

BRAZIL

ENVIRONMENTAL TAX REDISTRIBUTION IN MINAS GERAIS

In Minas Gerais, new legislation for the distribution of state revenues to municipalities according to environmental criteria has produced a surge of environmental improvements in many municipalities. The main aim of this 'Ecological State VAT' is to promote sustainable development by transferring resources to those localities that give priority to the treatment and final disposal of waste and urban sewage, and to creating conservation areas.

The State of Minas Gerais in Southeast Brazil has the second biggest population in the country - 17.9 million inhabitants in 853 municipalities. The state has experienced accelerated urbanisation: in 1970, 53% of its inhabitants lived in cities, while by 1996 the figure had reached 76%. This intense urbanisation was not matched by a similar expansion in housing or basic infrastructure, however, and solid waste management and sewage collection are in crisis, as in the rest of the country, where 90% of cities dispose of their urban solid waste in unmanaged dumping areas and have no sewage treatment systems.

To enhance action on environmental sanitation and preserve the State's nature resources, the Government of the State of Minas Gerais introduced a revenue redistribution law, known as 'the Robin Hood Law', in 1996. This stipulates that part of the State VAT (tax on sale of goods) be distributed between municipalities on the basis of social criteria such as health, education, food production, cultural heritage, sanitation and environment. Until 1995, only basic economic criteria were used to determine how this revenue was distributed, and hence 10 municipalities (1.4% of the municipalities of Minas Gerais at the time) received 50% of the income, with only 10% of income going to 610 municipalities (84% of the total). The 1996 law also specified that that each municipality receive sufficient amount to meet their minimum administration costs.

The environmental component of the 'Robin Hood Law', known as the 'Ecological State VAT', includes two criteria: treatment and final disposal of waste and sewage, and creation of conservation areas. To be eligible for revenue corresponding to the first criterion, a municipality has to have a system for the final disposal of urban waste that reaches at least 70% of the urban population, or a sewage treatment system catering for at least 50% of the urban population, licensed by the State Council for Environmental Policy. For the second, municipalities have to present

documents that prove the legal existence of a conservation area in their territory (Ecological Stations, Parks, Biological Reservations, Indigenous Areas or Environmental Protection Areas), with defined boundaries and restrictions on the use of the land. The Ecological State VAT takes into account the percentile of the area occupied by the conservation area, the level of land use restrictions and the quality of conservation of the area.

Until 1996 none of the localities in Minas Gerais had environmental licences for sanitation systems. In 1997, the municipality of Betim, with a population of 250,000, was the first to qualify with its sanitation system (landfill and compost plant). Through the State VAT revenue that it received, it recovered the investment made in the system within a year. By September 2001, 37 localities had benefited from the Ecological State VAT. 28 of these had environmental operation licences for final waste disposal systems and 9 had licences for sewage treatment systems, serving a population of 3,463,900, which corresponded to approximately 20% of the urban population of the State. In December 2001, around 85 municipalities were in the process of obtaining their licences for sanitation systems.

The spectacular increase in demand for licensing of waste disposal and sewage operations, that started in 1996, shows how legislation can work as a mechanism to encourage municipalities to prioritise investment in environmental infrastructure. This could be expanded to other environmental criteria in the future, thus contributing to further improvements of the environment. The Ecological State VAT approach has caught the attention of administrators from other Brazilian states who are in the process of putting forward similar laws.

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Ms. Ludmila Rodrigues Alves
Fundação Estadual do Meio
Ambiente - FEAM
Avenida Prudente de Moraes
1671
30380-000 Belo Horizonte
Minas Gerais
BRAZIL

tel: +55 021 31 3298 6452
fax: +55 021 31 3298 6296
Ludmilar@feam.br



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