@#&OPS~Doctype~OPS^blank@pidaprdpfcoverpage#doctemplate

Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 06-Nov-2024 | Report No: PIDDA00131

BASIC INFORMATION

A. Basic Project Data

Project Beneficiary(ies)	Operation ID	Operation Name	
Brazil	P507322	Brazil Enhancing Productivity, Sustainability and Inclusion DPF	
Region	Estimated Approval Date	Practice Area (Lead)	Financing Instrument
LATIN AMERICA AND CARIBBEAN	27-Feb-2025	Macroeconomics, Trade and Investment	Development Policy Financing (DPF)
Borrower(s)	Implementing Agency		
Federative Republic of Brazil	Ministry of Finance / Secretariate of the Treasury		

Proposed Development Objective(s)

To support the Federal Government of Brazil to (i) improve taxation and fiscal sustainability (ii) promote climate action by enabling sustainable finance and environmental preservation (iii) strengthen social inclusion.

Financing (US$, Millions)

Maximizing Finance for Development

Is this an MFD-Enabling Project (MFD-EP)? Yes

Is this project Private Capital Enabling (PCE)? Yes

SUMMARY

Total Financing	**1,000.00**

DETAILS

Total World Bank Group Financing	**1,000.00**
World Bank Lending	1,000.00

Decision

The review did authorize the preparation to continue

Explanation

B. Introduction and Context

Country Context

Brazil aspires to become a global leader in building a productive, green, and inclusive economy, which requires a solid and sustainable fiscal framework and to foster a more productive economy that promotes green and resilient growth. Despite robust growth in recent years, Brazil's fiscal situation remains challenging, with public debt at 78 percent of GDP, significantly above its peers. Safeguarding fiscal sustainability requires a credible anchor, progressive fiscal adjustments, and higher growth, which has been an ongoing struggle for the country. Low productivity has hindered growth, driven by economic distortions, limited global integration, low innovation, and the high cost of doing business. A key factor is Brazil's complex tax system, which imposes high administrative costs and market distortions. Deep structural reforms are crucial to stabilize the fiscal framework and boost productivity to achieve Brazil's ambitions.

Brazil, the world's 6th largest greenhouse gas emitter, is taking action to tackle deforestation, land degradation, and climate risks, aiming to become a leader in climate-friendly development. Climate change threatens Brazil's natural resources, especially the Amazon rainforest, the largest global carbon store, while weak land governance and agricultural demands worsen the issue. The country also faces extreme weather events like droughts and floods, causing annual losses of R$13 billion (US$2.3 billion).[1] Its 2023 Nationally Determined Contribution (NDC) targets a 48 percent emissions reduction by 2025 and net-zero by 2050, requiring stronger land governance and sustainable agricultural practices. Brazil's Ecological Transformation Plan (ETP), launch at COP28, seeks to drive renewable energy and low-carbon agriculture, backed by private sector investments and supportive finance policies.[2]

Brazil's social reality, historically marked by deep inequality and exclusion, has seen notable progress through effective social inclusion policies, that needs updating to face evolving challenges. With roots in colonialism and slavery, social exclusion was significantly reduced between 2003 and 2014, when poverty was halved and extreme poverty nearly eradicated. However, progress stalled with the economic downturn in 2015, leaving poverty levels largely unchanged. The pandemic further increased social assistance spending, which remains elevated, while demographic shifts continue to drive rising pension costs. To address these challenges, increasing the efficiency of social assistance programs, and strengthening policies that enhance human capital and sustainability are critical.

[1] World Bank (2023b). Brazil Country Climate and Development Report. Available in https://openknowledge.worldbank.org/handle/10986/39782
[2] See Ministry of Finance 2023: https://www.gov.br/fazenda/pt-br/acesso-a-informacao/acoes-e-programas/transformacao-ecologica/english-version/documents/pte-19-10-2023-ecological-transformation-plan.pdf

Relationship to CPF

The proposed Developing Policy Financing (DPF) is fully aligned with Brazil's Country Partnership Framework (CPF) FY2024–28. [3] The CPF supports Brazil's development priorities set out in its Federal Government's 2024-2027 Multi-Year Plan (PPA) and its Ecological Transformation Plan (ETP). The CPF is built on three High Level Outcomes: (i) greater productivity and employment; (ii) greater inclusion of the poor and underserved populations; and (iii) a greener economy with reduced vulnerability to climate shocks. Policies supported by Pillar 1 of this DPF are aligned with Objective 1.1 (Strengthen fiscal management). Policies under Pillar 2 are aligned with Objectives 1.2 (Promote greater and greener competitiveness), 2.2 (Promote land ownership and sustainable livelihoods among disadvantaged groups), 3.1 (Improve management of natural resources), 3.2 (Expand the clean energy matrix), and 3.3 (Promote green and resilient cities and communities). Pillar 3 is aligned with Objectives 1.3 (Improve human capital), and 2.1 (Improve access to essential services and products). The operation is consistent with the WBG Climate Change Action Plan 2021-2025[4] and the LAC Climate Roadmap[5]. This is the first DPF operation with the Federal Government since 2009, builds on the WBG's longstanding dialogue on key topics such as tax reform, sustainable finance, and targeted conditional cash transfers, and is part of a package of coordinated technical and financial support for Brazil's green transition from international partners, including the Inter-American Development Bank (IDB) and planned support from the Asian Infrastructure Investment Bank (AIIB).

C. Proposed Development Objective(s)

To support the Federal Government of Brazil to (i) improve taxation and fiscal sustainability (ii) promote climate action by enabling sustainable finance and environmental preservation (iii) strengthen social inclusion.

The proposed DPF aims to support the Federal Government of Brazil to (i) improve taxation and fiscal sustainability (ii) promote climate action by enabling sustainable finance and environmental preservation and (iii) strengthen social inclusion and is structured around three mutually reinforcing pillars. The first pillar aims to make Brazil's fiscal policy more sustainable, equitable, and productivity-enhancing. The reform of the indirect tax system aligns Brazil with global VAT practices, including rebates for poor households, and is expected to boost economic productivity. A new fiscal framework will improve policy predictability, aiding fiscal adjustment and stabilizing public debt. Expanding the income tax base by taxing exclusive investment funds and foreign income supports fiscal adjustment and reduces inequality. The second pillar promotes climate action through a framework for sustainable bond issuance, green investment instruments, and agricultural credit linked to environmental compliance. Local preservation efforts are supported by ecological transfers and targeted fire prevention measures. The third pillar combines climate action with social inclusion by linking cash transfers to forest protection. Enhancing the social registry improves the targeting of programs like Bolsa Família and VAT refunds, while better school feeding boosts learning recovery and supports female family farmers. It also reflects the Government's commitment, expressed in their multiannual plan 2024-27, as well as the ETP and the country's G20 chairmanship, to pursue a more dynamic economy and an environmentally sustainable and socially inclusive development model, while assuming global leadership on climate.

[3] The World Bank Group Brazil CPF for FY24-28, report number CPF0000013 discussed by the Executive Directors on April 9, 2024.
[4] See https://openknowledge.worldbank.org/handle/10986/35799
[5] See https://openknowledge.worldbank.org/entities/publication/d3c58e1a-388b-5157-a88c-a1d171f434be

Key Results

On Pillar 1, the indirect tax reform, once fully implemented, is expected to simplify taxation for consumers and businesses, making the system more transparent and equitable. It is also expected that the policy of taxing offshore companies and funds will contribute to making the tax system more progressive. Finally, the new fiscal framework provides greater predictability to public finances and supports a gradual process of fiscal consolidation that promotes fiscal policy sustainability. **On Pillar 2,** the framework for sustainable bonds will support the implementation of policies and commitments to address climate change, an appropriate transition to a low-carbon economy and promote economic and social equity. The ECOINVEST program is also expected to enable the mobilization of private sector capital to finance investment needs for the green transition. The reforms for rural credit and green intergovernmental transfers aim to enhance sustainable and climate smart practices in agriculture, thereby advancing Brazil's mitigation and adaptation goals. the approach for financial and technical support with municipalities is expected to result in increased financial support, enabling them to more effectively combat deforestation and forest fires. **On Pillar 3,** with the improvements in the single registry, the income assessments of approximately 19 million beneficiaries will be continuously matched, with the result that more beneficiaries will move from the permanent Bolsa Familia program to the transitional protection stage. The program is also expected to result in a higher proportion of students enjoying better quality school meals. The policy is also expected to result in more children staying in school and attending school more regularly, especially primary school-aged children growing up in poor and vulnerable households.

D. Project Description

The proposed stand-alone DPF operation is structured around three mutually reinforcing pillars:

1. The first pillar improves taxation and fiscal sustainability. Specifically, the reforms seek to (i) simplify and streamline indirect taxation through the creation of a new Value-Added Tax (VAT); (ii) increase fiscal space and the progressivity of the tax system; and (iii) strengthen fiscal sustainability by implementing a new fiscal framework that incorporates a fiscal rule to limit expenditure growth.

2. The second pillar promotes climate action by enabling sustainable finance and environmental preservation. Specifically, the reforms seek to (i) facilitate financing for environmental sustainability through a framework for the issuance of sovereign sustainable bonds; (ii) provide tools for managing foreign exchange risks to enable foreign investment in sustainable projects through the ECOINVEST program; (iii) strengthen environmental, social, and climate screening criteria for the concession of rural credit and extended their application to all biomes; (iv) establish a mandatory intergovernmental transfer to States and Municipalities based on environmental criteria; and (v) establish a criteria to select municipalities to receive increased financial and technical support for environmental governance and forest protection.

3. The third pillar strengthens social inclusion. Specifically, the reforms seek to: (i) establish the payment for environmental services program “Bolsa Verde” for households and traditional communities in the Amazon, (ii), and (iii) enhance the quality of information in the single social registry (CadUnico) to improve the targeting of social programs, including Bolsa Familia; and (iii) revised guidelines for school feeding programs to promote healthier meals and procurement of food from family farmers, especially female farmers.

E. Implementation

Institutional and Implementation Arrangements

The Ministry of Finance will be responsible for collecting and monitoring information related to program implementation and progress towards the achievement of results. The Ministry of Finance is responsible for coordinating necessary actions among the agencies involved in the reform program supported by this DPF series. The World Bank has worked closely with the Ministry of Finance and line ministries to define results indicators that are clearly spelled out and measurable, giving preference to those that are already collected on a regular basis to avoid additional reporting burden.

F. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

Several policy reforms supported by this DPF are expected to contribute meaningfully to reduce poverty and inequality. Simplification of the tax system, augmenting progressivity, lowering the tax rate for vulnerable families due to features such as the exemption of a basic basket of goods and targeted cashback. The reintroduction of Bolsa Verde program and improving the targeting of social programs will contribute to poverty reduction since Bolsa Verde, while promoting forest conservation, targets poverty in Amapá, Amazonas, and Pará, where indigenous female-headed households face poverty rates nearly three times the national average. In addition, strengthening the national registry and integrating it with other data will enable more accurate, timely, and equitable decision-making. Improving the quality of meals in public schools is expected to have nutritional, educational and economic impacts. It supports food-insecure children with better nutrition, boosts education through increased attendance and improved focus, and helps reduce disparities in human capital over time. In the short term, it benefits local economies by sourcing food from small farmers.

Environmental, Forests, and Other Natural Resource Aspects

The policies supported by the proposed operation are expected to positively impact the environment, forests, and natural resources. Policies under pillar 1 could indirectly benefit the environment through consistent investment in environmental preservation and deforestation prevention. The framework for the issuance of sovereign sustainable bonds and ECOINVEST have the potential to finance sustainable projects, reduce GHG emissions, develop the sustainable capital market, and attract foreign investment, while Brazil's robust environmental licensing system to manage negative impacts. Strengthened environmental, social, and climate criteria for the concession of rural credit can reduce deforestation and promote low-carbon agriculture. Intergovernmental transfers based on environmental criteria encourage protected areas and improved natural resource management. The criteria to annually select municipalities to receive increased financial and technical support aims to reduce deforestation, preserve biodiversity, and support local communities. The third pillar promotes social inclusion through the Bolsa Verde program, which reduces deforestation and conserves priority areas. Improved targeting of social programs enhances efficiency, indirectly benefiting the environment, while Improving the quality of meals in public schools promotes sustainable agriculture in school feeding programs, reducing the carbon footprint and supporting family farmers.Improved targeting of social programs enhances efficiency, indirectly benefiting the environment, while improving the quality of meals in public schools promotes sustainable agriculture in school feeding programs, reducing the carbon footprint and supporting family farmers.

G. Risks and Mitigation

The overall risk of this proposed operation is assessed as moderate, while macroeconomic risks are substantial. The policies under this operation, including complex reforms like the overhaul of the indirect tax system, are high priorities for Brazil's Federal Government and have undergone extensive consensus-building. Brazil has a strong track record of implementing complex policies, such as financial intermediation and cash transfers. However, macroeconomic risks are substantial due to fiscal pressures, reflected in an elevated public debt (78 percent of GDP) and interest rates. The new fiscal framework offers a gradual path to stabilize and reduce the debt-to-GDP ratio, but it may be disrupted by shocks or political developments. Structural fiscal reforms will be needed, especially given the aging population. Nonetheless, Brazil's independent central bank, prudent macro-management, low external debt, and high international reserves help mitigate these risks. Other risks are considered moderate to low.

CONTACT POINT

World Bank

Cornelius Fleischhaker
Senior Economist

Werner L. Kornexl
Senior Natural Resources Management Specialist

Luigi Butron Calderon
Economist

Borrower/Client/Recipient

Federative Republic of Brazil
Mario Gouvea de Almeida
Advisor
mario.g.almeida@tesouro.gov.br

Implementing Agencies

Ministry of Finance / Secretariate of the Treasury
Ronise Pereira Lopes
Advisor
ronise.lopes@tesouro.gov.br

FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: http://www.worldbank.org/projects

APPROVAL

Task Team Leader(s):	Cornelius Fleischhaker, Werner L. Kornexl, Luigi Butron Calderon

Approved By

Practice Manager/Manager:	Shireen Mahdi	09-Oct-2024
Country Director:	Sophie Naudeau	06-Nov-2024