

**Report No. 38800 - BR**

**The Inspection Panel** 

**Final Eligibility Report and Recommendation**

**Brazil: Paraná Biodiversity Project (GEF  
TF 051007)**

March 1, 2007

## **The Inspection Panel**

### **Final Eligibility Report and Recommendation**

#### **Brazil: Paraná Biodiversity Project (PBP) (GEF TF 051007)**

1. On July 10, 2006, the Inspection Panel (the “Panel”) received a Request for Inspection (the “Request”), dated June 23, 2006, related to the Brazil: Paraná Biodiversity Project (PBP) (the “Project”) financed under the Global Environmental Facility (GEF Trust Fund 051007). The Request was submitted by a non-governmental organization (NGO) based in the State of Paraná, Brazil. The Requesters asked that their names and their organization’s name be kept confidential.
2. On July 11, 2006, the Panel notified the Board of Executive Directors and the World Bank’s President that it received the Request and registered it as IPN RQ06/04.<sup>1</sup> The Panel received Bank Management Response to the Request for Inspection on August 10, 2006.
3. After the Request for Inspection was submitted to the Panel, Management agreed to carry out a Technical Audit of the Project and the biodiversity conditions in the State, as the Requesters had previously asked in order to help address their concerns about the Project. In addition, the Government of Paraná prepared a draft proposal to re-orient strategic directions and activities under the Project to respond to concerns of the Requesters.
4. The Panel visited Brazil from August 26 to September 2, 2006. It met with the Requesters, with federal Government officials in Brasilia, with state and local Government officials in Curitiba, São Jorge do Patrocinio and other municipalities in the State of Paraná, and with Bank staff in the Bank Office in Brasilia. During its visit, the Panel observed that the Bank’s proposal to conduct a Technical Audit and the above-mentioned Government’s draft proposal generated a constructive and potentially fruitful dialogue between Government authorities, the Requesters and Bank staff regarding possible steps to change the direction of Project implementation in a manner that could address the issues and concerns raised by the Request.

---

<sup>1</sup> The Inspection Panel, Operating Procedures, (August 1994), ¶ 17.

5. On these bases, on September 11, 2006, the Panel submitted its Report and Recommendation to the Executive Directors and stated that, at that time, it did not take a position on whether the Request merited an investigation. The Panel recommended to the Board “*that it approve the Panel’s proposal to refrain from issuing a recommendation at this time on whether an investigation is warranted in this case, but rather await further developments on the matters raised in the Request for Inspection.*” The Panel stated that it expected “*to be able to make a determination by February 2007 as to whether to recommend an investigation.*”<sup>2</sup>
6. On October 3, 2006, the Board of Executive Directors approved the Panel’s recommendation on a non-objection basis.
7. The present Eligibility Report contains the Panel’s Final Recommendation on whether an investigation of the issues raised in the Request for Inspection is warranted.

## **A. The Project**

8. The Atlantic Rain Forest of Brazil (*Mata Atlântica*) originally ranged for thousands of kilometers through 17 States along the eastern coast of Brazil.<sup>3</sup> It was, and is, isolated by the ocean to the east and drier ecosystems to the west, north and south, so that its level of unique biodiversity is also very high. Once destroyed, it will be gone forever. Presently, over 92% of the Atlantic Rain Forest has been cleared and replaced by agriculture and urban development.
9. Paraná, about 200,000 km<sup>2</sup> in area, was originally mostly covered with part of the southern extension of the Atlantic Forest where the conifer *Araucária angustifolia* mixes in with the broad-leaved species forming one of the main dominant tree species of the ecosystems. These trees are conifers, like pines, but very different, since they evolved in the Southern Hemisphere. They are also large, striking and unique in appearance, and were adopted as the symbol of Paraná.
10. The presence of *Araucária* is an indicator of soil fertility. Large parts of Paraná have very fertile soils - among the most productive agricultural lands of South America - in a very favorable growing climate. Several of the broad-leaved trees associated with *Araucária* are also highly valuable as timber. For much of the twentieth century, Paraná supported a booming timber industry based on these species. Since the forest area was almost all very good for farmland, it was converted, and the sustainability of native forest was foregone.

---

<sup>2</sup> Inspection Panel Report and Recommendation, Brazil: Paraná Biodiversity Project (GEF TF 051007), September 11, 2006, Report No. INSP/R2006-0005, p. 16.

<sup>3</sup> It was, and its remnants are, tropical and sub-tropical moist and wet forests, tall, closed canopy, and generally broad-leaved forests. As is typical of this type of forest, the level of biodiversity in all the different types of organisms is very high.

11. It should be noted that Paraná has developed a large program of planting pines native to the southeastern United States for industrial purposes. These exotic pines supply some of the processing capacity that Paraná built up for its native forests. They are planted because they grow faster than the native species. There is also a very serious corollary problem of natural invasion of exotic pines into natural grasslands. Invasions of introduced exotic species can seriously harm or destroy the original biodiversity of native ecosystems.
12. As a result, Paraná has its own biodiversity crisis. Of the original 76,000 km<sup>2</sup> of Araucária forest in Paraná, 0.8 % (60,000 hectares-ha) remained in 2001. Although the Iguaçu National Park effectively protects 187,000 ha of Atlantic Forest in the southwest of Paraná, there is no comparable protected area in the “Araucária Zone” in Paraná. It is estimated that less than 60,000 ha of this unique ecosystem remain, all of it in relatively small and isolated fragments.<sup>4</sup>
13. The Project aims “(a) to support biodiversity conservation and sustainable natural resource management in the Biodiversity Corridors with a view to protect two highly threatened ecoregions in the Recipient's territory: the Inland Atlantic Rainforest and the Araucária Forest regions; and (b) to design and implement a model for improving biodiversity conservation in the Recipient's territory.”<sup>5</sup>
14. The Project's four components are: Education and Capacity Building; Biodiversity Management; Control and Protection; and Project Administration. These four components aim, *inter alia*, at creating ecological corridors by connecting and upgrading protected and interstitial areas that consolidate the corridor and facilitate the protection of biodiversity. Two corridors in the inland Atlantic Rainforest and one in the Araucária Forest, covering a total of 2.5 million ha, are to be created under the Project.<sup>6</sup> One corridor, the Araucária Corridor, is to be created in the Araucária Forest.
15. The Request primarily addresses the activities included in the Project Component II, Biodiversity Management. This component provides for four types of activities aimed at consolidating the corridors and safeguarding the biodiversity. These activities include incorporating “*fragments of natural vegetation into the corridors through the establishment of [privately and publicly owned] protected*

---

<sup>4</sup> Brazil, at the Federal level, and Paraná, as a State, have promulgated various decrees and regulations requiring private land owners to conserve as forest a certain proportion of their land. Even a general analysis of these decrees and their effectiveness is a complex undertaking. Less than 1% of the *Araucária* forest remains and it is fragmented into small patches.

<sup>5</sup> Global Environmental Facility, Trust Fund Grant Agreement between the State of Paraná and the IBRD acting as implementing agency of the GEF, (May 29, 2002), Schedule 2 (Project Description).

<sup>6</sup> The corridors in the Atlantic Forest ecoregions are: the *Caiud-Ilha Grande* Corridor which follows the Rio Paraná between the Caiua State Ecological Station and the National Park of Ilha Grande, and the *Iguaçu-Paraná* Corridor, which includes two protected areas and links the Iguaçu National Park with the Poligonal Equivalente initiative to recover areas in and around the Itaipú hydroelectric dam.

areas,” by increasing “connectivity of existing fragments and protected areas through microcatchment management,” and by restoring “degraded areas.”<sup>7</sup>

16. On February 2, 2007, the Trust Fund Grant Agreement (Grant Agreement) financing the PBP Project was amended. Part B of the Project, Biodiversity Management, now provides for, *inter alia*, “Financing Biodiversity Subprojects through Biodiversity Subprojects Grants to beneficiary NGOs.” The subprojects consist of research, environmental education, biodiversity conservation infrastructure, and creation of private protected areas.<sup>8</sup> According to the amendment, the Project Operation Manual is to be updated to include, *inter alia*, the Model Form for the subprojects, the selection criteria, approval procedures, implementation, and monitoring and evaluation guidelines for the subprojects.

## B. Financing

17. The Project is supported by the Global Environment Facility Trust Fund Grant TF051007 for SDR 6.5 million, approximately US\$ 8 million.<sup>9</sup> The Board of Executive Directors approved the Grant Agreement between the State of Paraná, Brazil, and the IBRD on May 21, 2002. The Agreement became effective on August 27, 2002. The closing date, originally set for January 31, 2007, has been extended to January 31, 2009.

## C. The Request

18. The Request for Inspection is summarized extensively in the Panel’s original Report and Recommendation issued on September 11, 2006. A brief summary of the Request follows for purposes of the present Final Report and Recommendation.
19. In their submission to the Panel,<sup>10</sup> the Requesters state that they viewed the approval of the PBP as positive, because it primarily aimed at preserving biodiversity in severely threatened natural areas in the State of Paraná, such as the Atlantic and the Araucária Forest.
20. However, the Requesters claim that “methodological changes” made to the Project during implementation after it was approved resulted in a change in Project activities, which will prevent the achievement of the original Project

---

<sup>7</sup> Project Appraisal Report (PAD), April 25, 2002, Report No: 24066-BR, p. 12.

<sup>8</sup> Brazil: GEF Grant No TF051007 (Paraná Biodiversity Project) Second Amendment, February 2, 2007.

<sup>9</sup> Global Environment Facility Trust Fund Grant Agreement, Brazil Paraná Biodiversity Project, May 29, 2002, p. 7.

<sup>10</sup> The Request is composed of a formal letter to the Panel, dated June 23, 2006, and a letter with annex, dated March 21, 2006, sent to the Inspection Panel and the World Bank by an umbrella NGO, the NGO Network of the Atlantic Forest – RMA (Rede de ONGs da Mata Atlântica). The Requesters asked that the March 2006 letter with accompanying annex be considered an integral part of the Request. The Request for Inspection is attached as Annex I to the original Inspection Panel Report and Recommendation dated September 11, 2006, Report No. INSP/R2006-0005.

objectives and will worsen the current situation, thereby intensifying the loss of biodiversity. The Requesters believe that the Project focus has shifted: the activities planned under the Project to protect against the destruction of the last existing preserved natural areas in the State of Paraná, such as the Araucária Forest, are currently not being implemented. Rather, they state that the Project resources are being used for the recovery of degraded areas. The Requesters believe that if this restoration work is continued, these areas may achieve native vegetation areas, but there is no guarantee that they will have significant biodiversity, the preservation of which is the original focus of the Project. The Requesters argue that a review of the Project's current activities against the performance indicators established during Project preparation shows the changes in Project implementation about which they complain.

21. The Requesters believe that the “*misdirected implementation*” of the Project may miss the opportunity to minimize the loss of biodiversity of the biomass in question, where the Project is implemented. The Requesters believe that it would take decades to transform degraded areas with low biodiversity into mature environments, while the “*destruction of natural areas is ongoing, in some cases with the endorsement of the Government of the State of Paraná through its licensing unit, the Paraná Environmental Institute (IAP).*”
22. The Requesters further claim that, because of illegal deforestation, implantation of monocultures of trees and agricultural products after clear cut deforestation, the destruction of preserved areas is proceeding rapidly. In light of this, the Requesters believe that the Project should work directly with the owners of those lands that are crucially important for the conservation of biodiversity. The Requesters state that “*the absence of a policy for protecting these better-conserved areas indicates a trend that chronologically is not supported in terms of results.*”<sup>11</sup>
23. The Panel notes that the above claims may constitute non-compliance by the Bank with various provisions of the following operational Policies and Procedures:

OP/BP 4.01	Environmental Assessment
OP/BP 4.04	Natural Habitats
OP/BP 4.36	Forestry (1993)
OP/BP 13.05	Project Supervision

## D. Management Response

---

<sup>11</sup> Request, Deforestation in Paraná, p. 5.

24. Management Response is summarized extensively in the Panel's original Report and Recommendation issued on September 11, 2006.<sup>12</sup> A brief summary of the Response follows for purposes of the present Final Report and Recommendation.
25. Management states that the Project was designed to help demonstrate that ecological corridors are a useful means for preserving biodiversity in productive landscapes, such as those in the State of Paraná. The ecological corridors approach was chosen, after considering other options, because it allows strengthening the conservation units (UC – Unidades de Conservação) previously established within the two ecoregions targeted by the Project. The ecoregions, without the PBP, would remain isolated, with consequent loss of genetic diversity and ultimately extinction of species.
26. With respect to Project implementation, Management states that resources have been employed in activities consistent with the project design financing plan. However, Management acknowledges that during the first half of Project implementation the biodiversity conservation activities under the PBP were postponed because of an 18-month delay related to procurement procedures between the new state administration in Paraná and the Bank.
27. Management claims that the implementation of the Project activities in the corridors created in the Atlantic forest has proceeded according to the plans, although the situation in the Araucária forest is different, because the protected areas are limited and there is a high level of fragmentation of forest remnants.
28. Contrary to the Requesters' claims, Management stated that the Project is working with farmers on biodiversity issues, has helped landowners to establish private protected areas, and has identified other incentives to promote biodiversity conservation. Management also argued that the Project complies with OP/BP 4.01 on Environmental Assessment.
29. Management Response contended that the Bank was aware that the Araucária forest is under threat, but, before the Requesters' March 21, 2006 letter, the Bank had not received any report from the Requesters or other parties about incidents of destruction of native areas described in the Request for Inspection.
30. Management further stated that the Project complies with the policy on Supervision OP/BP 13.05. In its Response, Management also proposed "Next Steps" to address the Requesters' concerns, i.e. intensive supervision and assistance to the State for improving project implementation and for identifying mechanisms for biodiversity conservation in productive areas.

---

<sup>12</sup> Bank Management Response to Request for Inspection Panel Review of the Brazil: Paraná Biodiversity Project (GEF TF 051007), August 10, 2006, in Inspection Panel Report and Recommendation dated September 11, 2006, Report No. INSP/R2006-0005 Annex II.

31. Management concluded that the destruction of the Araucária is an issue to which the Bank will pay increasing attention in the future, but also stated that incidents of deforestation raised in the Request do not imply the Bank's noncompliance with its operational policies, OP/BP 4.01, 4.04, 4.36 and 13.05.

## **E. Assessment**

32. The Panel reviewed the Request and Management Response. In late July 2006, after the Request for Inspection was submitted to the Panel, Management agreed to carry out a Technical Audit of the Project and the biodiversity conditions in the State, as the Requesters had previously asked for. In addition, the Government of Paraná prepared a draft proposal to re-orient strategic directions and activities under the Project to respond to concerns of the Requesters. This proposal called for, *inter alia*, increased focus and actions on conserving remaining remnants of the Araucária forests.
33. The Panel visited Brazil the first time from August 26 to September 2, 2006. It met with the Requesters, with Federal Government officials in Brasilia, with state and local Government officials in Curitiba, São Jorge do Patrocínio and other municipalities in the State of Paraná, and with Bank staff in the Bank Office in Brasilia.
34. During this visit, the Panel observed that the Bank's proposal to conduct a Technical Audit and the above-mentioned Government's draft proposal generated a constructive and potentially fruitful dialogue between Government authorities, the Requesters, and Bank staff regarding possible steps to change the direction of Project implementation in a manner that could address the issues and concerns raised by the Request.
35. On September 11, 2006, the Panel submitted its Report and Recommendation to the Executive Directors. The Panel stated that, while the Request and the Requesters met the eligibility criteria set forth in the Resolution that established the Inspection Panel and the 1999 Clarifications, the Panel did not take a position, at that time, on whether the Request merited an investigation. The Panel rather recommended to the Board *"that it approve the Panel's proposal to refrain from issuing a recommendation at this time on whether an investigation is warranted in this case, but rather await further developments on the matters raised in the Request for Inspection."* The Panel stated that it expected *"to be able to make a determination by February 2007 as to whether to recommend an investigation."*<sup>13</sup> The Board approved this recommendation on October 3, 2006.
36. Pursuant to the recommendation approved by the Board, the Panel visited Brazil a second time to prepare its final recommendation on whether the issues raised in the Request merit an investigation. The Panel's Chairperson Edith Brown Weiss,

---

<sup>13</sup> Inspection Panel Report and Recommendation, p. 16.



Panel Member Tongroj Onchan and the Panel's consultants Eduardo Abbott and Ralph Schmidt visited Brazil from January 21-26, 2007. During their visit, the Panel met with the Requesters, Project officials, Bank staff in Brasilia, NGOs and members of civil society. The Panel also had the opportunity to visit areas that the Project Implementation Unit (PIU) deemed relevant to the Project.

37. The Panel especially wishes to thank the Requesters for their assistance during the Panel's visit, the Country Director and his staff for facilitating the Panel's visit and arrangements in Brasilia and the PIU for their assistance in Paraná.
38. The Panel understands the concerns of the Requesters for the reasons noted below. The Requesters, the Government and Bank Management agree that the Araucária Mixed Forest remnants in advanced successional stage are very rare and now reduced to about 60,000 ha or 0.8 % of their original area, although there are estimates that the exact area may be a little higher or lower. They note that the threat of the complete destruction of these remnants is very high and that the highest priority for biodiversity conservation in the State should be to prevent their destruction.
39. As noted above, the area of the Araucária Mixed Forest is largely an area of rich soils and very favorable climate for agricultural and timber production. Global economic drivers are involved in crops like soybeans and exotic pine production. The productivity is such (in the case of timber one of the highest in the world) that a single hectare may be worth thousands or tens of thousands of dollars. Although every natural forest remnant of 10 or 100 ha is very valuable, a viable State or National conservation area would require thousands of hectares. Thus the acquisition costs for conservation land in Paraná are presently very high.
40. Environmental protection in Brazil is supported by a substantial legal framework. The Federal Constitution dedicates an entire chapter to the environment and, in Art. 225, explicitly provides for the preservation of the Atlantic Forest as part of the national wealth. The Forest code of 1965 (Law 4.771) and the National Environmental Policy Act of 1981 (Law 6.938) are pillars of modern Brazilian environmental law. The use and protection of the Atlantic Forest is mainly regulated by Federal Decree 750 (February 10, 1993), and the National CONAMA Resolution 728 (May 24, 2001), both of which prohibit cutting, exploiting or suppressing Atlantic Forest's vegetation except in cases of public utility projects or on a small non-commercial scale.<sup>14</sup> Federal Regulation 507 (December 20, 2002), also applicable, strengthens Federal Decree 750 by defining, *inter alia*, the areas that may become Federally Protected Areas. The Forest Code further includes provisions related to Legal Reserves,<sup>15</sup> Areas de

---

<sup>14</sup> Management Response, ¶ 52.

<sup>15</sup> The Forest Code defines the Legal Reserve as an area located within rural property or possession, necessary for the sustainable use of natural resources, conservation and rehabilitation of ecological processes, biodiversity conservation and protection of native flora and fauna. Use of vegetation in a Legal

Preservação Permanente (APP),<sup>16</sup> and management of planted forests. In planted forests, exploration is permitted but, pursuant to the Forest Code, their management is subject to “*strict application of environmental laws*”, especially in vulnerable areas such as the Atlantic Forest. The removal of storage or timber requires an authorization from the relevant environmental authority, while removing any vegetation in APPs is prohibited.

41. However, as in any society, the potential for economic gains, and the natural feeling of rural landowners that they should make decisions on their own land, would lead to difficulties in enforcing such regulations. In Paraná, for example, Araucária, and other protected hardwood trees, may be removed if they are dead. Across extensive rural areas it is very difficult to tell if single trees were dead, although large movements of logs would certainly be questionable. Also the delineation in the field of the boundaries of the forest covered areas is a massive undertaking which has not been done, so that “chipping away” at forest areas would be very difficult to detect. Notwithstanding this, parties interviewed by the Panel observed that the Paraná Government is taking important measures to strengthen its enforcement capacities for these regulations. All parties agree that the job is difficult and challenging.
42. The Panel observed a new biodiversity conservation tool taking form in Paraná. Federal and State legislation require that land owners maintain at least 20 % of their land under forest cover. Paraná State regulations now require that land owners with less than this forest cover work toward that coverage by 2018. A system is being developed where land owners without adequate forest cover could pay other land owners for “forest cover services”. In other words, land owners with more than 20% natural forest cover could sell their “excess” forest cover to those with less who would rather purchase it than develop it themselves. Non-profit groups are working on brokering such biodiversity “transfer trading” deals. This system is coupled with a State law permitting “Private Property Natural Reserves,” which can have permanent legal status much like conservation easements.
43. Underlying these measures for biodiversity conservation in Paraná is the question of who will bear the immediate costs. If the Federal Government were to establish national parks, it would be the citizens of Brazil. If the State acquired conservation land, it would be the taxpayers of the State. If it were done through the 20% legal reserve (including trading) it would be the land owners of the State. The Panel notes that if international funds, public or private, could be utilized, citizens of other countries could bear some of the costs.

---

Reserve is allowed under a sustainable management regime approved by the environmental authorities. Management Response at note 13.

<sup>16</sup> According to the Forest Code, an APP is a protected area, which may or may not be covered with native vegetation, which has the environmental function of preserving water resources, the landscape, geological stability, biodiversity, flow of flora and fauna, soil and well being of human populations. Management Response, at note 13.

44. In response to deforestation and forest degradation, parties agree that the State Government needs to continue to strengthen enforcement of the new forest regulations. The Requesters and other environmental groups urge that enforcement be greatly strengthened and focused more on the advanced succession natural forest areas, especially in the Araucária Mixed Forest.
45. Although provided for in its original design, direct support for enforcement was apparently not a priority during initial Project implementation. The Panel notes that saving the most valuable and rare natural areas is a basic priority of the State Biodiversity Conservation Program. Bank staff informed the Panel that the new phase of the Project would include some support for this, and also that the State Government understood the issue very well, agreed with a new priority focus, and intended to implement this.
46. One important issue that came to the Panel's attention is that to date there is apparently no systematic inventory of the most important biodiversity properties, nor any inventory of their ownership and status, which is needed to develop an action plan for their conservation. Earlier projects produced valuable work only on the extent and location of different forest types. The Panel was told this was now being worked on, but it would seem to have been an obvious priority from the outset. Since this is a situation where valuable eco-systems are being lost, every delay in action represents a lost opportunity.
47. The Requesters have emphasized that many actions supported by the Project, such as farmer training sessions or tree planting on bare land, are positive, but should not have utilized scarce funds that could have been used for valuable natural area protection. As stated above, the Panel believes that an overwhelming majority of biodiversity experts would agree that the latter should be the highest program priority. The Panel would like to note that there may be debate, and even trial and error, in many forest eco-system biodiversity conservation programs regarding the extent to which, and how, a program should work with local communities living within or near eco-systems with important biodiversity. The situation varies according to local circumstances. Often natural eco-systems provide very important benefits for local communities, especially indigenous people, and should be protected from "outsiders" seeking quick profit opportunities. Contrarily, there are also many cases where very poor people need to utilize eco-systems for immediate needs in a way that lowers the level of biodiversity. An important point is that poor local communities are often closely involved with high biodiversity value ecosystems. Projects, if they are to be effective, need to consider the needs of those communities while working toward conserving biodiversity. Thus almost every project explores strategies to find win-win situations where local communities benefit through poverty reduction, while biodiversity is protected. These strategies may take myriad forms according to local situations.

48. The Paraná Biodiversity Project devoted, and will continue to devote, a large portion of its resources to working with agricultural communities in the three project Corridors. The Panel notes that these activities are useful and appropriate as long as they are balanced with equally effective actions to protect the last remnants of the valuable biodiversity of Paraná's forests. The Panel observes that this may have not been the case for the past several years, but that Project management is aware of the problem and has expressed a strong desire to amend the situation.
49. Another closely related issue raised by the Requesters is the geographic focus of the Project. The Project has and will continue to work in three corridors. The south central corridor contains Araucária Mixed Forest and the others do not. The Western corridors contain very important areas of Atlantic Rain Forest. The Panel observes that it is consistent with the Project's objectives for the Project to work in other priority forest areas as long as the actions in the Araucária Mixed Forest corridor are as effectively supported as possible.
50. The Panel notes that the submission of the Request for Inspection led Bank staff and State authorities to pay close attention to the issues raised in the Request for Inspection and, as a result, to agree on changes to the Project design and implementation and on new actions, to help ensure that the Project can meet its development objectives, namely to support and improve biodiversity conservation in the State of Paraná. Among the new actions, the Bank recommended a Technical Audit, as suggested also by the Requesters, and intensified supervision to improve Project implementation and to identify mechanisms to conserve biodiversity in productive areas.
51. The Technical Audit (TA) was conducted and finalized between September and October 2006. According to recent Bank documents,<sup>17</sup> the overall conclusion of the TA was that *"the project is a well-developed and advanced initiative, which has achieved positive planned objectives"*. However, the TA also stated that *"it would be appropriate to make certain modifications and adjustments regarding improvement of the project in order to make it more effective in achieving its global objective of conserving biodiversity."* The TA also proposed increased focus and attention on actions to conserve the remaining remnants, especially for Araucária forests, including financing of activities to be carried out by NGOs working in biodiversity conservation.
52. Following the TA, the Bank undertook two supervision missions to the Project area to discuss the conclusions and the recommendations of the TA. In addition, as a result of the TA's findings, the Government prepared an Action Plan providing for, *inter alia*, the development of additional mechanisms to finance biodiversity conservation, such as Biodiversity Subprojects to be carried out by

---

<sup>17</sup> Memorandum dated February 2, 2007, Brazil: Paraná Biodiversity Project (TF 051007) – Second Order Restructuring and Reallocation of Funds, ¶ 11.

NGOs working in the field. In light of this, changes in the Grant Agreement and a reallocation of funds were proposed.

53. The Grant Agreement was amended on February 2, 2007. The memorandum recommending the amendment to Regional Management states that the Project's development objectives and its four components "*continue to aim, inter alia, to promote biodiversity conservation by creating and consolidating ecological corridors by connecting and upgrading protected and interstitial areas.*"<sup>18</sup> The Agreement, as amended, provides for strengthening civil society participation, especially in the Araucária area. To do so, the Government will enter into Biodiversity Subproject Grant Agreements with beneficiary NGOs to carry out biodiversity subprojects that include conservation activities. US\$400,000 has been allocated to fund these conservation projects. The Panel notes, however, that the details about these subprojects and the selection criteria for the NGOs were not yet defined when the amendment to the Grant Agreement introducing the Government-proposed Subprojects was approved and signed by the Bank.
54. In addition, US\$10,000 has been allocated to implement and fund activities of the Project's Advisory Committee to ensure more effective participation of civil society in Project implementation. The amendments will also support structural changes in the State Secretariat of Environment and Water (SEMA) to create two separate directorates dealing respectively with licensing and enforcement, with particular attention to the implementation of a system of monitoring and enforcement by the latter directorate.
55. The Requesters have been informed about the changes to the Project activities agreed upon by the State Authorities and the Bank, but they do not consider them sufficient to attain the original objectives of the Grant. However, during the Panel's visit to the Project area, the Requesters indicated that the activities being carried out under the Project were not harmful in themselves to biodiversity. They argued that the emphasis on restoration rather than conservation constitutes a missed opportunity to preserve the remnants of the Araucária forest in the State of Paraná. They also stated that indicators of biodiversity are still lacking and that this is a major flaw of the Project. The Panel notes that this would also not be consistent with the overarching objectives of a GEF-funded Project focused on biodiversity conservation.<sup>19</sup>

---

<sup>18</sup> Memorandum, February 2, 2007, Annex 1.

<sup>19</sup> The Global Environment Facility (GEF), established in 1991, helps developing countries fund projects and programs that protect the global environment. GEF grants support projects related to biodiversity, climate change, international waters, land degradation, the ozone layer, and persistent organic pollutants.

## F. Conclusions

56. The Panel notes that after the Request for Inspection to the Panel, a number of actions have taken place to address the Requesters' concerns about the implementation of the Project. The Technical Audit, conducted in September and October 2006, proposed increased attention to conserving the remaining remnants of the forests, especially the Araucária forests. The State Authorities in Paraná subsequently prepared an Action Plan to develop additional measures to support biodiversity conservation.
57. As a result, the Grant Agreement was amended on February 2, 2007, to provide for stronger participation of civil society, especially in the Araucária area, for biodiversity subprojects to be carried out by NGOs, and for structural changes in the State Secretariat of Environment to promote a stronger system of monitoring and enforcement. Moreover, the closing date of disbursements under the Grant Agreement has been extended to January 31, 2009.
58. The Requesters continue to be concerned that an emphasis on restoration rather than conservation constitutes a missed opportunity to preserve the remnants of the Araucária forest in the state of Paraná. The Requesters feel that the redirection of the actions to be carried out under the Project agreed upon by the State Authorities and the Bank will not enable the Project to achieve its original objectives. Thus, they believe that there is no long term assurance that areas still well preserved will continue to be protected.
59. The Panel notes the efforts on the part of the Bank and the State Authorities to redirect the activities and the allocation of funds to make the implementation of the Project more consistent with the objectives of the Project to conserve biodiversity. While the Panel appreciates the continuing concerns of the Requesters, it notes the concrete steps and the amendment to the Grant Agreement, as outlined above, that have been taken to ensure that the Project complies with Bank policies and procedures and to further the objectives of the Grant.
60. In light of the above considerations, the Panel does not recommend an investigation of whether the Bank has complied with its operational policies and procedures.