

Why Ministries of Finance and Economic Planning Need to Take Account of Forest Values

The Case of Kenya

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Introduction

The forest cover in Kenya is estimated at less than 3.0 per cent of Kenya's totalland surface. The main forest ecosystems include moist highland forest, dry forest, tropical rain forests, coastal forest, riverside and mangrove forests. Despite their proportionately small areas, compared to the overall surface area, of the country they play a significant role in the growth and development of the economy.

The Forestry sector plays a very significant role in the socio- economic development of Kenya. Forests are critical natural assets, as the country is not endowed with other natural resources such as minerals. In addition, they also form crucial water catchment areas for vital river systems in the country. Rivers such as the Tana and Athi provide water for generation of hydro electricity and support irrigation schemes that are important for agricultural sector development. Apart from other multiplier effects to the macro economy of the country, forests provide timber and non-timber products.

Due mainly to the rapid increase in population, the forestry resources particularly those that are most accessible, are facing over-exploitation and depletion. The demand for land for growing food has also increased and this has led to permanent losses of forestland through excisions and encroachment.

Forestry sector objectives

The 1999 Forestry sector Policy objectives include:

- To increase the forestry and tree cover in order to ensure an increase in supply of forest products and services for meeting the basic needs of present and future generations and for enhancing forestry in social economic development.
- To conserve the remaining natural habitats and the wildlife therein, to rehabilitate them and to conserve them.
- To contribute to sustainable agriculture by conserving the soil and water resources.
- to support the government policy of alleviating poverty and to promote rural development, by income based on forest and tree resources, by

providing employment, and by promoting equity and participation by local peoples.

- To fulfill the agreed national obligations under international environmental and other forest related conventions and principles.
- To manage forest resources assigned for productive efficient use for the maximum sustainable benefits, taking into account all direct and indirect economic and environmental impacts.
- To review the way in which forest and trees are valued in order to facilitate management decisions.
- To recognize and maximize the benefits of a viable and efficient forest industry for the national economy and development.

Forestry sector contribution to the economy

It is estimated that forest products and services contribute about 7.0 billion shillings to the economy, and employ 50,000 people directly and another 30,000. indirectly.

The sector contributes about US\$4 million to Kenya's GDP, approximately 1 per cent of the monetary economy and 13 per cent of non-monetary economy. Forests in Kenya are well known for their direct and indirect use values. Direct use values in terms of timber, fuelwood and polewood are estimated at about Ksh. 3.64 billion where timber alone accounts for 75 per cent of the value (KFMP 1994). The Government collection in terms of royalties in year 1999/2000 was about Ksh.128.9 million against total government revenue of about Ksh 189040 million further depicting the importance of the sector. Other direct use values of forests and forest products include tourism, human habitat and the use of genetic materials from plant and animal species for food, pharmaceuticals and industrial purposes. The indirect values of forests include the benefits accrued from them in water catchment's protection, and carbon sequestration. Other values include the option and existence values.

At the local level, communities, particularly in the rural areas depend on forests for provision of wood fuel wood and non-wood products for their

livelihoods. According to one report “Kenya Forestry beyond 2000” – 1994, over 530,000 households living at a distance of five kilometers depend directly on forests for cultivation, collection of fuel wood, herbal medicines and other economic gains.

The forest industry plantations so far remain the main source of raw materials for the forest industries in the country. The raw materials from the sector support operations of about 300 licensed sawmills that employ about 35,000 people.

The catchments protection function of forests has been recognized as a significant component of the management for gazetted forests. Forests also contain important animal and bird species. It is estimated that 40 per cent of large mammals, 30 per cent of birds and 35 per cent of butterflies are in forests while over 50 per cent of the threatened mammals and birds are found in forests. Apart from meeting the demands for industrial wood, forests play many other roles that include conserving biodiversity, providing habitat for wildlife, enhancing beauty of the scenery, soil conservation, regulating water supplies and acting as carbon sinks. They also play an important role in the conservation of valuable gene pools of flora and fauna.

In view of the increasing demand for forest products and forest land in Kenya, there is need to control forest cover decline, especially for industrial forests. The constraints in achieving this objective are discussed below:

Constraints

Despite their importance, forests in Kenya have not received the attention they deserve by the Ministry of Finance and Planning. This problem may be largely attributed to lack of appropriate values attached to the forest sector where only the direct benefits are valued. Indirect value, existence and optional values are in most cases ignored hence available literature is scanty.

Why Ministries of Finance and Economic Planning ignore forest economic values

Despite the importance of the forestry sector to the economy, it is often not given due recognition by the Ministry of Finance and Planning, both in terms of planning support and allocation of resources. This situation is clearly depicted by the fact that although the sector contributes significantly to the Kenyan economy and considering its potential, investments in the sector is basically through donor support. In the financial year 2000/2001, for example, donor funding to the entire sector (for development and recurrent expenditure) was 78 per cent against GoK contribution of 22 per cent. The investments in the sector over the 1999/2000 budget year was a meagre Ksh 720 million compared to a total government budget of Ksh 287840 million.

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Some of the reasons why the Ministry of Finance and Planning has tended not to give a lot of significance to the forest sector include:

- Lack of reliable statistics that can be used for planning purposes.
- The existence of un-accounted values e.g. illegal activities.
- The lack of an established environmental accounting system in National Income accounts.
- The lack of human capacity in resource economics and in the field of Environmental Economics and Accounting.
 - The difficult in factoring out the social costs of deforestation from those of other causes of environmental degradation.
 - The poor linkages between development Planning and Financing of programmes and projects.
 - The lack of knowledge of available financing mechanisms.

Proposed Strategic Actions

The omission of the true values in the forestry sector leads to a situation where the sector is almost totally ignored. This may be avoided through appropriate use of valuation methods that take into consideration direct and non-direct values. This objective may be realized through ensuring that:

- Quality statistics and information on the sector are provided to enable informed decision-making.
- Economic activities and social functions of forestry are accounted for in national accounts.
- A system is established to ensure use of environmental economics and accounting in valuation of forestry goods and services.
- Significant resources are allocated to the forest sector.
- The country does not lose out in terms of the scientific knowledge of forestry based products and markets.

How valuation can be carried out and used to calculate real forest economic values

The valuation of forests may be carried out through:

- Taking the total values of the products that can be sold directly. e.g. fuel wood, pole wood, construction materials are taken into consideration.
- The equivalent of prices of direct substitutes. e.g. the cost that would be borne in the absence of wood as a source of energy.
- Costing the harvesting of products that are not directly sold to the market.
- Costing the preventive measures that are taken to safeguard degradation.
- Participatory valuation.

The Role of the Ministry of Finance in Forest valuation

In liaison with the Forest Department of the Ministry of Environment and Natural Resources, the Ministry of Finance and Planning may:


- Initiate procedures for total forest valuation into project analysis and assessment process through research and training.
- Promote technology and methods in forest valuation including Resources accounting.
- Encourage private sector investment and participation through tax relief on contribution towards conservation efforts.
- Institute taxation measures on those who contribute toward depletion of forests. Such taxes would aim at ensuring that users of forests and forest products bear the costs of replacement and that the burden of taxation is more than the costs of replacement.
- Use results of environmental valuation and economic analysis to institute economic, financial and fiscal instruments to encourage the forestry sector growth.

Conclusions and Recommendations

From the above analysis, we may draw a number of conclusions related to forest contributions to the economy and the role of the Ministries of Finance and Planning. Some of these include:

- The important role that the forest sector is expected to continue playing in the economy in terms of employment creation, foreign exchange earnings, inputs to other related sectors and an important source of local livelihoods in terms of for example, food, grazing area, income and spiritual value.
- Secondly, we note that the forest sector values in terms of their contribution to the economy including local livelihoods are often undervalued.
- Thirdly, the undervaluing of forest contributions partly contributes to the low level of expenditure and investments in the sector and thus a worrying trend as they continue to be treated as “common goods”.


The Ministry of Finance and Planning has a special role to play in stimulating growth of the sector. This role may be effectively played if the Ministry has the right data and information hence the importance of stakeholders involvement in developing economic, financial and fiscal instruments to encourage forestry development and conservation.



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