

CAMBODIA

Correcting perverse incentives for unsustainable logging and raising royalties on forest exploitation

In many countries, publically owned or controlled resources are inefficiently exploited as a result of operators not paying a price that reflects the full social value of the resources they extract. Cambodia has a long history of conflict and political instability which has had adverse impacts on its forests. Cambodia had in the past charged very low royalty rates for timber concessions, which made commercial logging and processing profitable and attractive for entry and expansion. However, this also encouraged the wastage of valuable timber, over-cutting and the depletion of forests (Karsenty 2000 cited in FAO 2002) Moreover, during the Khmer conflict, both the Khmer and the military logged illegally to finance their operations.

In early 2000, the government undertook important reforms in the forestry sector. Forest concessions had been reintroduced in Cambodia in 1991 in order to (i) bring larger forest areas under active management, and reduce illegal logging; (ii) accelerate the growth of domestic processing of timber and value addition; and (iii) increase royalty revenues while maintaining the existing ban on the export of unprocessed timber (logs). However, concession fees/royalty rates had been set too low in 1991. Under the 2000 reform, royalty fees were raised from 14 to 54 USD per cubic metre of timber, a number of concessions were cancelled, the activities of other concessions curtailed, and logging in protected areas was restricted.

Moreover, logging companies were required to improve forest management, by preparing forest management plans in accordance with international standards, and to renegotiate forest management investment contracts. A Forest Concession Management and Control Pilot Project was implemented in order to strengthen institutional capacity to monitor and regulate forest concession operations.

The 2000 reform maintained the rights of local communities to participate in decisions concerning the allocation of forest concessions, the preparation of forest management plans and the development of systems for monitoring and controlling operations in forest concessions. It required the establishment of a permanent consultative communal committee to facilitate discussions on issues affecting local communities living in or near forest concession areas.

Impact on biodiversity

Overall, the introduction of community forestry has been successful in both improving the livelihoods of forest communities and in protecting forest biodiversity, and, by raising royalties, contributed to maintain government revenue (at 0.5% of GDP an important share of government expenditure). However, the allocation of concessions and the ongoing unsustainable management of concessions, with limited concern for impacts on biodiversity and on local and indigenous communities, are sources of concern and hamper progress in the sector. For example, there has been significant conflict between concessionaires and indigenous communities over the harvest of high value resin trees whose resin provides a significant source of income for many forest communities. Similarly, the existence of spirit forests and spirit trees for local communities has been ignored in granting concessions, as has the identification of forests of high ecological value.

Deforestation increased from 1.09 percent per annum in 1990-2000 to 1.90 percent from 2000-05. While this is in large part due to the large share of logging which is illegal and therefore not affected by the reforms listed above, it has also been argued that the royalty rate was set too high and that, as a result, companies which had previously logged in concessions may have begun to log illegally to avoid high royalty fees.

Replicability

Many countries struggle to manage forests sustainably and to balance the need for income and growth in the sector with the needs and rights of local communities and the maintenance of biodiversity. Cambodia's reform efforts were successful to some extent although illegal logging unsustainable timber extraction and negative impacts on local communities and on biodiversity are still challenges.

Lessons learned

Royalties for the use of natural resources are frequently set too low, but setting them too high is also bad policy as it encourages illegal resource extraction.

The continued problem of illegal logging suggests that reforming concession policies, charges and management in the forest sector is not sufficient to improve the overall environmental performance of the sector, in particular when not accompanied by effective monitoring and enforcement.

The identification of all stakeholders and the distribution of the costs and benefits of policy reform are essential for successful reform of perverse incentives and the development of incentives at all levels that encourage sustainable and equitable resource use.

Sources: Kim Phat, N., Ouk, S., Uozumi, Y., and Ueki, T. (2001); FAO (2002 and 2005); World Bank (2005 and 2006).