of the total area of individual landholdings, the areas earmarked for alternative land use, Areas of Permanent Preservation (*Áreas de Preservação Permanente, APPs*) and Legal Reserves (*Reservas Legais, RLs*). The CAR also specifies APP and RL areas that should be restored. The system will help to distinguish between legal and illegal land clearing, and will facilitate land-use planning.

B. Sectoral and Institutional Context

The Cerrado in the State of Piauí

11. The Cerrado Biome, located in southern and southwestern Piauí, occupies a total area of 93,424 km² (37 percent of the state's area). As of 2010, about 17 percent of this total had been deforested (15,789 km²).

12. Most priority municipalities for combating deforestation in southeastern Piauí still retain much of their territory with 75 percent of native vegetation remaining. However, the conversion of these areas into monocropping of grains and oilseeds with high economic value for Brazilian exports represents a major threat to the conservation of the Cerrado Biome's related services and the quality of life of its population.

13. The State Government of Piauí (GoP) established the State Program for Environmental Regularization of Rural Landholdings and created the CAR at State level (Law 6.132/2011). Through Law 5.178/2000, the GoP also established the State Forestry Policy, which increased the percentage of ownership in the Cerrado's Legal Reserves (RL) from 20 to 30 percent.

14. The hotspots detected from 2007 to 2011 in Piauí were concentrated in the State's southern region and coincide with the six municipalities earmarked for priority actions to combat deforestation. To combat forest fires, the GoP established the State Committee for the Prevention and Combatting of Forest Fires and for Fire Control in October 2008, and approved its bylaws in December of the same year.

15. The State Plan for the Prevention and Control of Forest Fires, released in July 2009, establishes a set of preventive actions to control and fight forest fires to be implemented by various government institutions in conjunction with the community in order to protect flora, fauna, soil, water resources, and the population.

16. The Ministry of Environment (Ministério do Meio Ambiente. MMA) published Decree 97 dated March 22, 2012, determining the 52 priority municipalities in the Cerrado Biome that require immediate actions to prevent and control deforestation. Six of them belong to Piauí and are all located in the State's southwestern region: Baixa Grande do Ribeiro, Currais, Palmeira do Piauí, Ribeiro Gonçalves, Santa Filomena, and Uruçuí.

Relationship to CPS

17. Aligned with the Government's environmental priorities, the objectives of the proposed Project are also fully in line with the current Country Partnership Strategy (CPS 2012–2015), discussed by the World Bank's Executive Directors on November 1, 2011 (Report No. 63731-BR), under Strategic Objective 4: Improving sustainable natural resource management and climate resilience. The engagement in the biome seeks to: (i) support the mapping of degraded areas across all Brazilian biomes and help develop financial incentives to promote their rehabilitation; (ii) support increased sustainability of agricultural production and forestry in the Cerrado; (iii) support efforts by the Federal and selected subnational Governments to further strengthen and integrate their environmental management systems, including those at the metropolitan level, and ensure environmental compliance in rural areas; (iv) help improve the efficiency and effectiveness of environmental licensing and monitoring systems; and (v) help the Federal Government and the private sector to implement Brazil's National Climate Change Plan.

Cerrado Biome approach

18. The World Bank is organizing its approach to Brazil's Cerrado Biome through partnership building with all government levels, private sector and civil society. The Biome approach combines conservation with the promotion of local and regional rural economic development. The Bank is currently supporting a set of initiatives by the Government of Brazil (GoB) to promote inclusive development through complementary programs and projects: (i) the Sustainable Cerrado Initiative; (ii) the Brazil Cerrado Climate Change Mitigation Trust Fund; and (iii) the Forest Investment Program (FIP): Brazil Investment Plan.

19. Each of the programs or projects will fund investments and activities that support actions of

the various implementing agencies and their relationships with other entities and projects or programs. Moreover, the World Bank is supporting the Federal and State Governments' efforts to improve efficiency in the planning and execution of projects.

Brazil Cerrado Climate Change Mitigation Trust Fund (BCCMTF)

20. Launched in 2012 as part of the Cerrado Biome approach, the Brazil Cerrado Climate Change Mitigation Trust Fund (BCCMTF) is a single-donor trust fund with Bank- and recipient-executed components from the Department for Environment, Food and Rural Affairs of United Kingdom (DEFRA).

21. The Program's main preliminary goals are: (i) the capture of 22.5 million tons of CO₂ equivalent over 30 years through the recovery of forests, 26 million tons through direct reductions from deforestation, and 65 million tons by reducing fires (including a reduction in the burning of forests and agricultural lands); (ii) the restoration of 360,000 hectares (ha) of native vegetation and 128,000 ha of avoided deforestation (a 46 percent reduction), with a substantial impact on reducing biodiversity loss; and (iii) intervention with 1,000 small landholders (20 percent of the total target of 5,000 farmers) to improve livelihoods through a combination of access to credit and the adoption of improved agricultural practices and natural resource management.

22. The proposed Project will contribute to the environmental regularization of rural properties in the Cerrado of Piauí and the decrease in forest fires in the Cerrado. Greater environmental compliance and mitigation of wildfires mean less illegal deforestation, fewer degraded lands and more reclaimed areas. In a more global view, this will contribute toward reducing net greenhouse gas (GHG) emissions and conserving ecosystem services and biodiversity.

C. Higher-Level Objectives to which the Project Contributes

23. The proposed Project is part of the BCCMTF. It will support the GoP in reducing illegal deforestation on rural landholdings, reducing GHG emissions, and increasing carbon sequestration by: (i) promoting farmers' compliance with the Brazilian Forest Code, based on the strengthening of monitoring and enforcement of mandatory reserve requirements through environmental registration of rural properties; and (ii) promoting controlled burning, preventing forest fires, replacing burning with more sustainable agricultural practices, and strengthening firefighting capacity.

II. PROJECT DEVELOPMENT OBJECTIVES (PDO)

A. PDO

24. The Project's main objective is to promote the reduction of climate change impacts in the Cerrado of southern Piauí by:

- Promoting the environmental regularization of landholdings in the targeted municipalities; and

- Preventing and combatting forest fires through the integration of local actors and promoting the adoption of sustainable production practices in the targeted municipalities.

Project Beneficiaries

25. Taking into consideration the specific activities, the main beneficiaries are:

- The Federal, State and Municipal Governments and Municipal environmental organizations in the targeted municipalities, which will be trained to implement the CAR and prevent and fight forest fires.
- Family farmers² in the targeted municipalities, who will receive direct support for the CAR registration of their landholdings. An estimated 2,600 families meet this criterion.
- Farmers in general (medium- and large-scale) within the targeted municipalities, who have greater access to registration in the CAR, as established by Law 12.651/2012. An estimated 2,138 landholders meet this criterion.

26. In addition, the Project's indirect beneficiaries will be: (i) rural technical assistance organizations, nongovernmental organizations (NGOs), research and educational institutions (e.g., universities), representative organizations (Rural Workers Union, Local Producers Associations and Cooperatives, etc.) that operate in the targeted municipalities and will have access to technical information on prevention and control of forest fires and sustainable production; and (ii) all landholders in Piauí (small-, medium- and large-scale), who will have access to the Rural Environmental Cadastre System (*Sistema Nacional de Cadastro Ambiental Rural*, SICAR) for registration of rural landholdings and SEMAR will have trained and experienced professionals.

PDO-Level Results Indicators

27. Rural environmental registration of small rural landholdings of targeted municipalities:

- Land area where sustainable land management has been adopted as result of the project (core indicator).
- Land users adopting sustainable land management practices as result of the project. (core indicator).

28. Prevention and control of forest fires in the targeted municipalities:

- Number of fires observed in the targeted municipalities.
- Number of actions to combat forest fires in the targeted municipalities.

² Family farmers are those who carry out activities in rural areas and meet the following requirements: (i) they do not possess, in any way, an area greater than four fiscal modules – in Piauí 4 fiscal modules are equivalent to 300ha; (ii) they mainly use labor of their own family for the economic activities of their establishment or undertaking; (iii) they have a minimum percentage of household income stemming from the economic activities of their establishment or enterprise, as defined by Law No. 12.512 of 2011; and (iv) they run their establishment or undertaking with their family, as defined by Law No. 11.326 of 2006.

III. PROJECT DESCRIPTION

A. Project Area

29. The Project will cover six municipalities of the Cerrado Biome in southwestern Piauí. The following criteria were used to select the priority municipalities: (i) Ministry of Environment's Decree 97/2012, which lists 52 municipalities deemed priorities under the PPCerrado based on the following: (a) areas of remnant native vegetation larger than 20 percent of the municipality, or existence of protected areas; and (b) deforestation over 25km² observed during the 2009–2010 period; (ii) concentration of extreme poverty in rural areas; and (iii) municipalities that are not financially supported by external funds or grants to carry out a cadastre of landholdings.

30. Based on the above criteria, the municipalities are listed in the following order of priority: Baixa Grande do Ribeiro; Uruçuí; Ribeiro Gonçalves; Santa Filomena; Currais, and Palmeira do Piauí. According to the Agricultural Census (IBGE 2010) these municipalities have 3,236 landholdings up to 500 ha, considering that in Piauí the 4 fiscal modules refers to landholdings up to 300ha, it is estimated that the project will focus in 2,600 properties.

B. Project Components

Component 1: Rural Environmental Regularization (Estimated Cost: US\$2.4 million)

31. The aim of this component is to implement the CAR for small landholders and promote the recovery of degraded areas in APPs and RLs in these landholdings located in the targeted municipalities.

32. This component will focus on building the institutional capacity of the State and the targeted municipalities' agencies to implement the CAR and on developing a framework to support the recovery of degraded areas in these municipalities. Activities are envisaged to: (i) support the implementation of the electronic infrastructure needed to host the CAR system; (ii) assist the State and targeted municipal agencies in producing the necessary information in order to have a complete registration of landholdings (including a map of land use, and a survey of areas that have not been georeferenced); (iii) establish a communication strategy to disseminate the CAR and its regulation, and a mobilization campaign for stakeholders in the State and targeted municipalities to participate in its implementation; (iv) provide training to stakeholders and government officials in the State and in the targeted municipalities on how to register in the CAR; (v) assist the State and targeted municipalities' agencies in resolving conflicts and inconsistencies in CAR data; (vi) promote capacity building in the State and targeted municipalities' agencies to validate CAR entries and the issuance of CAR certificates; (vi) organize events to promote the CAR; (vii) support the preparation of plans for recovery of degraded areas in small landholdings and the preparation of the environmental assessment of the targeted municipalities; (viii) promote the implementation of Degraded Areas Recovery Centers (*Centros de Referência em Recuperação de Áreas Degradadas*, CRADs); (ix) promote the creation of a seed collection network in the targeted municipalities and/or establish nurseries linked to the CRADs; (x) provide technical training courses on degraded areas recovery and sustainable economic alternatives; and (xi) design a financial sustainability strategy for the CRADs.

Component 2: Prevention and Control of Forest Fires (Estimated Cost: US\$1.5 million)

33. The aim of this component is to prevent and fight forest fires and promote alternatives to the use of fire in the State of Piauí, especially in the Project's targeted municipalities.

34. This component will focus on strengthening the capacity of the State and targeted municipalities to prevent and fight forest fires, and on developing practices to promote alternatives to the use of fire. Activities envisaged are: empowering the Prevention and Control Forest Fires State Committee to prevent and combat forest fires in targeted municipalities; supporting the development of the controlled fire authorization module in the State's system; assisting in the creation of municipal committees or municipal protocols for preventing and combating forest fires and of the regional contingency plan; promoting the development of municipal operating plans for preventing and combating forest fires; developing a communication strategy to disseminate actions on preventing and combating forest fires; providing training on how to prevent and combat forest fires; establishing municipal situation rooms to monitor deforestation and forest fires; implementing units to demonstrate alternatives to the use of fire, and promoting community forest fire prevention protocols; providing training on practical alternatives to the use of fire and on sustainable economic activities; promoting the subject of forest fire prevention and control through environmental education efforts, and supporting preventive and repressive inspection efforts.

Component 3: Administrative and Financial Management (Estimated Cost: US\$0.44 million)

35. The aim of this component is to support the Project's effective and efficient management, administration, monitoring and evaluation. This component will include activities such as: Project coordination, monitoring and reporting; adequate financial management, and procurement; and Project financial and technical activities for Project closure.

C. Project Financing

36. The Project will be funded in Piauí through a US\$4.4 million grant from the Brazil Cerrado Climate Change Mitigation Trust Fund (BCCCMTF). The Beneficiary will be a nongovernmental institution that will sign a Grant Agreement with the World Bank.

Project Cost and Financing

Project Components	Project Cost	Grant Financing	% Financing
Component 1. Environmental Regulation	2,417,000	2,417,000	100
Component 2. Prevention and Control of Forest Fires	1,543,000	1,543,000	100
Component 3: Administrative and Financial Management	440,000	440,000	100

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

37. Fundação Agente will manage the Project in close agreement with the primary partner, SEMAR. This Secretariat has signed a Technical Cooperation Agreement with Fundação Agente aimed at achieving Project objectives. The agreement between Fundação Agente and SEMAR commits the parties, in a coordinated manner, to the implementation of joint actions and implementation of control mechanisms, according to their responsibilities as set in the Cooperation Agreement. The Ministry of Environment (MMA) will be responsible for coordinating the cooperation between the parties involved, and to supervise and monitor the progress of work and achievement of results. For the purpose of overseeing the implementation of the Grant, an inter-institutional group will be organized for purposes of full Project implementation. Each of the institutions involved (MMA, SEMAR and Fundação Agente) will designate a focal point who will be responsible for monitoring Project implementation.

38. SEMAR will implement the Project in accordance with the respective policies, procedures and approaches for implementation, and will monitor and evaluate the Project (including its indicators). SEMAR will also implement the organizational structure needed for executing the Project, and will develop a communication strategy that will also identify potential environmental and social problems that may arise during Project execution, including prevention and mitigation measures, and the necessary cooperation agreements with municipalities, universities, and unions.

B. Results Monitoring and Evaluation

39. The monitoring and evaluation (M&E) system will be led by SEMAR. M&E will be conducted in accordance with: (i) the BCCCMTF monitoring and evaluation plan to be prepared; and (ii) established BCCCMTF rules and procedures. SEMAR will have primary responsibility for tracking technical progress related to Project outputs and outcomes. Project progress reports will be prepared and submitted to the Bank and MMA twice a year.

V. KEY RISKS AND MITIGATION MEASURES

Stakeholder Risk	Risk Rating	Mitigation Measures
Implementing Agency Risk		
Capacity	Substantial	Even though Fundação Agente has experience in implementing previous World Bank projects, the Fundação Agente must be updated regarding current Bank's procedures, including Procurement and FM rules and regulations. Additionally, the Fundação Agente's procedures and Internal Control Systems need to be reviewed in order to meet the needs of the project. Training and technical assistance have been undertaken so that Fundação Agente and SEMAR can efficiently and effectively manage Project resources.
Governance	Low	The Project will be carried out by an NGO, not by the state government, with the aim of streamlining procurement processes, in collaboration with SEMAR. The latter's active participation is required more toward the mid-

		term of the Project period (i.e., the second quarter of 2014), when new State administrations should have geared up.
Project Risk		
Design	Moderate	The Project's technical implementation is complex since it includes actions at the Federal, State and Municipal levels. Therefore, the Project's technical implementation would be the overall responsibility of MMA and SEMAR. SEMAR will be responsible for technical oversight, management and monitoring of Project activities. MMA will be responsible for supervising all activities. Both institutions will need to be staffed with technical employees, including biodiversity and environmental specialists, and an administrative specialist to liaise with Fundação Agente.
Social and Environmental	Low	The Project would not have any direct negative impact on the environment. The registration of landholdings and their characteristics in the environmental cadastre and the subsequent licensing of economic activities could lead to indirect impacts that trigger certain Bank safeguard policies, such as Environmental Assessment, Natural Habitats and Forests. The registration of rural holdings, whether as property or occupation, in the environmental cadastre does not imply recognition of any tenure rights. The campaign to inform local landholders would stress and clarify this distinction.
Program and Donor	Low	
Delivery Monitoring and Sustainability	Low	There may be an initial difficulty in generating baselines and establishing monitoring routines. The Project will be supervised regularly and support will be provided for integration with other MMA actions on CAR issues and prevention and control of forest fires.
Overall Implementation Risk	Moderate	

A. Overall Risk Rating Explanation

40. The following are the principal risks inherent in the proposed Project design: (i) the Project's feasibility and success are highly dependent on the participation and commitment of key stakeholders such as State and Municipal agencies and landholders; and (ii) the operation's complexity, particularly its multilevel implementation, will require a strong technical champion.

VI. APPRAISAL SUMMARY

41. The Project was designed specifically to maximize sustainability and efficiency. To this end, it will invest in activities that seek an optimum combination of immediate and long-term benefits.

42. The required fiduciary and financial assessments have been completed satisfactorily.

43. The Project will focus on rural environmental regularization. The prevention and combating of forest fires would not have any negative environmental impacts. It will support the GoP in its efforts to strengthen environmental management tools aimed at sustainable use of natural

resources, and to reduce illegal deforestation.

44. The Project will work directly with landholders, landholder associations and Municipal and State governments. Benefits will accrue to all rural landholders, directly or indirectly, from the environmental regularization promoted by the Project. Key stakeholders associated with this Project have been involved in its preparation.

ANNEX 1: RESULTS FRAMEWORK AND MONITORING

Brazil Cerrado Climate Change Mitigation: Rural Environmental Cadastre and Fire Prevention in Piauí State Project

Project Development Objective (PDO): The Project's main objective is to promote the reduction of climate change impacts in the Cerrado of southern Piauí by: (i) promoting the environmental regularization of landholdings in the targeted municipalities; and (ii) preventing and combating forest fires through the integration of local actors and promoting the adoption of sustainable production practices in the targeted municipalities.

PDO Level Results Indicators*	Core	Unit of Measure	Baseline	Cumulative Target Values**					Frequency	Data Source/ Methodology	Responsibility for Data Collection	Description (indicator definition etc.)
				YR 1	YR 2	YR3	YR 4	YR5				
Indicator: Land users adopting sustainable land management practices as result of the project	<input checked="" type="checkbox"/>	Number	0	70	2,000	2,600	---	----	annual	SICAR reports	SEMAR	Number of small landholdings enrolled in SICAR
Indicator: Land area where sustainable practices have been adopted as result of the project.	<input checked="" type="checkbox"/>	Number hectares	To be determined in YR1				--	--	annual	SICAR reports	SEMAR	This indicator measures the land area that as a result of the project enrolled in SICAR
Indicator: Number of fires observed in the targeted municipalities.		Number of fires	To be defined in YR1						annual	INPE reports	SEMAR	
Indicator: Number of actions to combat forest fires in the targeted municipalities.		Number	To be defined in YR1						annual	SEMAR reports	SEMAR	Actions carried out in target municipalities
INTERMEDIATE RESULTS												
Intermediate Result (Component 1): Rural Environmental Regularization												
<i>Electronic Rural Environmental Cadastre System (SICAR) operating in SEMAR, with the ability to conduct Rural Environmental Cadastre (CAR) in coordination with IBAMA/MMA and municipal agencies.</i>		%	0%	25%	50%	100%	----	---	Semiannual	SICAR	SEMAR	SICAR operating in SEMAR and
<i>Landholdings registered into the CAR system as a result of the Project</i>	<input type="checkbox"/>	Number	0	70	2,000	2,600	---	----	semiannual	SICAR	SEMAR	
<i>Staff in the State and Municipal environmental agencies trained to use CAR and analyze and validate</i>	<input type="checkbox"/>	%	0	40%	100%	100%	----	----	semiannual	SEMAR reports	SEMAR	

<i>the registrations under the Project.</i>												
Intermediate Result (Component 2): Prevention and Control of Forest Fires												
<i>Staff in State and Municipal environmental agencies trained to monitor hotspots under the Project.</i>	<input type="checkbox"/>	Number	0	0	10	20	----	----	semiannual	SEMAR reports	SEMAR	Training activities held by the Project
<i>Staff in State and Municipal environmental agencies trained in techniques to prevent and control forest fires under the Project.</i>	<input type="checkbox"/>	Number	0	0	10	20	----	---		SEMAR reports	SEMAR	Training activities held by the Project
<i>Number of landholders trained in alternatives to the use of fire under the Project.</i>		Number	0	0	100	200	----	----	semiannual	SEMAR reports	SEMAR	Training activities held by the Project
<i>Number of targeted Municipalities equipped to combat forest fires.</i>		Number	0	0	6	6	---	---	semiannual	SEMAR reports	SEMAR	

*Please indicate whether the indicator is a Core Sector Indicator (see <http://coreindicators>).

**Target values should be entered for the years data will be available, not necessarily annually.

ANNEX 2: DETAILED PROJECT DESCRIPTION

Brazil Cerrado Climate Change Mitigation: Rural Environmental Cadastre and Fire Prevention in Piauí State Project

Brazil Cerrado Climate Change Mitigation Trust Fund (BCCMTF)

1. Launched in 2012 as part of the Cerrado Biome approach, the Brazil Cerrado Climate Change Mitigation Trust Fund (BCCMTF) is a single-donor trust fund with Bank- and recipient-executed components from the Department for Environment, Food and Rural Affairs of the United Kingdom (DEFRA).
2. The Program's main preliminary goals are: (i) the capture of 22.5 million tons of CO₂ equivalent over 30 years through the recovery of forests, 26 million tons through direct reductions from deforestation, and 65 million tons by reducing fires (including a reduction in the burning of forests and agricultural lands); (ii) restoration of 360,000 ha of native vegetation and 128,000 ha of avoided deforestation (a 46 percent reduction), with a substantial impact on reducing biodiversity loss; and (iii) intervention with 1,000 small landholders (20 percent of the total target of 5,000 farmers) to improve livelihoods through a combination of access to credit and the adoption of improved agricultural practices and natural resource management.
3. The proposed Project will contribute to the environmental regularization of rural properties in the Cerrado of Piauí and the decrease in forest fires in the Cerrado. Greater environmental compliance and mitigation of wildfires mean less illegal deforestation, fewer degraded and more reclaimed areas. In a more global view, this will contribute toward reducing net emissions of greenhouse gases and the conservation of ecosystem services and biodiversity.
4. To date, the BCCMTF is composed of the following Projects:
 - Piauí: Rural Environmental Cadastre and Fire Prevention; Implementing Agency: Fundação Agente; Executor: SEMAR/PI;
 - Bahia: Rural Environmental Cadastre and Fire Prevention; Implementing Agency: Fundação Luís Eduardo Magalhães (FLEM); Executor: SEMA/BA;
 - Monitoring and warning of burning and forest fires in the Cerrado Biome; Implementing Agency: Funcate; Executor: INPE;
 - MMA Program Coordination;³ and
 - Technical Assistance on Climate Change in the Cerrado (Non-Lending Technical Assistance - NLTA): Bank-executed.
5. The proposed Project is part of the BCCMTF. It will support the Government of Piauí's

³ Project under preparation. Implementing agency has not yet been defined.

efforts to reduce illegal deforestation on rural landholdings, reduce GHG emissions and increase carbon sequestration by: (i) promotion of farmers' compliance with the Brazilian Forest Code, based on strengthening the monitoring and enforcement of mandatory reserve requirements through environmental registration of rural properties; and (ii) promotion of controlled burning, prevention of forest fires, replacement of burning with more sustainable agricultural practices, and strengthened firefighting capacity.

National Policy for Prevention and Control of Forest Fires

6. The Forest Code (Law 12.651/2012) requires landholders to ask the environmental state agency for prior authorization to use fire on vegetation in locations or regions whose characteristics justify its use in agro-pastoral or forestry practices. It also states that federal, state and municipal environmental agencies, which form the National Environmental System (*Sistema Nacional do Meio Ambiente*, SISNAMA), shall update and deploy contingency plans for fighting forest fires, and that the Federal Government should establish a National Policy for Prevention and Control of Deforestation and Forest Fires.

National Police for Rural Environmental Cadastre

7. A key tool to monitor and control deforestation in landholdings is the Rural Environmental Cadastre (*Cadastro Ambiental Rural*, CAR). The CAR is an electronic register of rural landholdings maintained by an official environmental entity, whose aim is to effectively monitor, supervise, control, plan and ensure the environmental compliance of landholdings. This register contains georeferenced details of the total area of individual landholdings, the areas earmarked for alternative land use, Areas of Permanent Preservation (APPs) and Legal Reserves (RLs). The CAR also specifies APP and RL areas that should be restored. The system will be able to distinguish between legal and illegal land clearing, and will facilitate land-use planning.

8. The Forest Code (Law 12.651/2012) stipulates mandatory membership in the CAR for all rural properties and possessions in Brazil. Moreover, it states that the Federal and State governments should implement Environmental Regularization Programs (*Programas de Regularização Ambiental*, PRAs) to ensure landholders' commitment to adequate legal requirements related to the recovery of environmental liabilities in APPs and RLs. The Forest Code and Decree 7.830 of 2012 provide special treatment, with no fees, to small landholders or family farming landholdings^{4,5}, settlements, agrarian reform projects, demarcated Indigenous

⁴ Family landholders and rural family entrepreneurs are those who carry out activities in rural areas, simultaneously meeting the following requirements: (i) they do not hold, in any capacity, an area up to four fiscal modules; (ii) they use mostly manual labor of their own family in the economic activities of his establishment or undertaking; (iii) they have a minimum percentage of household income stemming from economic activities of their establishment or enterprise, as defined by the Executive Authority (wording of Law No. 12.512 of 2011); and (iv) they manage their establishment or undertaking with their family. Law 11.326 of 2006.

⁵ A fiscal module is a unit of land measurement used in Brazil, instituted by Law No. 6.746 of 1979. It is expressed in hectares, is variable and is set for each municipality, taking into account: (i) the type of exploitation prevalent in the municipality; (ii) proceeds from the prevalent exploitation; (iii) other exploitations in the municipality which, although not dominant, are significant because of income or area used; and (iv) the concept of family landholding. The fiscal module corresponds to the minimum area required for a rural property's exploitation to be economically

Lands, and traditional communities that make collective use of their territories (i.e., *quilombola*, extractive communities).

9. Decree 7.830 of 10/17/2012 determines the roles and responsibilities of each entity involved in the process, at all three levels of government (federal, state and municipal).

10. CAR does not cover the regularization and registry of land tenure. Land tenure regularization is a separate process that involves the licensed public notary offices (*cartórios*) in the states and the National Institute for Colonization and Land Reform (*Instituto Nacional de Colonização e Reforma Agrária*, INCRA). This is not under the scope of the proposed Project⁶.

Project Area

11. The Project will cover six municipalities of the Cerrado Biome in southwestern Piauí. The following criteria were used to select the priority municipalities: (i) Ministry of Environment's Decree 97/2012, which lists 52 municipalities deemed priorities under the PPCerrado based on the following: (a) areas of remnant native vegetation larger than 20 percent of the municipality, or existence of protected areas; and (b) deforestation over 25km² observed during the 2009–2010 period; (ii) concentration of extreme poverty in rural areas; and (iii) municipalities that are not financially supported by external funds or grants to carry out a cadastre of landholdings.

12. Based on the criteria set forth above, the municipalities are listed in the following order of priority: Baixa Grande do Ribeiro; Uruçuí; Ribeiro Gonçalves; Santa Filomena; Currais and Palmeira do Piauí. These municipalities have 3,236 small landholdings (with less than 500 ha), occupying approximately 3,000 Km².

Project Components

Component 1: Rural Environmental Regularization (Estimated Cost: US\$2.4 million)

13. The aim of this component is to implement the rural environmental cadastre for small landholders and develop the PRAs to recover degraded areas in APPs and RLs on these landholdings.

14. This component will include the following activities focused on the CAR: (i) support for the implementation of the state electronic system to host the CAR, ensuring integration with the federal system; (ii) creation of a land-use map in the targeted municipalities; (iii) support for the dissemination and use of the state system; (iv) provision of training to municipal and state technicians as well as rural unions in rural environmental registration and use of the state system; (v) provision of training to companies, agencies and freelance professionals for technical assistance and rural extension in the CAR and PRAs; (vi) development and implementation of a

viable. In Piauí, municipalities have fiscal modules ranging from 30 to 75 ha, with the exception of the metropolitan area, where the fiscal module is set at 15 ha, which will could add up to 300ha.

⁶ The high precision of geodetic surveys of property boundaries required by INCRA for registration in the National Rural Cadastre System (*Sistema Nacional de Catastro Rural*, SNCR) is very stringent (about 0.5 m). Land tenure legislation stipulates the methodology to be used in defining the boundaries of landholdings.

communication strategy, mobilization and dissemination involving local agents and an interdisciplinary team to promote the CAR, the need to adhere to the system, and the activities to be implemented; (vii) a scanning survey to organize data for rural landholdings that already have georeferenced information produced by local, state and federal land regularization or other institutions; (viii) conduction of a survey of polygons of productive units that are not georeferenced in each municipality, and collection of needed documentation and information from landholders who agree to register the CAR; (ix) inputting of CAR data on landholdings or possessions in the system (SICAR); (x) resolution of data conflicts, inconsistencies and overlapping in property boundaries; (xi) analysis and validation of entries inputted in the SICAR; the validation will include automatic system checking and the technical staff's review of recorded data; (xii) the issuance of CAR certificates; (xiii) organization of events to deliver CAR certificates to landholders; (xiv) preparation of Plans for Recovery of Degraded Areas (*Planos de Recuperação de Áreas Degradadas*, PRADs) in small landholdings; and (xv) preparation of the environmental assessment of the selected municipalities after registration, containing information on the status of environmental liabilities and general guidelines for the recovery of these areas.

15. This component will also include the following activities focused on recovering degraded areas in small landholdings: (i) support for the creation and structuring of Degraded Areas Recovery Centers (*Centros de Referência em Recuperação de Áreas Degradadas*, CRADs) and their strengthening: one already exists (NUPERADE/SEMAR) and one will be created and linked to a university to assist in the recovery of environmental liabilities in the selected municipalities; (ii) support for the creation and consolidation of seed collection networks in selected municipalities and/or the creation of nurseries linked to the centers; (iii) conduction of technical training courses on the recovery of degraded areas and on sustainable economic alternatives; and (iv) development of a financial sustainability strategy for the CRADs.

Component 2: Prevention and Control of Forest Fires (Estimated Cost: US\$1.5 million)

16. The aim of this component is to prevent and combat forest fires and promote alternatives to the use of fire in the State of Piauí, especially in the Project's targeted municipalities.

17. This component will include the following activities focused on preventing and combating forest fires: (i) strengthening of the State Committee's actions to prevent and combat forest fires in the six priority municipalities; (ii) support for development of a module for controlled fire authorization, conducted electronically in the state system; (iii) creation of municipal committees or municipal protocols for preventing and combating forest fires (if the creation of the Committee is not possible); (iv) preparation of the Regional Contingency Plan focused on the priority municipalities in southern Piauí; (v) development of Municipal Operating Plans to Prevent and Combat Forest Fires; (vi) dissemination of strategies for preventing and combating forest fires in the priority municipalities in southern Piauí; (vii) training of experts (investigation of the causes and origins of forest fires); (viii) establishment of the municipal situation room for monitoring deforestation and forest fires; (ix) procurement and deployment of equipment for the Forest Fire Fighting and Preparedness Regional Operational Base in selected municipalities (managed by the State with IBAMA's support [site to be defined]); these operational bases will host PREVFOGO brigades, civil defense and fire stations; and (x) training of volunteer firefighters to prevent and combat forest fires in the Project's municipalities.

18. This component will also include the following activities focused on alternative agricultural practices and aimed at replacing the use of fire and generating income for small producers: (i) implementation of units to demonstrate alternatives to the use of fire, and promotion of community protocols for forest fire prevention; (ii) training in practical alternatives to the use of fire and sustainable economic activities; (iii) conduction of training and environmental education on causes and consequences of fires in the Cerrado, with the preparation of specific teaching materials; and (iv) support for preventive and repressive inspection actions.

Component 3: Administrative Financial Management of the Project (Estimated Cost: US\$0.44 million)

19. This component includes the establishment of financial tools and administrative procedures. Its aim is to create guidelines and procedures, in accordance with World Bank rules, to support the full implementation of Project activities. These tools and procedures include the preparation of formal documents for the procurement of goods and services, and mechanisms to facilitate the process of external audits and accountability.

20. The main activities of this subcomponent are: (i) the management plan for Project implementation established by the parties (Fundação Agente and SEMAR); (ii) development and dissemination of guidelines and procedures for financial execution; and (iii) regular meetings between the parties to review and adjust the Project management system.

21. The proposed Project will work directly with SEMAR and selected municipalities. Benefits will accrue to rural landholders, directly or indirectly, from the environmental regularization and forest fire prevention and control promoted by the Project.

Project Financing

22. The Project will be funded in Piauí through a US\$4.4 million grant from the Brazil Cerrado Climate Change Mitigation Trust Fund (BCCMTF). The Beneficiary will be a nongovernmental institution that will sign a Grant Agreement with the World Bank. The technical implementation will be coordinated directly by the Piauí State Secretariat of Environment and Water Resources, which will establish a Technical Cooperation Agreement with the Beneficiary. The Ministry of Environment (MMA) will be responsible for coordinating the cooperation between the parties involved, and to supervise and monitor the progress of work and achievement of results.

Sustainability

23. The Project's institutional sustainability is ensured by the legal liability of the state and municipalities to implement the CAR and establish procedures to prevent and combat forest fires, as stipulated in the Brazilian Forest Code (Law 12.651/2012).

24. In terms of continuity and replicability, the Project contributes directly to two purposes: (i) the promotion of a new and required awareness among landholders in support of the CAR system, and (ii) the generation of information to be included in the registration process in the state system (SICAR–Piauí). Information generated by the Project will support environmental management in the state, providing opportunities for analysis, enhancements, improvements and

internalization of lessons learned for replication of tools and technologies in other municipalities, and greater environmental control by the state.

Lessons Learned and Reflected in the Project Design

25. The design of the proposed Project draws on the experience and lessons learned from the pilot Brazil Rural Environmental Cadastre Technical Assistance Project (P126343), funded by the Pilot Program to Conserve the Brazilian Rain Forest (PPG7).

26. The specific lessons learned include: (i) communication strategies, partnership development, interaction with land tenure management institutions, and establishment of other strategic partnerships should be planned, taking into consideration local characteristics; (ii) landholders' willingness to register in the CAR is directly linked to the Project's credibility and image; (iii) partnerships are essential for the successful implementation of the CAR at all government levels, based on local scenarios and seeking the involvement of the most influential institutions; (iv) identifying the size of most of the properties and estimating the number of owners in the target group are important for better strategic planning of the Project; and (v) public services, such as cellphones, Internet and energy, and the availability of trained technicians are necessary inputs for Project activities.

ANNEX 3: IMPLEMENTATION ARRANGEMENTS

Brazil Cerrado Climate Change Mitigation: Rural Environmental Cadastre and Fire Prevention in Piauí State Project

Project Institutional and Implementation Arrangements

1. Fundação Agente will manage the Project, in close agreement with the primary partner: the Secretariat of the Environment and Water Resources of the State of Piauí (SEMAR). SEMAR has signed a technical cooperation agreement with Fundação Agente, aimed at achieving the Project's objectives. The agreement between Fundação Agente and SEMAR commits the parties, in a coordinated manner, to the implementation of joint actions and control mechanisms, according to their responsibilities as set in the Cooperation Agreement. The Ministry of Environment (MMA) will be responsible for coordinating the cooperation between the parties involved, and to supervise and monitor the progress of work and achievement of results. For the purpose of overseeing the implementation of the Grant, an inter-institutional group will be organized for purposes of full Project implementation. Each of the institutions involved (MMA, SEMAR and Fundação Agente) will designate a focal point who will be responsible for monitoring Project implementation.
2. SEMAR will have the following team dedicated to the Project: three employees who will coordinate the Project's technical implementation; ten professionals to input and analyze the CAR data (guidelines in the process of being released for the hiring of 50 servers); and two professionals (administrative and economic) to monitor and supervise the overall Project.
3. Fundação Agente's team will comprise three staff members dedicated to the Project: the Chief Financial Officer; a Procurement Specialist experienced in implementing Bank-financed projects; and an Administrative Assistant.
4. Meetings will be held between Fundação Agente and SEMAR for operational planning, monitoring and adjustment of actions.
5. The Terms of Reference (TORs) for hiring the services of a third party, as well as technical specifications of goods needed by the Project, will be prepared by SEMAR and submitted to Fundação Agente for the procurement of all goods, non-consultant services and consultant services.
6. SEMAR will implement the Project in accordance with policies, procedures and approaches for implementation, and will monitor and evaluate the Project (including its indicators). SEMAR will also implement the necessary organizational structure for Project execution, and will develop a communication strategy that will also identify potential environmental and social problems that may arise during Project execution, including prevention and mitigation measures, and the necessary cooperation agreements with municipalities, universities and unions. SEMAR will also be responsible for providing close supervision of Fundação Agente with regard to all procurement aspects.

Financial Management, Disbursements and Procurement

Financial Management (FM)

7. A Financial Management Assessment (FMA) of the Brazil Cerrado Climate Change Mitigation: Rural Environmental Cadastre and Fire Prevention in Piauí State Project has been undertaken in accordance with the following: (i) OP/BP 10.02, the Financial Management Manual for World Bank-financed operations (March 1, 2010); (ii) the World Bank's Audit Policy; and (iii) LCR regional guidelines for quality assurance and risk management. The grant will be implemented and executed by Fundação Agente. The objective of the assessment was to assess the adequacy of financial management arrangements for the Project. The evaluation took place on March 25, 2013 and was performed in the World Bank's office in Brasília. Fundação Agente has satisfactory financial management arrangements in place to meet the Bank's minimum requirements. According to the Risk Assessment Matrix, which presents the Project's potential FM risks, the residual overall FM risk associated with the Project is rated as MODERATE. The funds flow, disbursements, monitoring, auditing and supervision arrangements have been designed so as to respond to the Project's implementation. Financial management supervision will take place at least once a year. It will involve an assessment of the continuing adequacy of the FM arrangements and the: (i) review of Interim Financial Reports (IFRs); (ii) review of the auditors' reports and follow-up on issues raised in the management letter; (iii) follow-up on any financial reporting and disbursement issues; (iv) response to Project team questions; and (v) update of the financial management rating in the Implementation Status and Results Report (ISR).

8. The Recipient of the grant will be the Fundação Agente para o Desenvolvimento do Agronegócio e Meio Ambiente (Fundação Agente). The technical execution and Project implementation will be carried out by Fundação Agente. Fundação Agente has a comprehensive structure that distinguishes different Project operational activities, including planning, execution and supervision.

9. Fundação Agente will maintain the same procedures used in its regular/daily operations. Therefore, separation of duties among the payment verification function, procurement and Project management will be in place. (See Annex 1: Organizational Chart).

10. Grant disbursements will be made on a transaction basis and expenditures will be documented to the Bank using Summary Sheets with Records and Statements of Expenditure (SOEs). The direct payment disbursement method will not be used. Advance disbursement will be the primary method used. The Bank will disburse the proceeds of the grant to a separate Designated Account in Brazilian Reais (R\$) in the Banco do Brasil, Branch 3178-X, account number 44.340-9 in Teresina, Piauí and managed by Fundação Agente. Payments for goods and services for the Project will be made directly from this account. The Designated Account will have a fixed ceiling of US\$440,000.00. The frequency for reporting eligible expenditures paid from the Designated Account will be quarterly. The Minimum Application Size will be US\$5,000 equivalent. The Trust Fund will also have a four-month grace period after the closing date, during which the Bank will accept withdrawal application relating to Project transactions incurred before the closing date. Payments made in respect of grant activities will be included in the Summary Sheets and SOEs and forwarded to the World Bank's Brasília office.

11. The retroactive financing is allowed for up to US\$440,000 equivalent for payments made during the twelve months immediately before the date of the Grant Agreement, for Eligible Expenditures under Categories 1 and 2 of the disbursement table. All Eligible Expenditures submitted for retroactive financing shall be procured under procurement methods and procedures acceptable by the Bank.

12. For monitoring purposes, Fundação Agente will prepare quarterly Project Interim Financial Reports (IFRs) and submit them to the Bank within 45 days after the end of each quarter.

13. In order to maintain the same arrangements in the audit procedures applied to previous World Bank operations, an audit of the Project’s annual financial statements (IFRs) will be conducted by an independent audit firm acceptable to the Bank and carried out in accordance with TORs acceptable to the Bank and the Bank’s audit policy under a multiyear contract. The audit will be due no later than six months after the end of the fiscal year. The audit report will contain a single opinion on the Project financial statements and the Designated Account, as well as a management letter (report on internal controls). Fundação Agente will also send a yearly financial report to the Public Ministry of the State of Piauí/Prosecutor’s Office Foundations and social interest entities. The first audit will cover the period of the retroactive financing and the first year of implementation after signature.

14. Both audit reports will be subject to the World Bank’s policy on Access to Information.

15. Summary of FM actions to be taken prior to effectiveness:

- Cash flow for the Project cycle.
- Submission of IFR format for the Bank to provide its no-objection.
- Preparation of draft TORs for audit and submission to the Bank for no-objection.

Financial categories

16. The Table below specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Project and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Grant Allocated (USD)	Percentage of Expenditures to be Financed
(1) Goods, Non-consulting services and Consultants’ services, Seminars and Workshops	3,960,000	100%
(2) Operating Costs	440,000	100%
TOTAL AMOUNT	4,400,000	

17. For the purposes of this projects the term:

- “Operating Costs” means the operating costs incurred for the purposes of the implementation of the Project including: (A) operation and maintenance of vehicles,

repairs, fuel and spare parts; (B) equipment and computer maintenance; (C) shipment costs (whenever these costs are not included in the cost of goods); (D) office supplies; (E) rent for office facilities; (F) utilities; (G) travel and per diem costs for technical staff carrying out supervisory and quality control activities; (H) communication costs including advertisement for procurement purposes; and (I) salaries for the Recipient's operational staff.

- “Seminars and Workshops” means the costs associated with the preparation and carrying out of seminars and workshops including, travel, accommodation and subsistence costs for seminar and workshop participants, rental of seminar and workshop facilities and equipment, communication costs associated with the seminars and workshops, and preparation and reproduction of seminar and workshop materials and other costs directly related to the preparation and implementation of seminars and workshops.

Procurement

18. The Project will be implemented by SEMAR, while Fundação Agente will be responsible for procuring goods, works and services as well for selecting consultants, in accordance with the Bank's procurement policies. Fundação Agente will also be responsible for proper contract management. SEMAR will provide the necessary technical inputs (TORs, technical specifications, etc.) to allow Fundação Agente to carry out the procurement process with due diligence.

19. A procurement assessment of Fundação Agente's capacity to implement procurement actions was carried out in 2012. This assessment verified that Fundação Agente has an administrative staff with reasonable experience in procuring goods and services under national legislation, but with no experience with World Bank guidelines. In view of the lack of experience with World Bank procurement policies and procedures, the overall risk for procurement is rated SUBSTANTIAL. Proposed mitigation measures include the hiring of a procurement specialist to strengthen Fundação Agente's capacity. The Bank will provide training to Fundação Agente on procurement procedures and on drafting adequate terms of reference.

20. Procurement for the proposed Project will be carried out in accordance with the World Bank's “*Guidelines: Procurement under IBRD Loans and IDA Credits*” dated January 2011; “*Guidelines: Selection and Employment of Consultants by World Bank Borrowers*” dated January 2011; and the provisions stipulated in the Legal Agreement.

21. Procurement of small works. Small works are expected under the Project and would include construction, rehabilitation and maintenance of Degraded Areas Recovery Centers (CRADs). Procurement of small works should be carried out through the shopping method (three price quotations) as indicated in paragraph 3.5 (Section III) of the *Guidelines for Procurement under IBRD Loans and IDA Credits* dated January 2011. Direct contracting would also be used when the conditions of paragraph 3.7 of the guidelines are met. All direct contracting and all contracts under the shopping method and with estimated costs over US\$150,000, and all contracts under the National Competitive Bidding (NCB) method estimated to cost more than US\$250,000, as well as the first process, regardless of value, would be subject to prior review by the Bank.

22. Procurement of goods. Goods procured under this Project would include the procurement and deployment of equipment for the Forest Fire Fighting and Preparedness Regional Operational Base; the procurement of IT equipment, furniture, vehicles and stationery. Procurement would be conducted using the World Bank's Standard Bidding Document (SBD) for all International Competitive Bidding (ICB) and National SBD agreed with or satisfactory to the World Bank for all National Competitive Bidding (NCB). Small-value contracts not to exceed US\$100,000 would follow shopping procedures. The *Pregão Eletrônico* (e-Reverse Auction) defined in Brazilian Law 10.520/2002 would be used as an alternative to shopping. Direct contracting would also be used when the conditions of paragraph 3.7 of the guidelines are met. Contracts for goods estimated to cost less than US\$1 million would follow NCB procedures. All contracts under the NCB method and estimated to cost more than US\$250,000 equivalent per contract and the three first processes on a shopping basis, regardless of the amount involved, would be subject to prior review by the World Bank.

23. Special provision for NCB: Only the competitive procurement methods defined in Brazilian Law 8.666/1993 and its amendments, as well as the *Pregão Eletrônico*, as defined in Law 10.520/2002 would be used. The other methods would not be acceptable. Provisions in the Bank's guidelines would apply to all other aspects of the procurement carried out following NCB procedures. Only Standard Bidding Documents previously accepted by the Bank would be used for the methods under Law 8.666/1993, as well as for the *Pregão Eletrônico*. Bidding documents must include anticorruption and right-to-audit clauses to be considered acceptable to the Bank, and the legal agreement would need to include a provision that the NCB bidding documents shall be acceptable to the Bank.

24. Procurement of non-consulting services. Procurement of non-consulting services would include printing services, video production, events logistics, meetings and workshops, geoprocessing and georeferencing services. Procurement would be conducted using the Bank's SBD for all ICB and National SBD agreed with or satisfactory to the Bank for all NCB. Small-value contracts not to exceed US\$100,000 would follow shopping procedures. Direct contracting would also be used when the conditions of paragraph 3.7 of the guidelines are met. Non-consulting service contracts estimated to cost less than US\$1,000,000 would follow NCB procedures. Only the competitive procurement methods defined in Brazilian Law 8.666/1993 and its amendments, as well as the *Pregão Eletrônico*, (e-Reverse Auction) as defined in Law 10.520/2002 would be used. The other methods would not be acceptable. Provisions in the Bank's guidelines would apply to all other aspects of procurement carried out following NCB procedures. Only SBDs previously accepted by the Bank would be used for the methods under Law 8.666/1993, as well as for the *Pregão Eletrônico*. Bidding documents must include anticorruption and right-to-audit clauses to be considered acceptable to the Bank. All contracts estimated to cost more than US\$250,000 equivalent per contract and the first three processes on a shopping basis, regardless of the amount involved, would be subject to the Bank's prior review procedures.

25. Selection of consultants. Consulting services by firms and individuals required for the Project include a wide array of technical assistance and advisory services, such as the development of electronic systems, map preparation, training and economic diagnostics. Short-lists of consultants for services estimated to cost less than US\$500,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions in the

Consultant Guidelines. All contracts estimated to cost more than US\$100,000 equivalent per contract, the first process under each selection method, and any single source of consulting services would be subject to prior review by the Bank. Quality- and Cost-Based Selection (QCBS) would be the default method for the selection of firms, but Quality-Based Selection (QBS), Least-Cost Selection (LCS), Selection under a Fixed Budget (FBS), Selection Based on the Consultants' Qualifications (CQS), and Single Source Selection (SSS) could also be used if the requirements of the guidelines are met. Individual consultants should be selected in accordance with procedures of Section V of the Bank's Consultant Guidelines.

26. Operational costs. Operational costs include office supplies, sundries, incidentals, operation and maintenance of vehicles, repairs, fuel and spare parts; equipment and computer maintenance; shipment costs (whenever these costs are not included in the cost of goods); office supplies; rent for office facilities; utilities; travel and per diem costs for technical staff carrying out supervisory and quality control activities; telecommunication and communication costs including advertisement for procurement purposes; and salaries for the Recipient's operational staff; internet services, including costs for developing project website and other Project implementation-related expenses that would be financed by the Project and procured through shopping or the Pregão Eletrônico, or using any implementing agency's administrative procedures acceptable to the Bank.

27. Procurement Plan. The procurement plan for implementation of the proposed Project will be agreed between the Recipient and the Bank and will be presented through the SEPA System at the appraisal stage. During Project execution, the plan would be updated annually or as required to reflect the Project's actual implementation needs and improvements in institutional capacity. The recommended thresholds for the use of the procurement methods specified in the Grant Agreement are identified in the following table.

Table: Thresholds for Procurement Methods and Prior Review

Expenditure category	Contract value threshold (US\$ thousands)	Procurement method	Processes subject to prior review
Works	> 1,000	ICB	All processes
	> 200	NCB	The first process and all contracts with estimated costs over US\$250,000
	< 200	Shopping	The first process and all contracts with estimated costs over US\$150,000
Goods	≥ 1,000	ICB	All processes
	< 1,000	NCB	All processes above US\$250,000
	<100	Shopping	First three processes
Non-consulting services	≥ 1,000	ICB	All processes
	< 1,000	NCB	All processes with estimated costs over US\$250,000
	< 100	Shopping	First three processes
Consulting services (firms)	≥ 200	QCBS/QBS	The first process under each selection method and all processes above US\$250,000
	< 200 ≥ 100	LCS/FBS	The first process under each selection method and all processes above US\$150,000
	< 100	CQS	The first two processes
Individual consultants	Section V in the Guidelines		
Direct contracting/ Single-Source Selection	Any	Any	All cases regardless of the amounts involved

Note: ICB = International Competitive Bidding
 NCB = National Competitive Bidding
 QCBS = Quality- and Cost-Based Selection
 QBS = Quality-Based Selection
 FBS = Fixed-Budget Selection
 LCS = Least-Cost Selection
 CQS = Selection Based on Consultants' Qualifications

28. Frequency of procurement supervision: Supervision of procurement would be carried out through a prior review supplemented by supervision missions with a post review at least once a year. A yearly external procurement audit satisfactory to the Bank or yearly Independent Procurement Review (IPR) will be required to assess and verify a sample of processes carried out under this Project. As a result of the post reviews, IPR or external audits, the Bank will be in a position to identify cases of noncompliance and apply remedies provided for in the Grant Agreement.

29. Exceptional cases of prior review can be indicated in the procurement plan and the Recipient should be instructed to submit the qualifications and experience of all evaluated candidates, the terms of reference (TORs), and the terms of employment of the individual consultant. With regard to prior review of TORs alone, the general understanding is that drafting TORs does not constitute a procurement action, but rather the first purely technical step in the consultant selection process. Consequently, it is recognized that the review of TORs alone is a project management issue and any requirement for ex ante reviews of TORs might be more appropriately imbedded in the Project's implementation arrangements.

Environmental and Social (including safeguards)

30. The Project will focus on rural environmental regularization. Preventing and combating forest fires would not have any negative environmental impacts. It will support the state government's efforts to strengthen environmental management tools aimed at sustainable use of natural resources and reducing illegal deforestation.

31. The Project will work directly with landholders, landholder associations, and municipal and state governments. Benefits will accrue to all rural landholders, directly or indirectly, from the environmental regularization promoted by the Project. Key stakeholders associated with this Project have been involved in its preparation.

32. The Government of Piauí has prepared an Environmental and Social Assessment and Environmental and Social Framework (ESMF) that will serve as guides for addressing issues arising during Project implementation. In this social impact assessment, special attention will be placed on identifying the presence, interests and the potential impacts of Project interventions on minority ethnic groups (such as *quilombola* communities) and poor rural landholders. It is expected that potentially adverse environmental or social impacts will be small, since they will be avoided or minimized with appropriate preventive and mitigation measures.

Monitoring & Evaluation (M&E)

33. The M&E system will be led by SEMAR. M&E will be conducted in accordance with: (i) the BCCCMTF monitoring and evaluation plan to be prepared; and (ii) established BCCMTF rules and procedures. SEMAR will have primary responsibility for tracking technical progress related to Project outputs and outcomes. Project progress reports will be prepared and submitted to the Bank and MMA twice a year.