The World Bank

AM Pro-Sustainability - Fiscal, economic, social and environmental sustainability program of the State of Amazonas(P506861)

Program Information Document (PID)

Concept Stage | Date Prepared/Updated: **20-Nov-2024** | Report No: PIDIC00162

BASIC INFORMATION

A. Basic Project Data

Project Beneficiary(ies)	Operation ID	Operation Name	
Brazil	P506861	AM Pro-Sustainability - Fiscal, economic, social and environmental sustainability program of the State of Amazonas	
Region	Estimated Approval Date	Practice Area (Lead)	Financing Instrument
LATIN AMERICA AND CARIBBEAN	17-Jul-2025	Environment, Natural Resources & the Blue Economy	Development Policy Financing (DPF)
Borrower(s)	Implementing Agency		
State Government of Amazonas	Amazonas State Secretariat of Environment		

Proposed Development Objective(s)

Pro-Sustainable aims to consolidate the fiscal adjustment and sustainability program of the State of Amazonas.

Financing (US$, Millions)

Maximizing Finance for Development

Is this an MFD-Enabling Project (MFD-EP)?   No

Is this project Private Capital Enabling (PCE)?   No

SUMMARY

Total Financing	**585.00**

DETAILS

Total World Bank Group Financing	**585.00**
World Bank Lending	585.00

B. Introduction and Context

Country Context

1. **Strengthening public finances and natural resource management will be crucial for Amazonas development objectives.** Amazonas faces significant development challenges, as poverty and extreme poverty reach 41.2 percent and 6.1 percent of its population, respectively, in 2023, nearly double the national measure. In recent years, Amazonas' GDP per capita declined as a proportion of the national, from 87.8 percent in 2011 to 72.9 percent in 2021 and growth has slowed, and the Human Development Index is relatively low and equals 0.70 lagging the national average of 0.75 as of 2021. Despite significant achievements in maintaining primary surpluses in recent years, growth in current spending has accelerated, outpacing current revenues, and, consequently, the ability to increase public investment has been reduced. Reversing this situation is important not only to promote more sustainable growth but also to close infrastructure gaps.

2. **As a state with unique environmental assets and growing climatic challenges, Amazonas requires specific interventions to promote sustainable development while preserving its natural capital.** Amazonas has the largest tropical forest stock of any subnational jurisdiction, spanning over 1.5 million km2 of which   96 percent of its original forest is still intact1 The decade leading up to this DPF, however, witnessed new threats through land speculation and illegal agricultural expansion leading to land clearing activities mainly in still undesignated lands and Federal settlement areas. In 2023 and 2024, the State faces unprecedented levels of catastrophic events, driven by worsening climate impacts, extreme droughts, and a surge in forest fires, leaving the main rivers dry and not navigable. These crises exposes the State's lack of preparedness for such escalating threats, and the severity of deforestation and fiscal impacts in 2024 are yet unknown[i]. Before the extreme wildfires in 2024, the annual deforestation in the state of Amazonas could be significantly reduced (between June 2021 and July 2022, the rate dropped to 11,568 Km2 (PRODES)These results were achieved by a combination of State and Federal actions. The years before, between the years of 2014 and 2019, INPE/PRODES reported much higher deforestation rates (peaking at 1,571 km2 in 2019).

3. **The government of Amazonas (GoAM) is implementing a new fiscal framework that promotes greater room for public investment and incorporates environmental considerations for municipal transfers.** The fiscal framework seeks to contain the growth of current spending by establishing a fiscal anchor in the current savings ratio. This, in turn, promotes the generation of greater fiscal space for implementing public investment. In addition, the GoAM has been working on a

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1 Traditionally, Amazonas has not suffered from as much deforestation pressure as other Brazilian states. Its cumulative deforestation since 1988 was 26,972 km2, or less than 2 percent of the state territory. This level was equal to 6 percent of all deforestation in the Brazilian Amazon, even though the state of Amazonas accounted for 31 percent of the Brazilian Amazon.

law for the Ecological ICMS, which establishes environmental criteria for transferring resources to municipalities and promotes more sustainable forest management and reduction in GHG emissions.

4.   **The State of Amazonas has committed to bold and transformative targets to curb deforestation, driving comprehensive policy changes to strengthen its institutional capacity, secure funding, and implement programs that address the escalating climate and socio-economic challenges.** These efforts include the Amazonas 2030 program, which sets a net zero deforestation target and integrates sustainable economic development with stronger environmental governance. Policies to receive and manage international REDD+[2] resources and legislation of reforms to increase law enforcement's effectiveness in adjusting the adequacy of fine values will contribute to increased funding levels for the State. Legislation to promote bioeconomy will contribute to more sustainable income opportunities for rural communities and enterprises. Finally, the State has committed to strategically strengthening key environmental institutions, such as SEMA and IPAAM, while establishing financial mechanisms to manage carbon finance. These efforts aim to maximize the benefits for rural populations and support critical environmental programs across the State.

5.   **The proposed DPF builds on the successes of the previous DPF - First Amazonas Fiscal and Environmental Sustainability Programmatic Development Policy Financing (DPF) which was approved on December 11, 2020 for US$200 million and closed in December 2022.** This earlier DPF achieved significant progress in enhancing fiscal sustainability and promoting environmental governance. Key reforms, including the strengthening of environmental regulations and improved fiscal management, laid the foundation for sustainable development in Amazonas. [3]Although the second operation did not proceed, many policy reforms from the first DPF are being expanded upon or continued, ensuring continuity and reinforcing the State's commitment to fiscal and environmental resilience.

The proposed operation is aligned with the World Bank's approach to financing in countries above graduation discussion income (GDI). As laid out in the Country Partnership Framework 2024-2028 (CPF), a key aim of the Bank's work in Brazil is to strengthen the quality and sustainability of institutions for economic and social development. The program supported by the proposed DPF strengthens institutional capacity in critical areas such as fiscal sustainability and natural resource management. Further, it plays a key role in addressing global challenges by advancing climate change mitigation and adaptation efforts, directly contributing to the protection of global public goods.

The proposed operation is aligned with the Brazil Country Partnership Framework (CPF) FY24 - FY28[25] and builds on the WBG's longstanding dialogue on key topics such as sustainable and carbon finance, fiscal reforms, forest conservation and sustainable livelihoods. This proposed operation is the second DPF with the State of Amazonas. 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 (PTE). 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. Under Pillar 1, the operation is aligned with Objectives 1.1 (Strengthen fiscal management), which promotes fiscal consolidation and government effectiveness, and 1.2 (Promote greater and greener competitiveness), which aims to promote a greener Brazilian economy. Under Pillars 2 and 3 are also aligned with Objective 3.1 (Improve management of natural resources), which upholds inclusive and sustainable development,

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[2] REDD+ stands for **Reducing Emissions from Deforestation and Forest Degradation**, plus the sustainable management of forests, and the conservation and enhancement of forest carbon stocks. It is a global initiative aimed at combating climate change by incentivizing forest conservation and promoting sustainable forest management.
[3] Add reference here to the forthcoming ICR of this DPF.

and 3.3. by promoting green and resilient communities. Pillars 2 and 3 are also consistent with the WBG Climate Change Action Plan 2021-2025[26] and the LAC Climate Roadmap[27].

C. Proposed Development Objective(s)

Pro-Sustainable aims to consolidate the fiscal adjustment and sustainability program of the State of Amazonas.

Key Results

The proposed DPL supports reforms to strengthen fiscal policy management in Amazonas by promoting sustainable investments and long-term fiscal sustainability. Key results include limiting current spending growth and incentivizing municipalities to protect the Amazon Forest through equitable resource distribution, fostering sustainable socio-economic development, and reducing greenhouse gas emissions. This operation also aims to modernize environmental legislation, driving inclusive bioeconomic growth and advancing policies for net-zero deforestation by 2030. Additionally, the DPL enhances the institutional capacity of state environmental agencies by securing international climate finance and implementing career plans to improve efficiency in managing environmental challenges.

D. Concept Description

6.   **The Development Objective of this standalone DPL is to support Amazonas to strengthen fiscal policy management including through better links to sustainability objectives, promote sustainable socio-economic development and environmental conservation; and improve the institutional capacity of state environmental agencies. The proposed DPL is structured around three pillars:**

7.   **The first pillar strengthens Amazonas's fiscal policy management by:** (i) limiting current spending growth to create fiscal space for sustainable investments and promote long-term fiscal sustainability; and (ii) incentivizing municipalities to protect the Amazon Forest, through equitable resource distribution, driving sustainable development and reducing greenhouse gas emissions. These reforms are designed to stabilize the economy while introducing strong incentives for conservation, directly contributing to both climate change mitigation and adaptation. Building on the progress of the previous DPL series, which initiated in 2019 but was disrupted by the COVID-19 pandemic, this pillar reaffirms Amazonas's commitment to sustainable growth and environmental protection.

8.   **The second pillar supports selected policies to sustainable management of the Amazon rainforest by:** (i) reforming outdated environmental legislation to enhance the effectiveness of environmental control mechanisms, (ii) establishing legislation to incentivize the sustainable and inclusive growth of the bioeconomy, and (iii) implementing a cross-sectoral program aimed at achieving net-zero deforestation by 2030, while unlocking new financial resources for conservation efforts.

9.   **Policies under the third pillar of the DPL strengthen the institutional capacity of state environmental agencies by:** (i) establishing the necessary infrastructure to enable state financial institutions to manage international climate finance, including marketing results from REDD+ and overseeing financial resources, and (ii) by approving legislation for Career and Remuneration Plans, enabling both temporary and permanent hiring to enhance the efficiency of state agencies in addressing growing environmental challenges.

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

Poverty and Social Impacts

10.   **All Prior Actions included under both Pillars of the operation will directly or indirectly contribute to a new economic development model for the state of Amazonas, in which zero deforestation and the reduction of GHG emissions from land use change and forestry foster sustainable economies and promote social progress.** In the Amazon, zero deforestation is desirable for environmental and socioeconomic reasons, since the persistence of deforestation keeps society trapped in a vicious cycle of environmental destruction and forest degradation with low productivity, illegality and social conflicts, low attractiveness for external investments, high poverty rates and low social progress.[4] Thus, on the one hand, improved environment and land governance and stronger command-control mechanisms as provided under Prior Actions #1, #6, #8 and #9 are expected to have an indirect but positive effect deterring illegality and protecting vulnerable traditional and forest-dwelling communities whose sustainable ways of life adapted to the forest, but with low remuneration and high vulnerability to pressures associated with deforestation. On the other, innovative economic models that aim to take advantage of the state's natural capital in a sustainable manner and compensate livelihoods that contribute to keep the forest standing as combined under Prior Actions #2, #3, #4, #5 and #7 are expected to have a direct and positive distributive impact – particularly for the most vulnerable social groups (forest-dwellers, riverine and traditional communities, small family farmers and Indigenous Peoples) – by increasing their access to earnings, jobs and services, whereas respecting their traditional knowledge and engaging them in decision-making. These potentially positive outcomes will be further assessed during Project preparation.

Environmental, Forests, and Other Natural Resource Aspects

11.   **Prior Actions supported by this operation are expected to have a positive impact on environment, forests, or other natural resources.** The operation in the state of Amazonas includes a series of Prior Actions (PAs) under three pillars, each with potential environmental implications:

12.   **Pillar 1: Fiscal Space for Environmental Investments.** The establishment of the new legislation (PA1) is anticipated to have a positive environmental impact by enabling fiscal sustainability and creating space for public investments in green, resilient, and inclusive development projects. Likewise, the PA2 Ecological ICMS Law is expected to produce beneficial environmental outcomes by incentivizing municipalities to enhance forest protection efforts, thereby contributing to the conservation of the Amazon Forest and the reduction of GHG emissions.

13.   P**illar 2: Sustainable Development.** The amendment of the Infractions Law (PA6) aims to strengthen environmental inspection and enforcement, which is expected to deter environmental infractions and enhance compliance, resulting in positive environmental outcomes. The approval of the Integrated Tactical Plan (ITP), alongside State Decree No. 47,565 (PA4) is designed to combat deforestation and forest fires, contributing to reduced GHG emissions and improved forest

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[4] Following the Social Progress Imperative (https://socialprogress.org), social progress is defined as the society's ability to satisfy basic human needs, establish structures that guarantee quality of life for citizens and provide opportunities for everyone to reach their maximum potential. According to the IPS Amazônia website (https://www.ipsamazonia.org.br), in 2023, the state of Amazonas showed a low Social Progress Index (reaching the mar of 55.06 out of a 100 points scale and being 23.2 percent lower than the country figure). The Social Progress Index is composed of environmental and social indicators aggregated into 3 dimensions and 12 components.

conservation. The *Amazonas 2030* program (PA3) targets Net-Zero Deforestation by 2030, which is anticipated to significantly benefit the environment by supporting forest conservation and climate change mitigation efforts. Additionally, the promotion of the bioeconomy (PA5) is expected to have a positive effect by encouraging the sustainable use of biological resources, reducing deforestation, and fostering economic growth in harmony with environmental conservation.

14.   **Pillar 3: Climate Governance.** The establishment of the Position, Career, and Remuneration Plan for IPAAM (PA8) is expected to enhance institutional capacity for environmental protection, contributing to improved environmental management and governance. The jurisdictional REDD+ System (PA7) will facilitate direct disbursement of funds into environmental and climate projects.

CONTACT POINT

World Bank

Werner L. Kornexl
Senior Natural Resources Management Specialist

Rafael Amaral Ornelas
Economist

Borrower/Client/Recipient

State Government of Amazonas
Alessandro Ribeiro
Secretary
aribeiro@sefaz.am.gov.br

Implementing Agencies

Amazonas State Secretariat of Environment
Eduardo Taveira
Secretary
eduardo.taveira@sema.am.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):	Werner L. Kornexl, Rafael Amaral Ornelas	

Approved By

Practice Manager/Manager:	Erwin De Nys	26-Sep-2024
Country Director:	Johannes C.M. Zutt	20-Nov-2024

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i Financial damage to infrastructure and foregone economic activities from these events reached R$8.4 billion between 1995 and 2019, with one of the highest costs per event in Brazil and significant impacts on human health, wildlife and biodiversity.