

The Ecological Value-Added Tax experience in Brazil



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The “Ecological ICMS”

- Criterion for redistributing state value-added taxes (ICMS) to municipal governments
- 25% of ICMS taxes on sale of goods and services in Brazil are reallocated to local government
- Each state may determine redistribution criteria
- “Ecological” criterion adopted in 1992 (Paraná)
- Now operative in 5 states (Paraná, São Paulo, Minas Gerais, Rondônia, Rio Grande do Sul)
- Law on the books in Mato Grosso do Sul; legislation under discussion in 7 other states



An economic instrument for biodiversity conservation...

- Acts as a fiscal compensation mechanism: the “Protector-Receives” principle
- Objective: compensate local governments whose economic activities are restricted by conservation units (opportunity cost...)
- Stimulates protection and more effective management of areas rich in biodiversity
- Links conservation with water quality (Paraná) and basic sanitation (Minas Gerais)



State Distribution Quotas

<u>State</u>	<u>Ecological Share of Total ICMS</u>
Paraná	5% (conservation, watersheds)
São Paulo	0.5% (conservation)
Minas Gerais	1% (conservation, sanitation)
Rondônia	5% (conservation)



Conservation Allocation Criteria

- **Territorial Restriction** level = Protected Area / Total municipal area
- **Conservation Factor** = level of protection (weighting based on management categories)
- **Quality Factor** = physical quality of area, presence of management plan, stage of implementation, buffer protection, monitoring...
- Amount received = % Total ICMS x Territorial Restriction x Conservation Factor x Quality Factor



How much are we talking about?

- Total allocated in Minas Gerais during the first 3 years of execution (1995-98): approx. US\$ 25 million
- No. municipalities receiving in 1998 – 174
- But wide range in amounts received
- The 5 that received most additional distributions accounted for 25% of the total
- Conservation became the “principal industry” in some municipalities



Creation of New Protected Areas

- Principal incentive: more area, more money
- In Minas Gerais, the number of conservation units nearly doubled
- Protected areas increased **48%**, totaling an additional **551,591** hectares (1995-98)
- In Paraná, total protected area increased **143%**, on **1,133,176** additional hectares (1992-99)
- Many private landowners have committed forestlands to permanent easements (RPPN)



How did local governments spend additional tax monies?

- “Ecological” source but spending not earmarked
- Improvement in local infrastructure and service needs (electrification, roads, schools, water supply)
- Introduction of a municipal environmental agenda
- Strengthening relationships between environmental agencies and municipal governments
- Incentive to eco- and rural tourism
- Recuperation of degraded forestlands
- Demonstration effect on neighboring areas



Problems to be confronted

- The amount distributed is inversely proportional to the growth in areas and municipalities involved
- In some states, introduction of the “Quality” criterion has been delayed, affecting management
- Many new conservation units are “APAs” - private lands with little effective protection
- Distributions are not earmarked, so no guarantee that spending will improve local environment
- Industrialized municipalities press legislatures to eliminate criterion to increase their share

