FINANCING THE MANAGEMENT OF THE COMMONS: A CASE OF THE FORESTRY SECTOR IN SRI LANKA

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Abstract

The sustainable management of the commons is now being highly discussed with the recognition of the role played by the commons for social welfare and realizing the necessity of maintaining the stock of common resources for well being of the future generations. However, just like for other environmental resources, for commons, financing has posed a major challenge. This has opened the way for various financing mechanisms to be adopted for sustainable management of common resources. Among them are 'market based instruments (MBIs)' (environmental levies, user fees, tradable permits/quotas, deposit refund systems etc.), budgetary allocations and donor funding. Despite these achievements, however, it is not clear to what extent public and private financial management systems are transformed to cater to broad goals of sustainable management of the commons. One cannot overemphasize the necessity of innovative mechanisms for financing sustainable management of common resources amidst the vast commercial values involved with alternative uses of those resources. This study focused on the common resource of natural forests in Sri Lanka to examine the current situation of financial mechanisms existing to mobilize resources for implementation of sustainable management measures. Data gathered through secondary sources (policy documents, annual reports, budget statements etc.) as well as primary information gathered from key informants was used for this analysis.

It was found that significant funds are being generated by the relevant institutions which are directed to the treasury through the Consolidated Fund mechanism and only a part of it comes back to these organizations by way of budgetary allocations. Unless supported by donor funded projects, these budgetary allocations are sufficient only for the management of these institutions rather than for mandated activities. This implies that conventional system of state financial management has not been geared to cater to the needs of sustainable management. It further indicates the necessity of working out appropriate fiscal allocation systems so as to enable respective institutions to mobilize necessary investment funds through self-generated income sources, within the laws of the country.

Key words: Forestry, Environmental Financing, Sustainability, Sri Lanka

INTRODUCTION

The sustainable management of the commons is now being highly discussed with the recognition of the role played by the commons for social welfare and realizing the necessity of maintaining the stock of common resources for well being of the future generations. However, management of natural resources including the commons tends to fall secondary in national agendas over development measures yielding far-reaching benefits. Sri Lanka, having ended a three-decade prolonged civil conflict, comes into the limelight in this regard as the country currently passes a rapid development phase, where the concerns on the environment are more likely to be overlooked.

Towards this effort of sustainable management of the commons, like for all other environmental resources, financing, among many other issues, has posed a major challenge when the concentration is being widely drawn towards activities with vast economic returns. This has opened the way for various financing mechanisms to be adopted for sustainable management of common resources. The use of market based instruments (MBIs) such as user fees, environmental levies, tradable permits/ quotas, deposit refund systems etc. is now catching its way while budgetary allocations and donor funding still play a key role. Despite these achievements, however, it is not clear to what extent public and private financial management systems are transformed to cater to broad goals of sustainable management of the commons. It is in this context that financing in commons calls for thorough examination under environmental financing aspect of environmental management.

The forestry sector in particular, when it comes to financing the management of the commons, calls for attention as the resource mainly provides life support services which are not so prominent in economic terms, and hence there is a tendency of finances being directed towards other sectors with direct economic value. In a post-conflict development scenario, the sector is more highlighted for the higher likelihood of forests clearing to take place with the pressing need for land for resettlements and development projects in the war-torn areas. The Northern and Eastern provinces of Sri Lanka, the war affected provinces, account for 41 percent of the total forest cover in the country[3], the largest forest area at provincial level, which suggests that higher priority in regard to forest management efforts should be given to North East. Conversely, 42 percent of the land in North East being covered by forests suggests that they are more exposed to threats such as forest clearing and degradation when the post-war development efforts are concerned. However, a well-planned financing mechanism could certainly be used to address the priority requirements towards effective management of forests.

This paper focuses on the common resource of natural forests in Sri Lanka to examine the current situation of financial mechanisms existing to mobilize resources for implementation of sustainable management measures. The analysis is based on both primary and secondary information gathered through key informant interviews, policy documents, annual reports, budget statements etc. The discussion further explores the challenges in financing and the potential for revenue generation in forest management,

[3] Forest Cover in 1999, Forest Department – Ministry of Environment of Sri Lanka

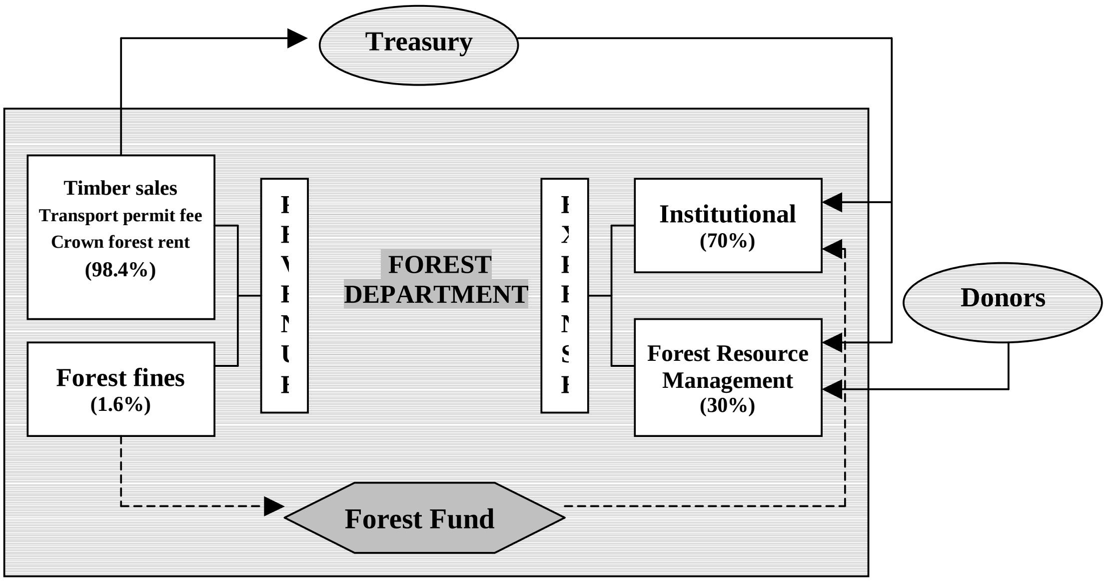
and presents policy suggestions on improving the existing forest financing mechanism and other measures that can be linked to iron out financing challenges faced by the sector.

CURRENT FINANCING MECHANISM IN THE FORESTRY SECTOR

As with almost all other natural resources, forests too are not just merely conserved to ensure their provision of life support services which, on direct terms, only constitutes expenditure, but also used for income generation through sustainable uses such as provision of recreational facilities, sale of timber, etc. The Forest Department (FD) of the Ministry of Environment and Natural Resources acts as the regulatory body for forests management, whose main responsibility falls in conserving the forest resource while ensuring the sustainable use of the resource. Their activities are currently financed by two sources namely, budgetary allocations and donor funds. The revenue generated from forest resources (a share of over 95 percent), except from the fines on forest offences, is directed to the 'consolidated fund' of the Treasury as per regulations (figure 1). The fines on forest offences are allowed to be directed to the forest fund, which is specified to be used only for institutional expenses such as training, rewards to villagers, compensation and awareness raising programs.

Figure 1

Financing Mechanism in the Forestry Sector



Note: The percentages in parentheses relate to 2009.

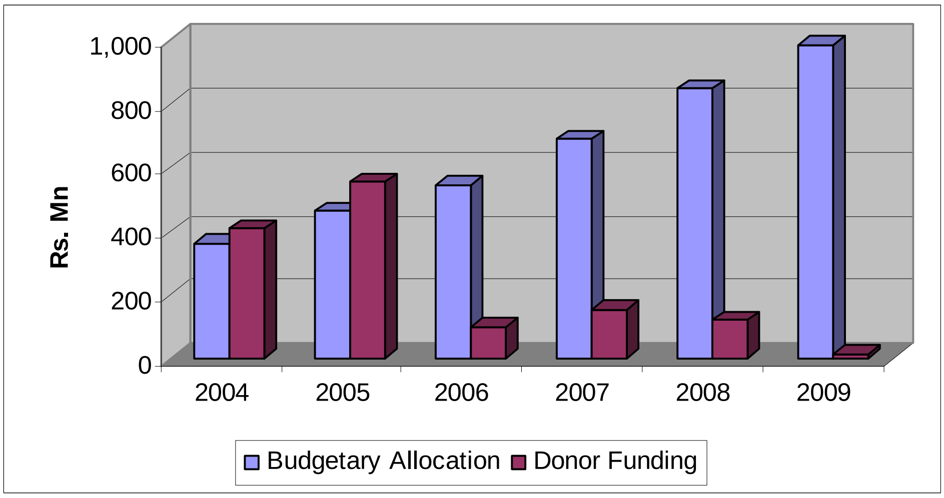
The major sources of forestry revenue are permit fees from private timber transport, sale of timber and crown forest rent, among which, on average nearly 70 percent is generated through sale of timber[4].

The expenditure of the FD can be broadly categorized into two components. 'Institutional expenditure' consists of recurrent expenses such as personal emoluments, traveling and supplies, maintenance and services that are required to run the institution. Allocations for rehabilitation and improvement of assets including reforestation and plantations, acquisition of capital assets and capacity building, which directly invest on natural resource conservation and development are identified as 'resource management expenditure'. The budgetary provisions over the years are allocated between both institutional expenditure and resource management expenditure, while the donor funds are entirely being directed for forest resource management projects.

Forestry financing: inflows and outflows

The sector is mainly financed by budgetary allocations and donor funds. The contribution of these sources on forestry expenditure (figure 2) reveals that the budgetary allocations have risen over the years while the donor share has recorded a significant decline after 2005 with the ending of several donor funded projects[5]. Donor share, which in 2004 has accounted for 53 per cent of total financing, has dropped to 12 per cent in 2008 followed by a mere 1.5 per cent in 2009. As a result, the total provision for financing has been affected in 2006, a 36 per cent fall compared to 2005, which has gradually recovered since with the increase in budgetary allocations over the years.

Figure 2
Sources of Forestry Financing (2004 – 2009)

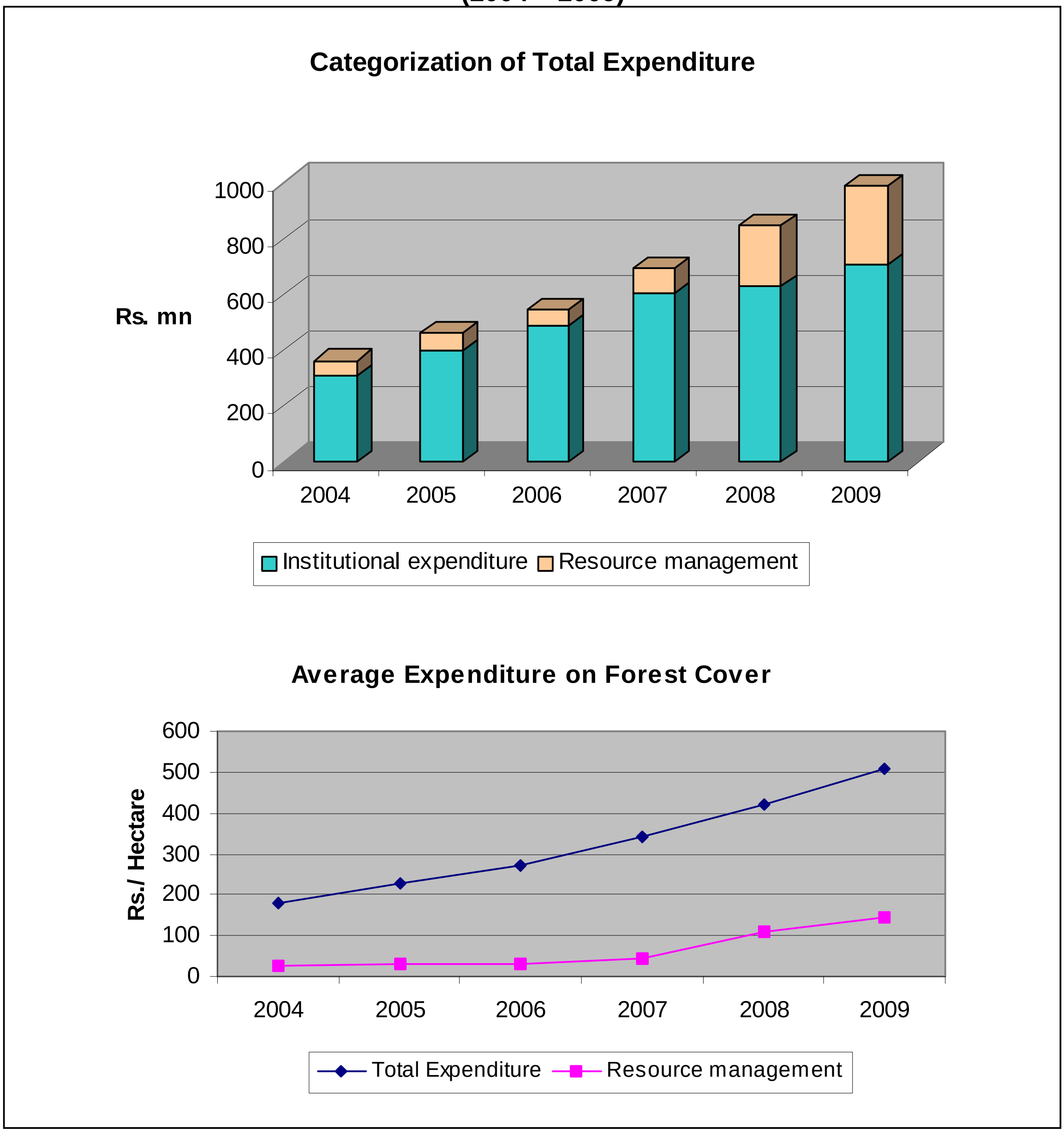


Source: Forest Department - Annual Reports, 2004 – 2009

[4] Information gathered through key informant interviews
[5] Information gathered through key informant interviews

As evident from figure 3, the budgetary allocation for resource management has been extremely low over the years where in 2009 it has been merely 28.6 per cent of total expenditure. However, the share of the allocation for resource management being increasing over time indicates a positive sign. Perhaps this increase could be due to the Treasury's usual course of increasing allocations to a sector in times of shortage of donor funds and vice versa. Yet, even for proper maintenance of the existing resources calls for immediate action to raise financing in resource management.

Figure 3
Overview of Annual Forestry Expenditure through Budgetary Allocation (2004 – 2009)

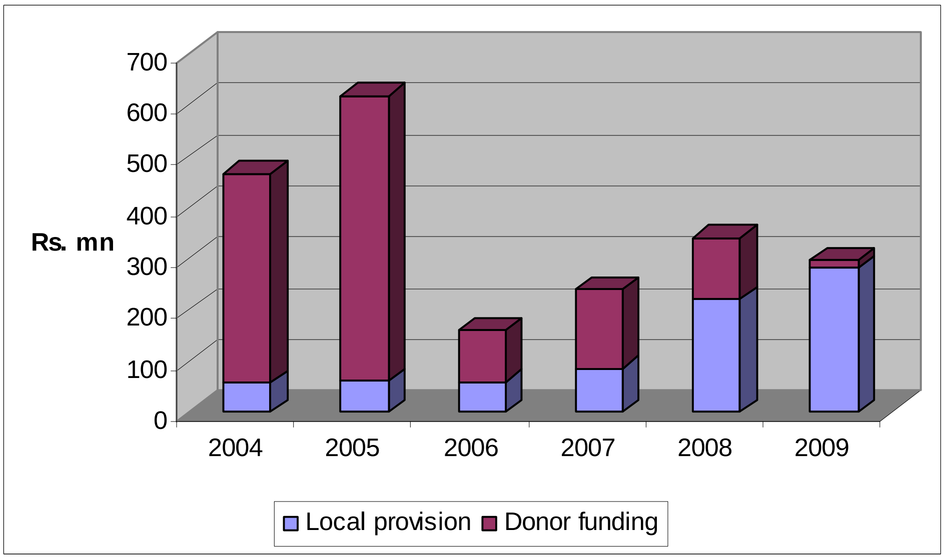


Source: Forest Department - Annual Reports, 2004 – 2009

The graph on the average expenditure on forest cover clearly depicts that the gap between the average total expenditure and the average resource management expenditure is significant and widening over time. This means that the greater share of the increasing total allocation is consumed for institutional requirements rather than for the resource development measures.

The composition of budgetary allocation and donor funding in resource management as illustrated in figure 4 shows that except for years 2008 and 2009, the donor funds have accounted for the larger share over time. The local allocations are usually utilized for smaller activities such as school awareness raising programs, community-involved work like forest extensions and wood lots, while capital intensive projects which consume large amounts of finances such as surveying that costs nearly Rs. 60,000 per Kilometer, are covered by donor funds. The forest sector has attracted donor funds for the past few years, where the normal procedure has been that when donor funds are received the budgetary allocations are reduced and directed to other priority areas while treasury allocations are increased when the sector is short of funds. Moreover, making budgetary allocations for the continuation of donor funded projects has been a routine, and this too adds to the need for higher financing for resource management. However, over the years, the increasing trend in the local share for resource management signs a notable improvement.

Figure 4
Sources of Financing Resource Management (2004-2009)



Source: Forest Department - Annual Reports, 2004 – 2009

A very high dependence of forests conservation and development programs on donor funds could be unfavorable and risky in a state of discontinuation of funds, and thus calls for improving existing sources of revenue as well as planning out of newer sources to generate funds locally, within the scope of the Department's activities.

Thus, the present financing mechanism in the forestry sector faces the issues of very low share of budgetary allocation being utilized for resource management as opposed to institutional expenses, and heavy dependence of resource management programs on donor funds. This will have to be addressed as foremost priority since the initiation and continuation of all forests management measures lie heavily on the availability of financing.

Revenue generation in the forestry sector

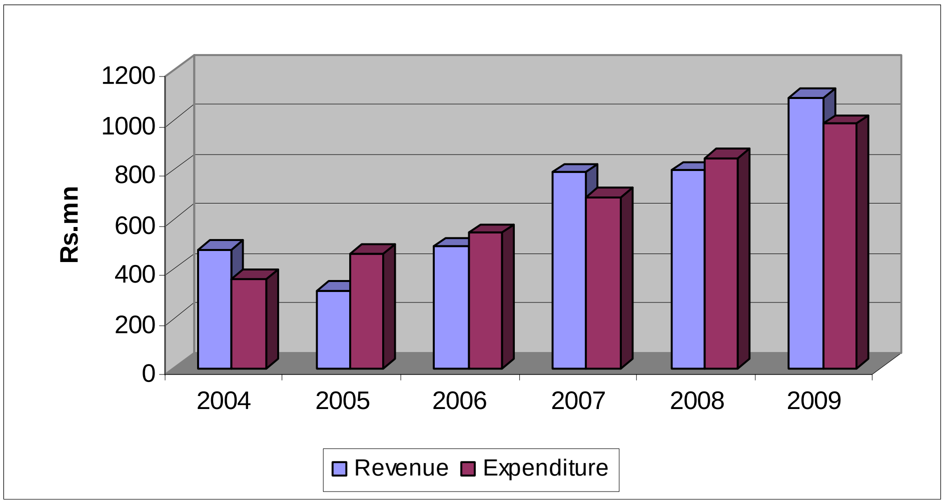
Even though the sector generates revenue, by regulation it has to be directed to the Treasury while budgetary allocations are made annually to meet the expenditure. The higher ratios of revenue to budgetary provision over the years (table 1) indicate FD's less burden on the Treasury by recovering a larger share of its budgetary provision. In fact, in 2004, 2007 and 2009 it has contributed with a surplus to the Treasury. This is further illustrated in figure 5.

Table 1
Revenue vs. Budgetary Provision of Forest Department

Year	Revenue (Rs.mn)	Budgetary Provision (BP) (Rs.mn)	Revenue as a % of BP
2004	477.5	362.3	131.8
2005	312.9	462.8	67.6
2006	491.3	545.5	90.1
2007	790.2	690.6	114.4
2008	795.3	848.4	93.7
2009	1,092.6	984.7	111.0

Source: Forest Department - Annual Reports, 2004 - 2009

Figure 5
Annual Revenue and Expenditure (budgetary) of Forest Department



Source: Forest Department - Annual Reports, 2004 – 2009

It must be noted thus, that if given the autonomy for FD to use their own funds, the institution is not only able to perform to cover its expenditure, but also to make profits which can be effectively utilized to a certain extent to replace the shortage of donor funds.

FOREST FINANCING: PLANS AND ISSUES [6]

The forest cover mapping carried out in 1999 revealed total forest cover to be 2,022,160 hectares as against 2,130,913 hectares measured in 1992, a 5 per cent decline within a period of seven years. Of this, the drop of natural forest cover has been from 2,046,611 hectares to 1,942,219 hectares while the drop of plantation forests has been from 84,302 hectares to 79,941 hectares within the period between 1992 and 1999, both of which have been the same rate as the drop in the total forest cover. It is now being interpreted again after ten years and the changes in the cover are yet to be identified. However, unless immediate measures are not devised and if deforestation is left to continue at this rate, the country is going to lose its forest resource in another twenty years time, which will accompany numerous environmental issues that will also in turn pose a threat to the functioning of the economy.

Until recently before the civil conflict was prevailing in Northern and Eastern provinces, the management activities were largely confined to the rest of the country while some regions of the East were partly covered. With the ending of the war, the scope of responsibility of the Forest Department widened, with the North-East forest land too coming under their authority. North-East in 1999 has accounted for 41 percent, more than one third of the total forest cover, thus calling for greater attention. After the conflict the authority predicts the change in the size of the North East forests to be marginal, though the quality is expected to be significantly degraded due to the high internal logging carried out for war activities. After the war however, the preliminary data suggests that high forest clearing, as anticipated in a post-conflict scenario, has not taken place, although small cleared patched are expected to be disclosed. It is yet untimely to estimate the possible level of forest clearing as development work is still being initiated in North East. However, it is expected to be at a very minimum with the Government’s eco-friendly approach towards post-war development.

As far as income generation in forestry sector is concerned, a direct income can be expected only from plantation forests by sale of timber as felling is legally prohibited in natural forests. The benefits of natural forests are largely enjoyed by the communities living in the forest peripheries, which are not directed to forestry revenue. However, the potential for nature based tourism should be highlighted. The tourists’ revenue from forests, excluding that in the North East, has recorded a significant growth of 58 percent from Rs.5.6mn to Rs.8.9mn within just four years from 2004 to 2008. The monetary benefits derivable from the North East forests are still to be identified. The forests rich in biodiversity are certain form a valuable income source, given proper improvement of tourist facilities and infrastructure.

[6] Information based on key informant interviews

As regards to expenditure on forests, a highly finance-consuming exercise undertaken on natural forests during the past five-six years has been boundary marking and fencing. 41 per cent of forest land being free for access, now has to be accommodated under the above exercise. Since usual functions have been carried out in the Eastern province along with that of the rest of the country, it has been partly covered in boundary marking. In fact during war time small projects such as nursery management have been performed in Vavuniya district, though in most other projects the Northern Province had been fully dropped due to accessibility problems, which was further obstructed by the resistance of the donors on investing in the area due to the difficulty in monitoring. Now, the entire region being conflict-free, effective financing would be vital to extend all the forest management activities the North-East was deprived of and to initiate new measures to the overall sector.

Plans for forestry financing and management

The process of forest management at present is based on the Forestry Master Plan within which the preparation of annual management plans for each forest separately is done by identifying the priority issues, and allocating funds for the implementation of the plans in the order of their urgency and priority. Even the donor funds are now handled accordingly, unlike earlier where they were only allocated for donor-proposed activities, where the funds are allowed to be used on the needy areas of the annual forestry management plans. This on one hand allows to direct finances on priorities, such as where the boundary marking was initially done in the wet zone which was more under threats like encroachments and illegal felling, while on the other hand allowing the government finances to be utilized on areas that are not covered by donor interests.

In this exercise the North East comes under particular examination as the forests in the region requires the preparation of management plans before any measures can be initiated. The first step of this is to restore administration which requires the assigning of administrative resources which has to be accommodated within the normal duties of Forest Department. Management plans for the cleared forests are expected to be prepared with the assistance of the communities in nearby villages. Accordingly, the problematic areas such as incidents of encroachments, illegal felling and forest fires will be identified, based on which plans will be made incorporating mitigation measures. Once the management plans are completed an estimate of the expenditure will be determined, upon which the activities will be prioritized considering the availability of finances. Hence, for successful implementation of the plans, the proper management of donor funds and budgetary provisions will be a prerequisite.

A strategic Environmental Assessment is currently underway to identify which forest areas should be protected considering the level of development projects now coming in to the previously neglected, yet highly prospective Northern Province. Hence an assessment will be made to determine what forest patches to be conserved and how. The activities will include both a finance-required component such as boundary marking and measures needed to settle problems like encroachments, and those requiring the professional input that falls under the usual duties of the Forest Department such as the preparation of management plans for forests.

Forestry does not confine to natural forests' activities. Income generation is highly linked with plantation forests. The extent of land usable for plantations are almost used for its full extent except in the war-torn areas, which are hence highlighted again in terms of the available capacity. The pre-conflict North and East was well known for large-scale commercial planting which was neglected with the outbreak of war, which now carries a high potential for reforestation and even for commercial plantations. Moreover, the activities that benefit the community such as community forestry, social forestry are expected to make a prominent turn. The availability of large unused arable land outside the forests in the North East will pave way for many community/private sector participation programs such as tree planting, reforestation and woodlots and even commercial plantations, which will also guaranty a share of income to Forest Department. In this regard, the Forest Department's timely step of amending the Forest Ordinance facilitating active third-party involvement (community, private sector, NGOs, etc) in forest management should be underscored. This is certain to create a win-win situation where the Department receives the benefit of saving labour expenses while the third parties gain by way of a share of income and other benefits from forests. At present there are 858,000 hectares of home gardens which cater to nearly 42 per cent of the total demand for timber in the country, where the contribution of even a per cent growth in its productivity to the forestry income would be immense.

In the context of high unlikelihood of direct physical or financial aid being directed to North East forestry management when severe issues such as resettlement and rehabilitation of the displaced (IDPs) exist, the focus on fulfilling the forestry requirements through alternative means such as third-party involvement could be considered a timely decision. In fact programs of this nature where community involve in cultivating government lands on long-term, annually renewable basis have been carried out by the Forest Department for many years, and the time has now come for extending broadening such measures.

Issues and challenges in forest financing

Devising and implementing new forest management measures as a whole, and extending currently undertaken activities to North East creates the major hurdle of meeting the human resource requirement. These new activities of recruitment and training in the Forest Department's agenda would require extra financing.

The activities of the newly liberated North and East will have to be accommodated within the grants coming in to the Department. With a trend of lower donor funds coming into the sector as experienced in the past couple of years, managing funds to cover all the needs of the sector would pose a challenge.

A major expense towards natural forest management would be boundary marking, the programme to which the North East too should now be incorporated, will require a steady flow of finances once initiated. This burden can be party offset by getting community participation in labour provision. In fact, one significant problem in the Northern forests is that the cover is too spread out, in that fencing would be too tough and too expensive a task. Therefore, community involvement could be encouraged if combined with other programs as for instance, where incentives are given to volunteers by other agencies.

CONCLUSION & POLICY CONSIDERATIONS

The forestry sector in Sri Lanka is financed by budgetary allocations and donor funds where the annual revenues are directed to the treasury. The larger share of budgetary allocations has been expended for the administration of the institution while forests development and conservation measures have been heavily dependent upon donor funds. Thus, focus will have to be drawn on raising local provision on forests resource management through exploration of effective alternative sources of income generation within the sector, as well as improving the efficiency of present sources such as tourism. Considering the richness of biodiversity in our forests, the avenues for raising tourist income are numerous.

The Forest Department has managed to generate revenue to cover a high share of budgetary allocation, even a surplus in some years. However, the absence of a legal provision for the Department to re-inject the revenue to the system, acts as a restrain for improving revenue generation. If at least a part of its revenue can be allowed to be invested back on its own activities, the challenge of continuing forest resource management which is risked by a decline in donor funds will be able to be addressed to a certain extent.

The North East forest cover which now has to be accommodated within the forestry management plans require special attention on attracting community involvement as a measure to reduce the burden of financial needs. Social forestry can be improved if the government involves in material and knowledge provision for planting in private lands. These activities can be expedited if the professional input in terms of forest mapping and preparation of sustainable forest management plans is provided. Then the finances, be it local or donor funds, can be allocated on a prioritized basis initially. Further, the Government can assess the possibility of providing land for commercial planting for the private sector or promoting private enterprises to be 'custodians' in forest management by contributing financially and facilitating in benefit sharing.

The Government’s focus in incentivizing the private sector participation and community involvement in forestry financing and management will provide more effective solutions for many hurdles the forestry sector faces at present. The Government’s recent move towards this direction will be an experimental beginning where the effectiveness of such intervention can be examined and adjusted to reap greater outcomes in terms of addressing the challenge of financing.

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