

# **The effectiveness and fairness of the Ecological ICMS as a fiscal transfer for biodiversity conservation. A tale of two municipalities in Mato Grosso, Brazil.**

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The main purpose of this research is to appraise the role of the Ecological ICMS (ICMS-E), an economic instrument for biodiversity conservation in Mato Grosso, Brazil. Our principal hypothesis is that ICMS-E resources can generate different conservation outcomes, depending on how they are distributed within municipalities. The case study focused on Northwest Mato Grosso (NW MT), a region of Amazonia which is under great deforestation pressure. We selected two municipalities - Juína and Cotriguaçu - to evaluate the potential role of this instrument in inhibiting further biodiversity loss at the forest frontier. A prior secondary data analysis showed a restricted role for ICMS-E in promoting protected area creation in the Amazon region of Mato Grosso. We now seek to investigate the reasons for this, the potential institutional innovations to improve the instrument and to understand the role of ICMS-E in Mato Grosso in the existing policymix with respect to its effectiveness and fairness. Our research questions include: (a) Is the ICMS-E an effective instrument for conservation?; (b) How fair is the intramunicipal allocation of ICMS-E revenues according to standards of procedural and distributive justice? (c) What legal and institutional arrangements including flexibility in intra-municipal benefits distribution could allow an improvement in the effectiveness and equity effects of ICMS-E implementation? In summary, our research suggests that innovative revenue sharing instruments such as ICMS-E can have positive results for conservation effectiveness, but their improvement for these purposes requires local commitment to environmental governance and procedures to ensure equitable distribution of the rewards.