



LAO PEOPLE'S DEMOCRATIC REPUBLIC
Peace Independence Democracy Unity Prosperity

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MoAF, Department of Forestry, SUFORD AF Project

Impact of New Regulation on Sharing of Timber Revenue

SUFORD-workshop

June 13, 2012

Definition of Production Forest

Production forests are forest and forest lands which have been separated to provided for the requirements of national socio-economic development and peoples' regular and continual daily living needs in terms of wood and forest derived products which do not seriously affect the environment.

MAF 0204

- According to the old legislation regarding timber revenue sharing, MAF 0204, the local stakeholders shared additional revenue (actual sales price – minimum price)
 - 30% transferred to the national budget as additional royalty
 - 20% allocated to the Forest Development Fund (Forest Law article 47)
 - 25% shall be allocated to cover the costs of implementing the annual operations plan at the provincial and district levels; and
 - 25% shall be allocated to the Village Development Funds in villages in whose area timber harvesting took place

Findings of the timber revenue and SUFORD Village Forestry Institutions study

- First transfers of timber revenue to Village Development Funds took place in 2007
- By end of 2011 the total share allocated to Village Development Funds is estimated at USD 150,000 (1,2 billion kip), the same amount for operational costs of forest management in provinces
- Only max 1/3 of the 723 villages in the SUFORD area have timber forest
- Timber revenue should be distributed through Group Village Forestry Committee, but in practice villagers prefer village-based payments; in Savannakhet this is the current practice

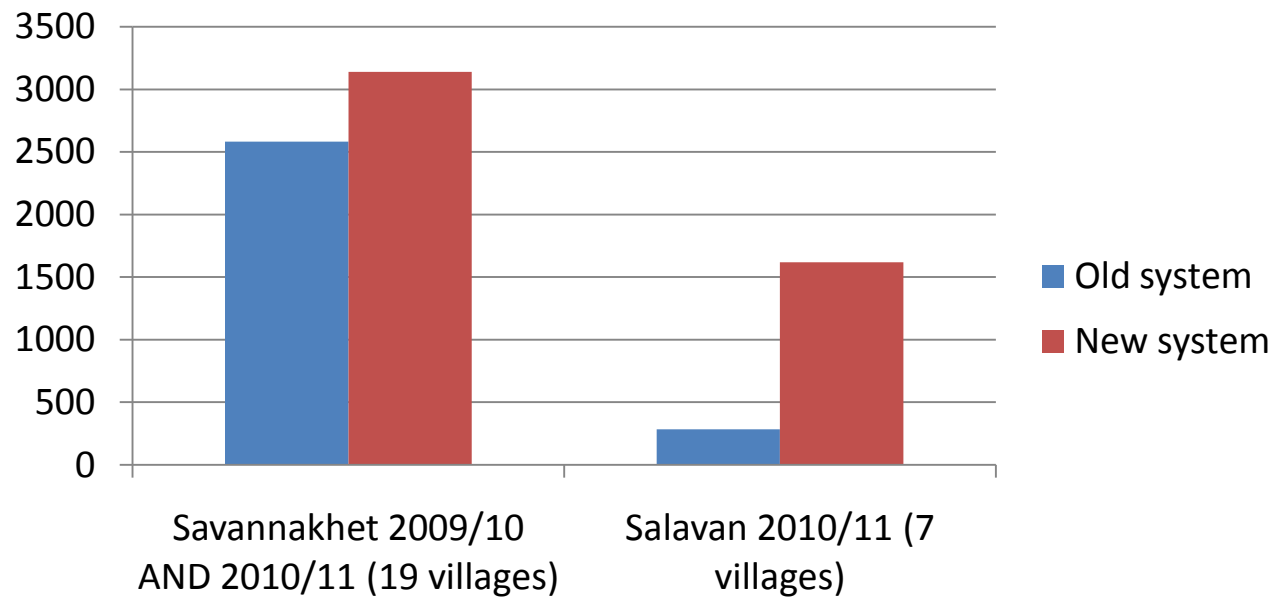
Findings of the timber revenue and SUFORD Village Forestry Institutions study

- In Salavan timber revenue has usually not been transferred to the villages and many villages do not know about the revenue: by early 2012 only one village had received funds; similar situation in some villages in Savannakhet
- Revenue that has been received is usually spent on infrastructure, paying wages for villagers flowing up logging operations (KHM) or money is left in the bank to earn interest

Presidential Decree 1

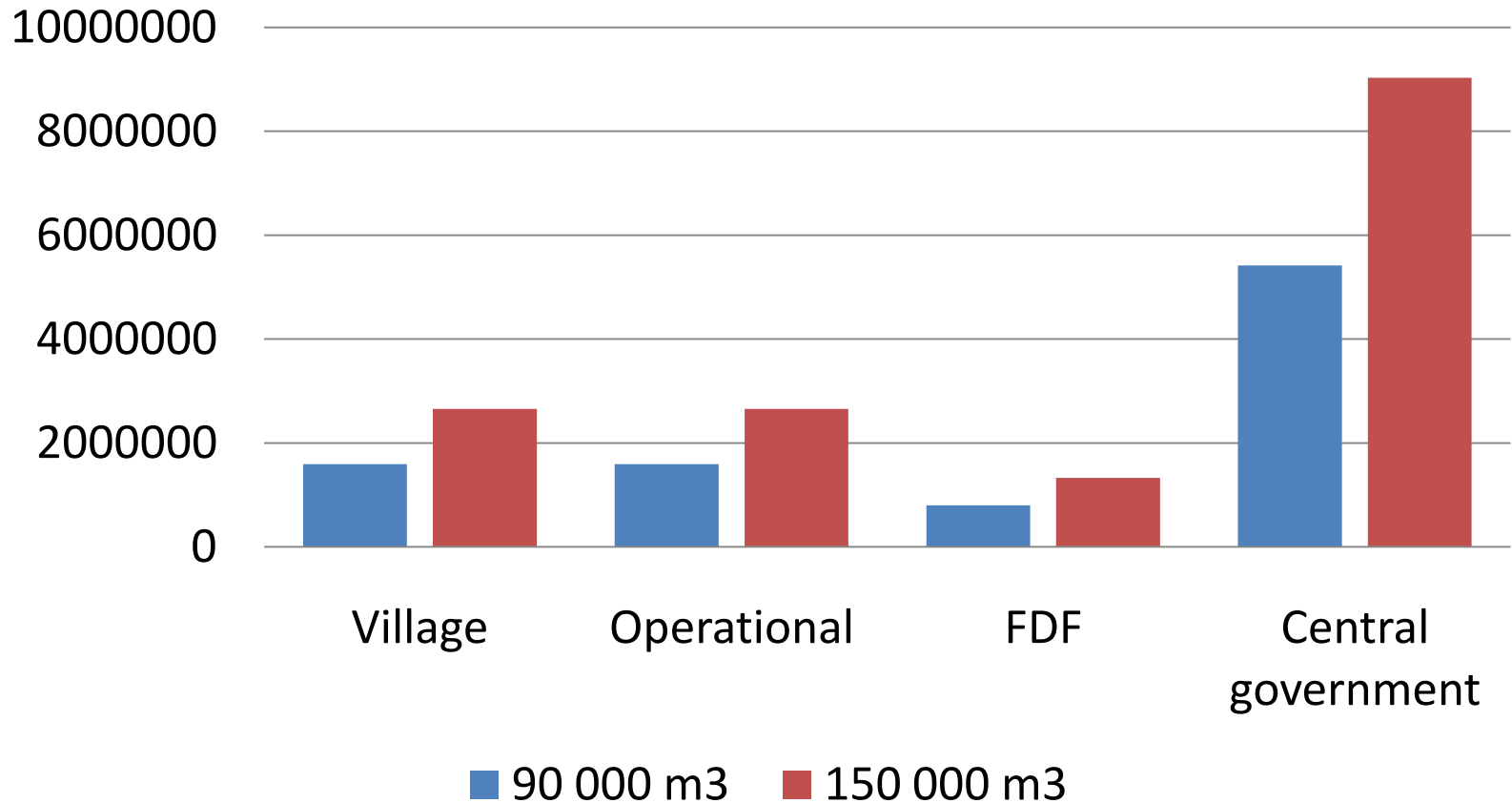
- According to Presidential Decree 1 (signed in January 2012), of the total revenue (sales price) 70 % goes to state budget (harvesting cost is paid from this amount) and 30 % goes to other stakeholders.
- Of the 30 %
 - 20% for forest development fund,
 - 20% for operational costs of forest management in provinces where timber is harvested
 - 20 % for operational costs in provinces where timber revenue is not sufficient to cover the operational costs
 - 40% for village development

Village Timber Revenue (USD/year)



- If the new system had been used in SVK in 2009/10, 2010/11, the village revenue and funding for operational costs of forest management would have increased 20 %, in Salavan 570 %
- Revenue for local stakeholders will be more stable because it will depend only on timber price, the minimum price is not considered anymore
- Provinces where additional revenue was low, benefit most

Distribution of Total Timber Revenue (USD)



Total Revenue (continued)

- If harvesting level in all 51 PFAs will be like in SUFORD PFAs, total harvesting volume will be about 90,000 m³/a
- Assuming timber prices in SVK and SVN in 2009/10 and 2010/11, the total revenue available for operational cost of forest management would be nearly USD 1 million/a
- This is enough to implement core activities of PSFM but to implement the PSFM model in full, about USD 2 million/a will be needed; in this case harvesting volume would have to be about 200,000 m³/a
- There would still be only limited funds available for reforestation and restoration
- The transfer to state budget will reach USD 5-9 mill. per year

Transfer mechanism

- Budget Law (2007) requires that all revenue be transferred to the central level and then transferred through the Forest Development Fund to provinces, districts and villages
- In practice, this regulation has often not been followed; timber revenue has been distributed at the provincial level
- The new decree will require full implementation of the budget law, detailed implementing regulations needed