

# Ecological Fiscal Transfers: The Portuguese Case

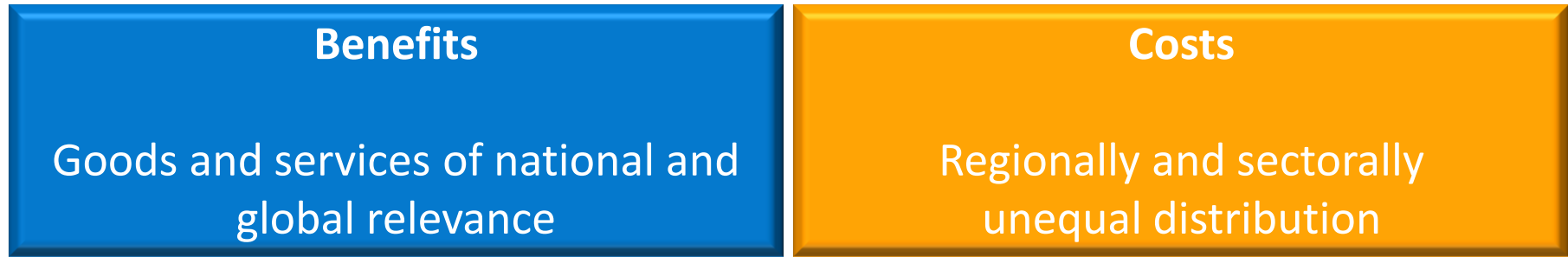
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# Spatial distribution of conservation benefits and costs



**Ecological services** involving spatial externalities: spillover benefits

Payments for ecological services at the local level:

- Land users  
(e.g., agri-environmental programmes, conservation programmes)
- **Local governments**  
(Intergovernmental fiscal transfers to the local level)

# Ecological fiscal transfers – Recent experience in Portugal

Portugal started very recently (2007) an experience with ecological fiscal transfers - **The Portuguese Local Finances Law**

- The *Portuguese System of Classified Areas* includes the Natura 2000 Network and the National Protected Areas Network (e.g. National Parks, Natural Parks)
- Nature conservation is primarily a responsibility of the **National Government** - defines the national-level protected areas and Natura 2000 sites
- **Management** of classified areas – national government (national areas) and municipalities (regional and local areas)

# Ecological fiscal transfers in Portugal

- **Rationale:** **municipalities** (and landowners) face the preservation **costs** (including opportunity costs), while **benefits** extend over municipal boundaries; give **financial incentives** for local governments
- **Ecological fiscal transfers** integrated in the annual transfers from the national general budget to the municipalities (**Local Finances Law - LFL**), in order to compensate them for land-use restrictions imposed by protected areas and Natura 2000 sites
- Idea was pushed by the Ministry for the Environment and accepted by the Ministry of Finance

# Municipal revenues in Portugal

- 308 municipalities in Portugal (278 in the mainland and 30 in Azores and Madeira)
- **Direct fiscal transfers** from central government are an important source of revenues for the municipalities.
  - For municipalities such as Barrancos and Porto Moniz, fiscal transfers in 2008, stand for 97% and 96%, respectively, of their total revenues.
- Transfers are based mostly on *population, area, topography and development level*. **Until 2007, no land use or environmental criteria were considered**

# New Local Finances Law (2/2007, January 15<sup>th</sup>)

## Art 6 – Promotion of Local Sustainability

Financial regime of municipalities shall contribute to the promotion of economic development, **environmental preservation** and social welfare;

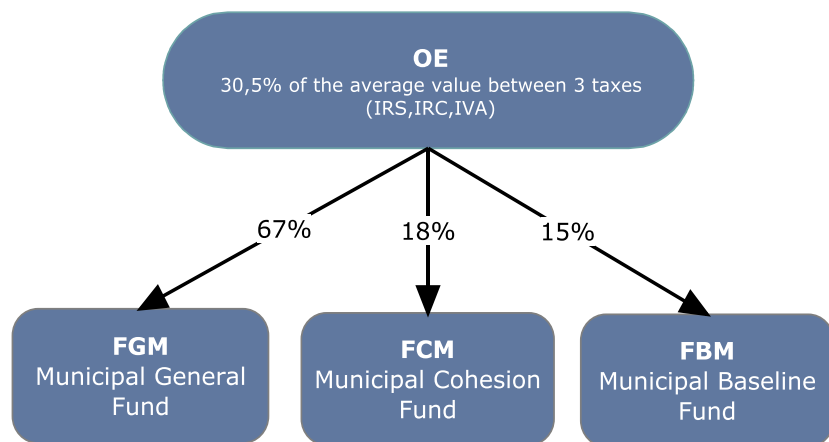
This *objective* is assured namely by the:

**Positive discrimination of municipalities with area allocated to protected areas and Natura 2000, in the scope of FGM (General Municipal Fund)**

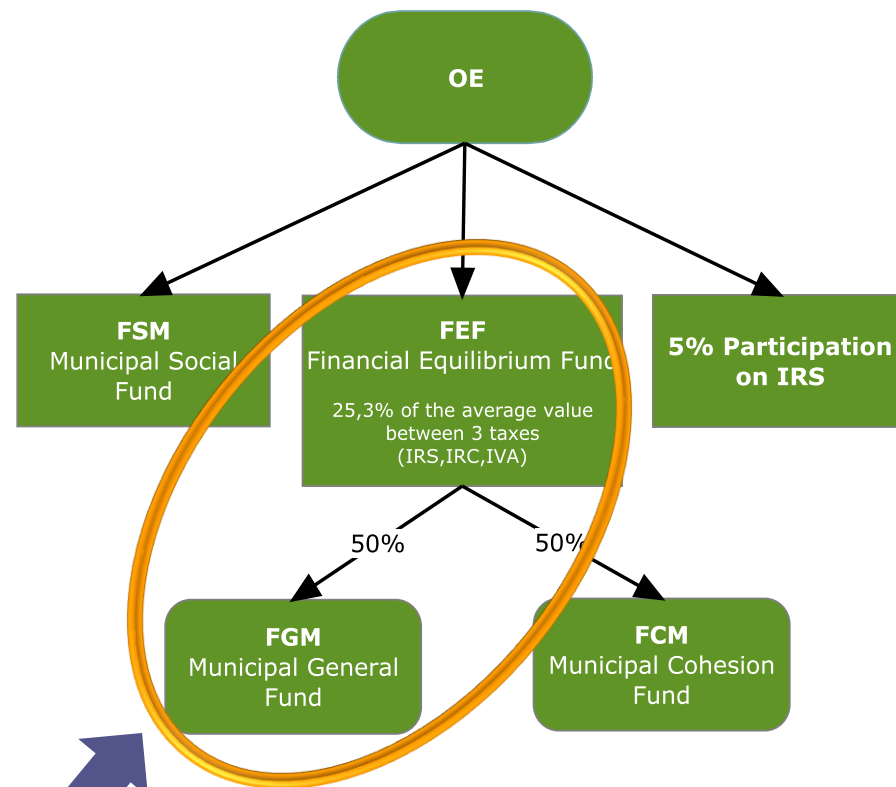
- > Concession of exemptions and fiscal benefits to taxpayers (municipal taxes) that promote activities according to given environmental standards
- > Use of fiscal instruments (namely taxes) directed to the promotion of social objectives as well as contributing to the urban, territorial and environmental quality

# Comparing the new LFL and the old Law

Old LFL



New LFL



“Ecological Signal”

# Ecological component in FGM

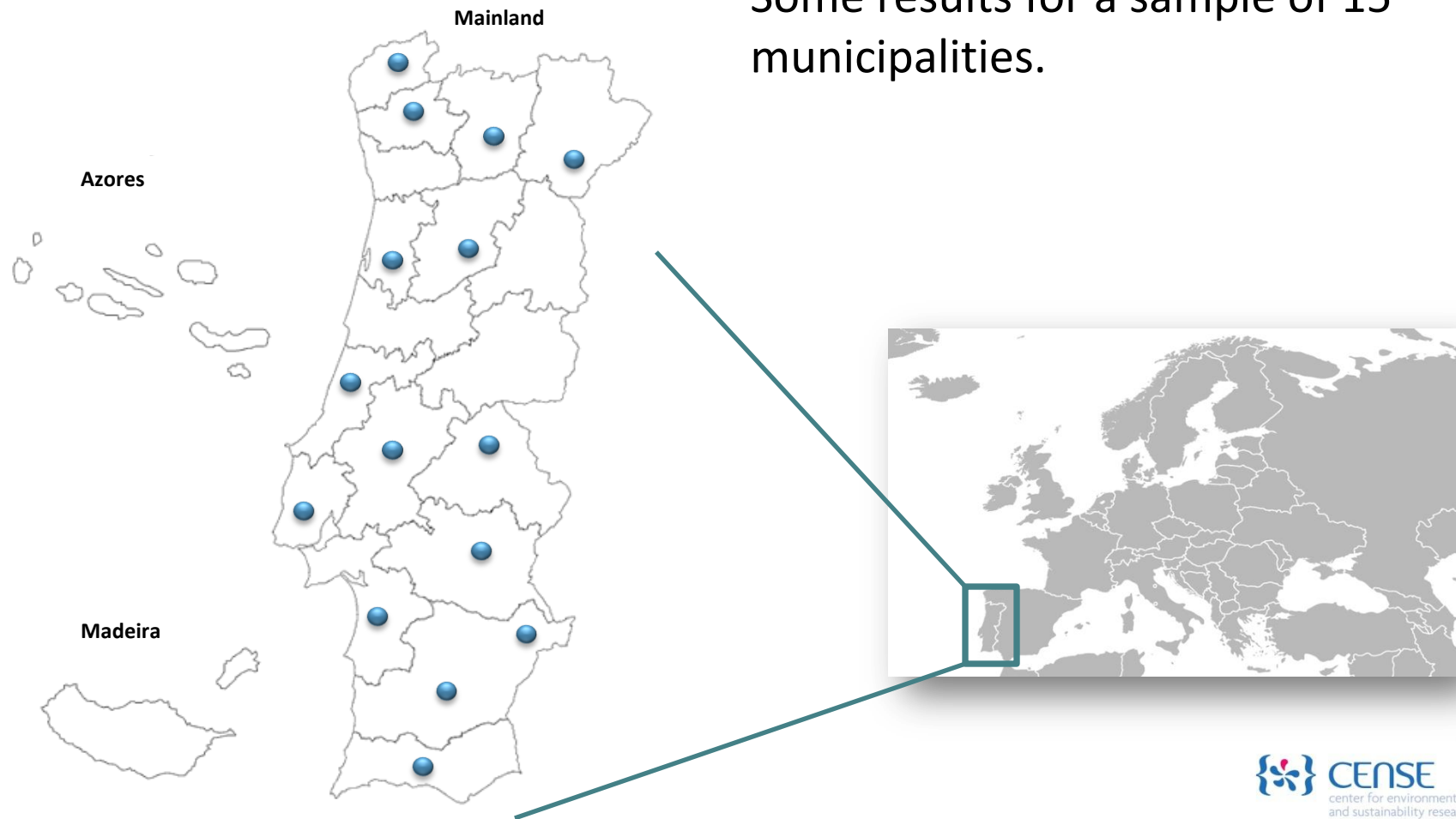
Local Finances Law establishes that 5 to 10% of FGM shall be distributed according to the area included in Natura 2000 and protected sites

## Municipal general fund (FGM) allocation criteria:

- Equal allocation to all municipalities: 5 % - around € 50\*10<sup>6</sup>
- Population: 65% - around € 600\*10<sup>6</sup>
- Total Area: 20% to 25% - around € 200\*10<sup>6</sup>
- **Protected Areas and Natura 2000**: 5% to 10%  
around € 80\*10<sup>6</sup>
- **Lump-sum payments**  
municipalities decide upon use of money

# Sample of Municipalities

Some results for a sample of 15 municipalities.



# Weight of Fiscal Transfers on Total Municipal Revenue

	Municipalities	Total Fiscal Transfers	FGM	Ecological component
Municipalities with <b><i>more</i></b> than 70% of Classified Areas	Campo Maior	89%	59%	6%
	Murtosa	78%	36%	4%
	Porto de Mós	75%	35%	3%
	Alzejur	70%	40%	4%
	Barrancos	97%	50%	5%
	Terras de Bouro	94%	52%	5%
	Freixo de Espada à Cinta	93%	48%	5%
	<b>Castro Verde</b>	<b>90%</b>	<b>69%</b>	<b>7%</b>
Municipalities with <b><i>less</i></b> than 70% of Classified Areas	Lisboa	25%	12%	1%
	Grândola	71%	39%	2%
	Viana do Castelo	60%	22%	1%
	Lamego	80%	22%	1%
	Almeirim	62%	23%	1%
	Peso da Régua	87%	24%	1%
	Évora	62%	28%	1%
	Vimioso	96%	46%	2%

# Effects of the Ecological Component

	Municipalities	Real transfers New Law 2008		Transfers New Law without ecological component		% of Natura 2000
		FGM	TOTAL real 2008	FGM no ecol.	W/L	
Municipalities with <b>more than 70%</b> of Classified Areas	Campo Maior	2.900.775	4.402.813	1.911.053	Losers	99,9%
	Murtosa	1.715.879	3.693.300	1.493.042	Losers	80,4%
	Porto de Mós	3.177.573	6.847.121	2.490.821	Losers	76,3%
	Alzejur	2.918.667	5.166.722	2.091.501	Losers	74,0%
	Barrancos	1.646.411	3.203.738	986.277	Losers	99,9%
	Terras de Bouro	3.133.364	5.656.128	2.148.285	Losers	94,5%
	Freixo de Espada à Cinta	2.488.972	4.803.725	1.670.031	Losers	53,6%
	Castro Verde	4.380.527	5.677.218	2.766.919	Losers	84,8%
Municipalities with <b>less than 70%</b> of Classified Areas	Lisboa	29.462.536	62.579.750	29.686.321	Winners	0,0%
	Grândola	3.684.789	6.732.129	3.958.834	Winners	8,5%
	Viana do Castelo	5.448.727	15.184.697	5.542.457	Winners	15,0%
	Lamego	2.241.609	8.129.507	2.212.578	Losers	33,0%
	Almeirim	2.041.666	5.579.726	2.157.519	Winners	0,0%
	Peso da Régua	1.715.636	6.179.792	1.751.558	Winners	11,9%
	Évora	6.273.406	13.799.015	6.794.807	Winners	17,1%
	Vimioso	2.889.251	6.079.020	2.657.339	Losers	43,3%

# Monfurado case

“Monfurado” is a Natura 2000 site

Location: Municipality of Montemor-o-Novo

6% of the total area



## “Ecological FGM”

2007 - €366 000; 2008 - €406 000.

About 4% of total municipal revenues

**Estimated costs** for the existing Management Plan implementation

**Active Management Measures** – estimated annual direct costs to the municipalities and other public entities much higher than ecological FGM

**Volunteer Management Measures** – landowners and farm managers – (estimated around €570 000 per year)

# Conclusions

- The Ecological component discriminates positively municipalities with high percentages of classified areas (protected areas + Natura 2000);
- Introducing this Ecological component is an important step to change the mindset of the decision makers;
- However it is not a very strong incentive - current fiscal transfers still do not seem to compensate for the opportunity costs in some municipalities
- This is a first step that requires further improvements and that may lead to the development of other complementary instruments