THE INSPECTION PANEL

Report on Progress Review of Implementation of

Brazil: Rondônia Natural Resources Management Project (Loan 3444-BR)

March 25, 1997
EXECUTIVE SUMMARY

As requested by the Board of Executive Directors on January 21, 1997, the Inspection Panel conducted a review of progress in the execution to date of the Rondônia Natural Resources Management Project. This review is based on the Agreed Plan of Action submitted by Management to the Board in December 1995. Management presented the Plan as a practical response to the many problems encountered in the execution of the project, which were the basis for the Request for Inspection received by the Panel. The Plan includes details of all the project’s objectives and components as well as a set of "Monitorable Actions" to measure its progress.

Following years of uneven progress in execution, Management has proposed a important project restructuring which substantially amends the Plan of Action and is currently being discussed with Federal and State authorities and agencies, as well as with representatives of project beneficiaries.

There has been significant progress in the supervision and administration of the project. The essential "Second Approximation of Zoning" component, although late in starting, now seems to be progressing satisfactorily. This should provide a better basis for the execution of the zoning and land regularization components under a restructured project. At the same time, deforestation and invasions of protected conservation, indigenous and extractive areas continue to be a major problem.

In spite of short term efforts and the active participation of indigenous peoples organizations, the health component for indigenous people continues without a sustainable solution.

The restructured project should contain safeguards—including assurances in the legal documents, strengthening of key State agencies (e.g. SEDAM and ITERON), and, for example, reconstitution of the Independent Evaluation Committee—to provide for a balanced execution of all project components, and remedies in case of continued violation of zoning provisions.
Review of Progress
in Implementation of the

Rondônia Natural Resources Management Project
(Loan No. 3444-BR)

INTRODUCTION

1. This report responds to the World Bank Executive Directors’ (“Board”) decision to ask the Inspection Panel (“Panel”), on January 21, 1997, to assist them in a review of progress to date in the above-mentioned project (locally known as PLANAFLORO). This decision arose as a result of the Board’s consideration on January 25, 1996, of the Panel’s second recommendation to them to authorize an investigation into the Request for Inspection related to the project (“Request”). Background information is provided in Attachment 1 to this report, and the findings of the Panel’s “Additional Review of the Request” of December 1995 are in Attachment 2.

2. In its “Status Report” submitted to the Board on December 20, 1995 the Management included in Annex D an “Agreed Plan of Action” (“Plan”) which was aimed at improving project implementation and addressing the concerns raised in the Request. This Plan had been agreed with Federal and State authorities responsible for the project. The Plan was the standard against which Management reported its progress to the Board in March, August and December of 1996. A Mid-Term evaluation was carried out in May 1996. At this time Management decided to start the process of project restructuring which is not yet finalized. An analysis of each of the components of the Plan is presented in Annex A of this report.

3. This report is in two parts. Part 1 reviews progress under the Plan which covers components of the original project approved in 1992. Part 2 reviews elements in the restructuring proposal which, inter alia, converts several components of the project into possible community action plans to be financed through grants.

4. The Panel met with Federal authorities in Brasilia during March 6-7, 1997, and in Rondônia from March 8-11 with State authorities, the entire PLANAFLORO
Project Coordinating Unit staff, and representatives of the NGO community. The Panel would like to acknowledge the full cooperation and thank both Federal and State authorities as well as the PLANAFLORO staff for facilitating the Panel’s task. The Panel benefited from a number of frank dialogues with NGOs and would like to express its thanks to them for their assistance. Finally, the Panel acknowledges logistical help from Bank Management, and in particular the assistance provided by the current Task Manager, Mr. Francesco Vita.

**Project Objectives and Indicators of Success**

BOX 1: Project Objectives

"The principal objective of the proposed project would be to implement an improved approach — shaped by difficult past experience — to natural resource management, conservation and development in one state (Rondônia) of the environmentally fragile Amazon Basin. The project would assist the Government to:

(a) institute a series of changes in key policies, regulations and public investment programs in order to provide a coherent incentive framework for sustainable development in Rondônia;

(b) conserve the rich biodiversity of the State, while creating the basis for the sustainable utilization of its natural resources for the direct economic benefit of the local population;

(c) protect and enforce the borders of all conservation units, Amerindian reserves, public forests and extractive reserves, and control and prevent illegal deforestation, wood transport and forest fires;

(d) develop intensive and integrated farming systems in areas suitable for permanent agriculture and agro-forestry, and systems for sustainable forest management and extraction of non-wood forest products in other areas which should remain under natural forest cover;

(e) support priority investments in socio-economic infrastructure and services needed to implement the State’s agro-ecological zoning in already occupied and deforested areas; and

(f) consolidate the technical and operational capacity of State institutions, particularly those responsible for agricultural and forestry support services, and the protection and management of State and Federal conservation units and Amerindian reserves." (¶3.04 of Staff Appraisal Report)

5. With the benefit of hindsight, it is evident that PLANAFLORO objectives were too ambitious and that the project had perhaps a too large and widely diverse number of components. These included, inter alia, infrastructure—primarily road rehabilitation and construction—agro-ecological zoning, agro-forestry research,
agricultural credit and technical assistance, as well as an entirely new participation mechanism which was one of PLANAFLORO’s most innovative characteristics.

6. Appropriate measurable indicators for the progress of each of the diverse project components were not included in the project design. For example, the project should have included indicators for land regularization and zoning—such as the number of legally created protected areas and the transfer of those protected areas to the State. Benchmarks should have been developed for the progress of the zoning component. Specific indicators for environmental monitoring and law enforcement—including level of activity and results (e.g. volume of illegal wood captured and results of legal action against violators)—should have been included from the outset.

PART A: PROGRESS UNDER ACTION PLAN

7. Management presented to the Panel an updated status of implementation report on March 13, 1997. This report is based on that Management update, discussions with relevant staff and Management, and the Panel’s observations and discussions in the field. A description of the original plan and current status of implementation is contained in the table in Annex A of this report.

Environmental Conservation, Management and Protection

Land Zoning and Mapping

8. PLANAFLORO was designed to address, as a stated priority, the inappropriate exploitation of fragile areas due to absence of zoning and land use controls. The project was to provide a conceptual and institutional framework to introduce agro-ecological zoning based on a map more precise than the one produced by the POLONOROESTE project at a scale of 1:1,000,000 which was the “first approximation” to agro-ecological zoning. PLANAFLORO’s implementation of agro-ecological zoning was to depend on the existence of detailed zoning and soil maps at a scale of 1:500,000 in Zone 1, (1.1) 1:100,000 in Zone 1 (1.2), 1:250,000 in Zone 1 (1.3 and 1.4) and 1:500,000 in Zones 4, 5 and 6. These maps were essential for the Second Approximation of Zoning (“SAZ”)—which was to be the basis for all legal demarcation of reserved areas and their enforcement.2 As acknowledged by Management, the SAZ was crucial to the project. It should have been included in the design phase or made a condition of loan effectiveness. Instead it was included as a project component and was to be completed four years ago—by the end of 1993.

9. During the period under review the award of bids and hiring of consultants for preparation of the SAZ finally took place. Progress under the first year of the contract has been reported by Management as satisfactory. The Panel met with SAZ contractors and verified that progress has been made in execution of SAZ

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2 according to the SAR. (¶3.12).
components. The decision to complete the zoning maps by April 1998 appears to be realistic.

10. Public discussion of the zoning will follow completion of the maps after which the SAZ may be implemented. The Panel did not observe much current effort being made to prepare local institutions to use this new technology and information for the eventual effective implementation and enforcement of SAZ.

**Land Regularization**

11. Land tenure regularization, including the creation of protected areas, has been one of the most difficult components to implement due to persistent coordination problems at the Federal and State levels. Due to the slow demarcation process there has been a significant reduction in the size of the protected areas estimated at the time of project appraisal in 1992. However, significant progress has recently been made: legal documents for the transfer of ownership of 20 protected areas from the Federal to the State Government have been sent from INCRA-RO to INCRA Brasilia for final approval and processing.

12. NGOs have questioned the INCRA 1997 settlement plan especially in the Machadinho and Buruti areas, where over 1,000 families expect to be settled. NGOs doubt that proper environmental impact assessments have been undertaken for these settlements.

**Environmental Conservation and Enforcement**

13. The Panel reviewed the progress made on statewide analysis of deforestation during the 1993-1995 period. The Panel was able to obtain satellite imagery for the entire State of Rondônia for the year 1995. Table 1 below summarizes the deforestation analysis undertaken by staff of both PLANAFLORO and State agencies as well as consultants. The Panel visited the State’s screening laboratory and reviewed priority areas established under the project.

14. Illegal deforestation has been one of the most persistent problems and evidence generated by the project supports the fact that deforestation has increased, not decreased, during the execution of PLANAFLORO. This is one of the most critical areas of concern since, in the absence of specific indicators for the progress of this project component, reduction or increase of statewide deforestation rates become “de-facto” indicators of project success or failure.
TABLE 1

<table>
<thead>
<tr>
<th>YEAR</th>
<th>AREA DEFORESTED (cumulative hectares)</th>
<th>AREA DEFORESTED (Annual Average Increase) (hectares)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1978</td>
<td>420,000</td>
<td></td>
</tr>
<tr>
<td>1988</td>
<td>3,000,000</td>
<td>234,545</td>
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<tr>
<td>1989</td>
<td>3,180,000</td>
<td>180,000</td>
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<tr>
<td>1990</td>
<td>3,350,000</td>
<td>170,000</td>
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<tr>
<td>1991</td>
<td>3,460,000</td>
<td>110,000</td>
</tr>
<tr>
<td>1992</td>
<td>3,686,500</td>
<td>226,500</td>
</tr>
<tr>
<td>1993</td>
<td>3,981,312</td>
<td>294,812</td>
</tr>
<tr>
<td>1995</td>
<td>4,873,143</td>
<td>445,916**</td>
</tr>
<tr>
<td>1996*</td>
<td>5,226,429</td>
<td>353,286</td>
</tr>
</tbody>
</table>

Source: INPE and SEDAM (* = estimated. **=between 93/95)

**Support to Indigenous Communities**

15. One of the fundamental design challenges of the Amerindian component was the well known coordination problem among key agencies in Rondônia (FUNAI, ITERON, INCRA and SEDAM). OED explicitly cautioned that no single agency would be able to carry the institutional burden of coordinating the Amerindian component and that appropriate measures would have to be designed to address this deficiency.

16. One important lesson from POLONOROESTE was that the “physical demarcation of environmental conservation units and Amerindian reserves is a necessary, but not sufficient, condition for their protection. Financial disincentives, such as the absence of public physical and social infrastructure in the surrounding areas, and strong enforcement capacity to prevent and punish invasions are also required for ensuring the protection of such areas.” The suggested disincentives were not included in the project with the result that invasions and illegal settlements have continued to be one of the most persistent problems.

17. Originally PLANAFLORO was intended to provide health services to indigenous communities in the State. This project component was difficult to execute and its failure was alleged in the original Request for Inspection. Recently an indigenous NGO, CUNPIR, was awarded a short term contract to provide health services to indigenous populations. According to the Plan sustainable health care services were to start being implemented by February 28, 1996. No progress has been made to date. Planned long term solutions remain in the

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3 OED Report 10039 at p.114, quoting “lessons” from the Project Completion Report.
design phase. It is critical that implementation of a realistic sustainable health plan should be part of the restructured project.

**Institutional Strengthening**

18. The OED Report stated that before embarking on any further work in Rondônia, the Bank had to be satisfied that there were: “[s]ufficient legal, technical, institutional and, above all, enforcement capabilities to adequately anticipate, monitor and control the direct and indirect adverse environmental impacts of on-going development processes at the local, state, and/or regional levels.” OED pointed out, “[a]n obvious lesson for the future is the need to give particular attention to the judicious selection of the coordinating agency, as well as to the design of inter-institutional and implementing arrangements, in programs of similar complexity. More generally, this implies the need for the Bank to give much greater attention to institutional analysis and assessment during project appraisal and to institutional strengthening and development in project design and supervision.”

19. Sufficient institutional capacity building to allow local entities to handle the ambitious, complicated PLANAFLORO program was not successfully incorporated in the design or execution phase. High standards, tight timetables/deadlines, and multiple tasks spread among a large number of State level implementing agencies were built into the program. The Bank’s expectations of these agencies were unrealistic given past experience and the then existing or foreseeable capacity for implementation. Implementation problems and delays stem from the failure to recognize this problem.

20. Two specific state agencies were targeted by PLANAFLORO as needing considerable capacity building strengthening: ITERON and SEDAM. In the case of ITERON the strategic plan for institutional strengthening was developed but never implemented due to the Federal hiring freeze. In SEDAM’s case the plan was not even developed. This is a cause of considerable concern. SEDAM’s institutional capacity is very limited in relation to the responsibilities it has been assigned under the project which include mapping and satellite image interpretation, park management, water quality assessment, and environmental protection and deforestation control.

**Project Administration, Monitoring and Evaluation, Technical Assistance**

**Management and Participation**

21. Bank Management was apparently not adequately prepared to deal with the multiplicity of objectives and the complexities of executing such an ambitious and complicated project in a young developing state, and initially attempted to apply its traditional management style. This included centralized project management and supervision and assumed the existence of adequate local institutional

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4 Ibid., p. 250.
infrastructure. PLANAFLORO has the characteristics of a development program rather than an investment project and, as such, required a much higher level of planning and necessary preparatory capacity building activities. An internal complicating factor has been that four task managers have in turn been responsible for the project during its four year implementation period.

22. The Bank’s traditional approach to management and supervision has changed during the course of the project in response to the need for a much more intensive and decentralized style. It will be important that the Task Manager—who now heads the Field Office in Cuiaba and is in charge of another difficult project—receives adequate support from both Brasilia and Washington. The Panel recognizes that Management has taken steps in decentralizing project supervision and management.

23. PLANAFLORO presented serious administrative challenges because of the large number of executing agencies and incipient institutional capacity of many of them. Combined with the uneven rate of project implementation this led to growing problems such as lack of proper financial and auditing controls. Administrative coordination among project authorities, State and Federal agencies has been and continues to be problematic. At times disbursements have been delayed by lack of timely presentation of statements of expenses or by late approval of the Federal budget.

24. Another challenging aspect was the highly participatory style of execution which presented the Bank with new problems that required innovative approaches. Management efforts to include broader participation through the inclusion of NGO representatives for several areas of monitoring and decision-making has been inconsistent. As envisaged by the Panel in its 1995 “Additional Review” (¶72), the inclusion of FIERO (Federation of Industries of Rondônia) on the fiscalization committee led to a breakdown in trust in this decision-making mechanism among key NGO representatives. As a result, on February 28, 1997, State, FUNAI, and Bank officials agreed with NGOs representing indigenous peoples to substitute FIERO membership in that committee with CUNPIR and OSR.

Independent Evaluation Committee

25. The Bank did not succeed in making independent project monitoring operational in some critical components. An innovative aspect of project design was to have an Independent Evaluation Committee (“IEC”) monitor: (a) the implementation of environmental policy and regulatory reforms undertaken in connection with the project; (b) the compatibility of annual Federal and State programs in Rondônia with the recommendations of the agro-ecological zoning; and, (c) the performance of the various project components.

26. The IEC was convened only during the first year of the project and the Bank claims that the IEC was unable to produce a final report at that time. However, while in Rôndonia, a member of the IEC showed the Panel a copy of what he claimed was the IEC final report. The IEC was substituted in 1996 by the Mid-Term evaluation report team—a group of consultants employed by the Bank. The IEC was a joint effort at monitoring involving the borrower, the Bank, and local NGOs. The project would undoubtedly have benefited if the composition of the IEC
had been chosen with an appropriate balance between local and independent expertise and if it had met, as required by the Project Agreement.

Audit

27. During the first three years of Project execution, no appropriate accounting records were established nor audit reports received. Both the external auditors and a Bank expert noted a number of irregularities in the accounting of loan funds. In spite of this, disbursements on the basis of statements of expenditures (SOEs) continued uninterrupted until late 1996 when they were suspended for a brief period. There are positive indications that financial management problems are being resolved. Management paid closer attention to this problem in 1996 and finally provided direct technical assistance in accounting and auditing. Management has informed the Panel that the external auditors conducted audits for the first 3 years of the project in about 6 months. The initial audit report was qualified: over US$11 million in disbursements were not properly accounted for. Management now informs the Panel that all missing funds have been substantially accounted for and that the auditors are now prepared to issue an unqualified audit report on all project accounts. A representative of the external auditors confirmed these statements to the Panel during its field visit to Rondônia. Given the lack of proper accounting procedures in the first years of project execution this latter development is noteworthy. As provided in ¶21 of the Resolution establishing the Panel, the Chairman consulted with the Bank’s Internal Auditor who informed him that his office will carry out an internal audit of this project. Therefore the Panel has undertaken no further review of this issue.

PART B: PROPOSED RESTRUCTURING

Problems with Implementation

28. As stated before, PLANAFLOKO’s most serious problems during implementation are uneven project execution and the imbalance between the execution of infrastructure and environmental components. This has been caused, inter alia, by difficulties in obtaining counterpart financing. The “Additional Information Report” presented to the Board by Management in 1996 summarizes the issue: “while the Federal Government has committed itself to give priority to PLANAFLOKO, the availability of counterpart funds continues to be a problem. Fiscal austerity measures have resulted in serious budgetary constraints which continue to affect both the Federal and State Governments. Moreover, funding for agencies whose participation is critical for project success has been curtailed. These financial constraints may reduce the effectiveness of key public Federal and State institutions. Bank staff are currently discussing with Federal and State authorities modifications of the Loan Agreement to permit greater flexibility in financing operating costs for relevant activities of key public institutions.”

29. The uneven disbursement pattern for PLANAFLOKO reflects some of these project problems and difficulties. The OED report cited above documented the potential adverse effects of an imbalance between expenditures for
infrastructure and environmental components. A 1995 supervision mission pointed out that over 50% of project expenditures for 1995 were for infrastructure. This category represented only 18% of total loan funding. (See Annex B)

30. The potential imbalance in implementation of project components had been foreseen. At the end of 1992—in a Back-To-Office Memorandum (which also dealt with a related project in Mato Grosso)—staff predicted there would be delays in the environmental component due to the underdeveloped nature of implementing institutions and suggested that disbursements on infrastructure should be tied to progress in implementing the environmental components after observing that:

"In both states institutions responsible for implementing the environmental components are extremely weak. The elements of the environmental components and the steps necessary to implement them were not understood at the implementation level in either state ....Significantly, infrastructure components of the projects do not suffer from the same delay-causing preparation problems, Given the relative preparation of environmental and infrastructure components of the projects (in an all-too-familiar scenario) the Bank will retain little leverage (disbursements) by the time the states are required to show their commitment to the environmental components." [Emphasis added]

31. An April 1995 supervision mission acknowledged the potentially damaging environmental impact of continuing road construction, long recognized to have adverse environmental effects. The letter sent to ratify the findings of the mission indicates how difficult it was to stop construction of a road even three years after the beginning of PLANAFILO:

"We would also like to highlight your personal commitment to ensure that the construction of the highway BR-421 will be discontinued as it contradicts the recommendations of the first approximation of the agro-ecological socioeconomic zoning and threatens the integrity of indigenous and extractive reserves and conservation units. “ [Emphasis added]

32. Another major implementation problem has been the persistent difficulty of the legal establishment, demarcation and transfer of the protected areas. Although most of the protected areas were scheduled for establishment by the end of 1993, this did not happen and all the protected areas that have been legally created have yet to be transferred to the State.

33. According to OMS 2.12: “it is essential to prepare the project as far as possible in light of the available information, to specify clearly the project objectives and ensure the commitment of the Borrower (and the beneficiaries) to them, and to outline in some detail the essential inputs and arrangements with respect to organization, institutions and procedures that are expected to be necessary for achieving the objectives.” If, as acknowledged by Management, the SAZ was crucial to the project it should have been included in the design phase of the project or made a condition of loan effectiveness. As in POLONOROESTE the Bank failed to recognize this at the design stage. The Bank also failed to deal with

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5 Paragraph 31, emphasis added.
the fact that some critical institutions, INCRA in particular, either did not share full commitment to project objectives or wavered in their support.

34. Although a satisfactory agreement between the State Government and INCRA was a condition of loan effectiveness. The agreement accepted at the time by the Bank turned out to be inadequate for project purposes. As a result INCRA’s commitment to the project was seriously undermined. For example, during its August 1995 visit to Rondônia, the Panel met with the Superintendent of INCRA-Rondônia and was given guarantees of the agency’s renewed commitment to the project. However that Superintendent was removed from his post in early 1996. He was re-appointed later that year. In the interim the agency made limited contributions to the project.

Elements of Management’s Proposal

35. The “Report on the Status of Implementation” submitted to the Board by Management on December 2, 1996 (SecM96-1159) outlines the proposals for restructuring the project (pp. 13-20) and includes a table of “Restructured Project: Expense Categories” (p. 37). The Panel has met with Bank staff, project authorities and NGOs involved in restructuring proposals and received draft legal documents. While full project restructuring has not been negotiated and submitted to the Board for approval, the Panel has been given assurance as to what the major outcomes will be.

36. The Panel in its November 1995 “Additional Review”, stated that

“the ‘Agreed Plan of Action’ presented in Annex D of the [Management’s December 1995] Draft Report pushes forward dates of compliance through actions and plans to be defined and agreed upon in the near/medium future, rather than an attempt to restructure the Project around a comprehensive and realistic assessment of available remedies and attainable objectives. To do so would necessarily entail taking into account OED lessons of experience and the past flaws and shortcomings of PLANAFLORO.” (¶75).

The decision to restructure the project was taken by Management during or after the Mid-Term Review of 1996.

37. Funding for certain elements of the project has been increased under the restructuring: land zoning and regularization, road paving and repair, and technical assistance. Funding has decreased for management, protection and conservation of the environment and indigenous population support. The remaining categories, including agro-forestry research, rural extension, rural credit, input supply, and health, education and water supply have all been reduced in funding and combined into a new “Program to support Community Initiatives” (“PAICs”). (See Annex B)

38. Three illustrative components are discussed below: rural credit represented 12.7% of the original project and no longer exists as a separate category; PAICs is the most innovative component of the restructured project and will account for 30% of the loan; and, the infrastructure component, particularly the
rehabilitation of roads which has been historically a controversial issue in the Amazon region.

Rural Credit

39. According to the Annex 2 of Management’s December 1996 Report on the Status of Implementation, the rural credit component was supposed to finance 40,700 ha of permanent and 44,000 ha of annual crops. By June 30, 1996 only 4,049 ha of permanent crops and 5,330 of annual crops had been financed.

40. Part B.3 of the Project described in Schedule 2 to the Loan Agreement provides for the development of rural credit including, inter alia, an in-kind credit system, its administration by the State Bank of Rondônia (“BERON”), and gradual provision of such in-kind credit. The institutional weakness and strained financial condition of BERON was apparent from the outset and contributed to the failure of this component. Today there is uncertainty about the future of the institution itself, and the credit component has been discarded.

PAICs

41. The decision to go from individual credits to community based grants reportedly received widespread acceptance in the State. Proper implementation of this component, however, will require (a) increased institutional capacity; (b) assistance to local community groups in sub-project formulation and evaluation; and (c) objective and transparent criteria for selecting beneficiaries. In designing these criteria an important challenge will be maintaining a balance among the many original project components and the objectives to be addressed by the PAIC program (see ¶37 above). The lack of any criteria for allocation of resources among components may result in an imbalance in project financing and a failure to meet fully the objectives of the project as originally approved by the Board. A related risk is that a very high number of sub-projects under the PAICs could strain the administrative resources of PLANAFLORO and make supervision very difficult.

42. It is a generally agreed principle that communities surrounding protected areas should receive some benefit from the project. A set of criteria extending the benefits to these areas should be developed with participation of potential beneficiaries. Such criteria could include, for example, types of sub-projects to be supported and the characteristic of beneficiaries. Extensive publicity through the media and other means would be required to make this part of the program accessible to all potential beneficiaries.

43. A PAIC operating manual is presently under final review and should include appropriate selection criteria. It would also be important for the PAIC manual to guarantee that indigenous communities and other disenfranchised groups have technical assistance in sub-project formulation—otherwise potential beneficiaries might be limited to those with technical capacity and current access to funds.

44. The PAIC initiative is an important breakthrough in the participatory approach of PLANAFLORO. It is therefore important that the criteria, implementation and results of this initiative are closely monitored, not only by NGOs and outside groups but, most importantly, by the communities themselves.
Infrastructure

45. The infrastructure component of PLANAFLORO included rehabilitation of 3,900 kms of state and municipal roads and paving of 81 kms, as well as other transport and maintenance activities.

46. In Rondônia there has always been a basic tension between the need to demarcate and support reserves and the demand for more road construction, rehabilitation and other infrastructure. As discussed above in ¶28-31, imbalance and sequencing of components has been a problem and continues into the restructuring phase. The loan proceeds allocated to the Management, Protection and Conservation of the Environment Component—as the table of proposed allocation of loan proceeds and disbursements in Annex B shows—are reduced from 20.7% in the original loan to 17% in the proposed restructured loan whereas funds for the road component are increased from 17.7% to 21.9%. It is critical to maintain balanced execution in the future and to watch closely the execution of infrastructure components whether or not they are directly financed by the loan.

FINDINGS

• Analysis of satellite imagery for the State of Rondônia done under the project demonstrates that contrary to project objectives deforestation during the period 1993-1996 has increased considerably as shown in Table 1. This is the only data available on the rate of deforestation during PLANAFLORO execution. Continuous monitoring of deforestation and utilization of other methods to control deforestation on real-time should be a priority under a restructured phase.

• Due to the inherent difficulties in achieving most of the environmental goals of the project, a potential restructuring should include conditions that provide for long-term solutions to existing problems, including legal safeguards against changing the characteristics and reducing the size of the protected areas. The State, Bank Management and NGOs have worked together to avoid adverse effects of legislation viewed by some as contrary to project objectives. Both local and international NGOs closely monitor this aspect.

• Persistent invasions of indigenous and extractive areas have continued. The Panel found that there are illegal settlements and that legal problems remain with respect to the demarcations. Unless these border problems are addressed effectively the long-term sustainability of protected areas is in question. In those cases where settlements have been found illegal the invaders must be removed. This is unlikely to be possible unless SEDAM and ITERON capabilities are strengthened. The Panel has been informed that in the proposed project restructuring a number of conditions in relation to indigenous people will be included, for example:

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6 For example: Presidential Decree No. 1775 of January 8, 1996; State Law No. 152 of June 24, 1996; State Decree No. 7583 of September 16, 1996; and, State Decree No. 7636 of November 11, 1996.

• FUNAI will announce its position on the legal dispute regarding the Burareiro settlements.

• Removal of invaders from the Mequens reserve by October 30, 1997.

• Demarcation of the Massaco indigenous reserve by November 30, 1997.

• In the absence of criteria for allocation of PAIC resources, special efforts should be made to ensure that indigenous and other disenfranchised groups participate and have technical assistance in the development of economic alternatives and preparation of sub-projects, otherwise potential beneficiaries of this project component may be limited to those with technical capacity and current access to funds.

• It is critical that implementation of a realistic sustainable health plan for indigenous people be part of the restructured project.

• Management supervision of this multifaceted project has improved. Progress has been made during the past year to decentralize oversight to meet the serious supervision challenges. Management should be encouraged to continue with initiatives to achieve effective project management and supervision.

• With Bank assistance significant improvements have taken place in PLANAFLORO administration at the technical and accounting as well as the managerial level. The Bank and the restructured project should build on this increased implementation capacity.

• In spite of all project delays and difficulties, most critics recognize PLANAFLORO’s potential to make a contribution to sustainable development. It is acknowledged that every effort should be made to achieve even the more modest objectives of the restructured project with respect to agro-ecological zoning and social/environmental objectives. Proper guarantees and conditionalities for critical missing or delayed actions should be established in amended legal documents.
ATTACHMENT 1: Background Information

The Loan
The World Bank (“Bank”) approved a Loan to support the Rondônia Natural Resources Management Project—known as PLANAFLORO—in March 1992. Implementation of the social and environmental components of a series of Bank-financed projects of the 1980s—known as POLONOROESTE—had been neither adequate nor implemented. PLANAFLORO, intended to redress this failure, was designed in accordance with Bank strengthened environmental and social policies and procedures introduced in the late 1980s/early 1990s. The Staff Appraisal Report (“SAR”) and President’s Memorandum for PLANAFLORO conveyed Management’s belief that investments in the environment could pay off in economic terms. This was meant to be a showcase project for a new era in Bank lending for sustainable development.

The Request
In the case of this Request, communities previously adversely affected in Rondônia by the POLONOROESTE program expected beneficial effects from the implementation of PLANAFLORO according to the standards and timetable promised by the Bank, but expectations were not met. Therefore, on June 14, 1995, the intended beneficiaries represented by local non governmental organizations (“NGOs”) requested the Panel to investigate (“Request for Inspection”) the reasons for the Bank’s failure to carry out its commitment to prevent further damage to their land. The Requesters’ fundamental complaint was that the Project—intended to be beneficial to fragile communities and the natural environments they depend on for their livelihood—had not been adequately implemented since Board approval 3 1/2 years prior to June 1995. Since the Closing Date of the Loan was December 31, 1996, it appeared that just one year remained for such objectives to be achieved. The Requesters emphasized their full support for the project objectives.

Management Response
The Management Response (“Response”) to the Request for Inspection (“Request”), submitted to the Panel on July 19, 1995, acknowledged a number of instances of lack of compliance with policies. The Management Response acknowledged delays in the project and cited a number of implementation problems. Supervision missions constantly rated project implementation as “unsatisfactory.” There are a number of key areas in which this situation still continues. These are analyzed in general terms in the present report, including a assessment of the agreed “Action Plan” in Annex A.

Panel Recommendation
On September 12, 1995 the Executive Directors considered the Panel’s recommendation (“Recommendation”) relating to the Request. The Panel recommended that: “the Executive Directors authorize an investigation into the violations of Bank policies and procedures alleged in the Request.”

Executive Directors’ Decision
Conduct an Additional Review. The Executive Directors “agreed that before a decision could be made by the Board on the Panel’s recommendation..., the Panel should conduct an additional review to further substantiate the materiality of the damages and to establish whether such damages were caused by a deviation from Bank policies and procedures.”
Progress Reports on Implementation: At the same time the Executive Directors “welcomed the project implementation and supervision mission planned to take place shortly, as well as Management’s commitment to provide periodic progress reports on the project.”

Additional Review
The “Additional Review” was presented to the Board on December 8, 1995. Prior to this Management provided the Panel with a draft Report entitled: “Brazil: Rondônia Natural Resources Management Project (Loan 3444-BR) -- Report on the Status of Implementation”, dated November 29, 1995 (“Draft Report”). The Draft Report was discussed in a meeting with Management on December 4, 1995. The Panel’s “Additional Review” took into account subsequent information including several Aide-Mémoire and Back-to-Office Reports (“BTO”) and the above-mentioned Draft Report. In this case the Panel had been asked to further review the past, meaning the period from inception of the project until the filing of the Request.

The Panel again recommended an investigation. (See findings of the “Additional Review” in ATTACHMENT 2 to this Report). After this the Management, produced a progress report for the Board to consider simultaneously. The progress report included an “Action Plan” for the future of the project.

Board Decision
On the basis of the Panel’s report and recommendation as well as the Management progress report the Board on February 25, 1996 thanked the Panel for its:

“invaluable insight and thorough assessment of the issues, which allowed staff and Management to critically examine responses to the difficulties faced in the implementation of this complex operation. The Executive Directors noted Management’s plan of action dealing with the principal issues raised by the Panel. In light of this action plan and the follow-up [then] underway,” the Executive Directors concluded “that an investigation should not be approved at the time, but in view of the complexity of the project and the desire of the Bank to help assure its success, the Executive Directors agreed to review Management’s progress report in six to nine months and will invite the Inspection Panel to assist in that review.”
ATTACHMENT 2: Findings of “Additional Review”

• Although originally conceived in part to address adverse effects of earlier projects, lessons from the shortcomings of the POLONOROESTE program were too often ignored in the preparation, design and implementation of PLANAFLORO. Therefore, similar problems have occurred and threaten to perpetuate social and environmental damage.

• Failure of the project’s design to take into account the borrower’s limited institutional capacity is forcing a belated focus on a limited set of achievable priorities.

• Critical delays occurred for three years between approval of the Loan and filing of the Request because:
  - The Bank did not supervise PLANAFLORO effectively and failed to enforce implementation of key actions that were to be the basis of successful execution of the Project.
  - Supervision of implementation has been weak due to the lack of a permanent presence of Bank Staff in the project area and a rather complacent reaction to repeated defaults on covenants under the Loan.
  - Shortcomings in supervision are evidenced by the fact that long delayed actions have suddenly become possible since the Request was filed.
  - Delays in the project have contributed to a breakdown of trust between NGOs and the Bank, making the direct involvement of civil society in any reorientation of the Project important. Some of the remedial measures proposed in the Report regarding NGO participation may, however, result in future alienation of intended Project beneficiaries.
  - Postponement of a timely reorientation of the Project has substantially delayed achievement of many of PLANAFLORO’s objectives and caused continuing damage to the interests of intended beneficiaries.

Now the situation for many intended beneficiaries is by and large worse than two years ago. (¶76 of Report on Additional Review, December 8, 1995 (INSP/R95-4, December 12, 1995)

Fundamental problems in implementation essentially resulted from a number of design failures which did not take into account the lessons of the earlier POLONOROESTE project. The POLONOROESTE program was launched by the President of Brazil on May 27, 1981, and was carried out with primary external financial support from six separate loans from the Bank totaling US$ 434.4 approved in 1981-1983. The primary objective was to pave the existing BR-364 highway from Cuiaba to Porto Velho, and to provide related investments for “harmonious socio-economic development” of the region. The last Bank loan (New Settlements Credit) was closed on March 31, 1992.
extensively reviewed by OED in a special Report No. 10039 ("OED Report"). It comprehensively chronicled and analyzed implementation failures of the social and environmental components of the program. Based on this the OED Report spelled out what the Bank needed to do to design and implement in any follow-on projects in Rondônia. The SAR provided a complete accounting of how the follow-up Project, PLANAFLORO, had taken into consideration the OED Report’s “key findings and recommendations.”

The Staff Appraisal Report ("SAR" pp. 13-14) cites the “main lessons” learned from implementing agricultural projects under the POLONOROESTE program. However, the Project design and SAR failed, in reality, to draw upon the environmental and supervisory lessons. As a result, the Panel considers that the Bank failed to anticipate most of the existing major implementation problems at the design phase.