

FOREST FINANCE

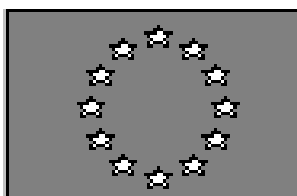
*The forest revenue system and government expenditure on forestry in Lesotho*

A paper prepared for the FAO work-programme component on financing sustainable forest management

Working paper: FSFM/WP/03



Food and Agriculture Organization of the United Nations



EUROPEAN COMMISSION  
DG VIII  
DEVELOPMENT

# **THE FOREST REVENUE SYSTEM AND GOVERNMENT EXPENDITURE ON FORESTRY IN LESOTHO**

*Nchemo Maile*

Chief Forestry Officer,  
Ministry of Agriculture,  
Maseru, Lesotho



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Forestry Policy and Planning Division, Rome  
Regional Office for Africa, Accra

April 2001

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## INFORMATION NOTE ON THE FAO PROGRAMME ON FOREST FINANCE

It is generally accepted that financial considerations represent one of the most important factors that can have an impact on the implementation of sustainable forest management. With this in mind, the FAO Forestry Department has implemented a programme of work on forest finance, to examine how government policies (in forestry and other sectors) affect financing in the forestry sector and the consequences of such policies for sustainable forest management.

One of the most important ways in which governments can have an impact on financing in the forestry sector is through the fiscal policies that they implement within the sector. Where forests are owned or managed by the state, the way in which charges for the use of forest resources are determined and implemented can have a major impact on the scale and types of investment in the sector. A vast literature has developed over the last 30 years examining this topic. Other fiscal policies, such as taxes and subsidies both within and outside the sector, can also have a significant impact on the forestry sector.

The purpose of this work will be to review the impact of current fiscal policies on sustainable forest management, along with other related policies, such as land tenure, which have an impact on forest financing. However, the work will attempt to go beyond simple financial analyses of current policies (which have largely been done before) to examine the broader social, institutional and political aspects of policy reform. It is hoped that this work will assist forestry administrations to identify practical ways in which they can revise their fiscal policies, so that they can more easily pursue the goal of sustainable forest management.

This work has been funded through the FAO Regular Programme and the EC Tropical Forestry Budget Line (FAO-EC Partnership Project on Sustainable Forest Management in African ACP Countries). A large part of the work has been produced by national consultants and institutions, with the supervision and assistance of FAO.

Working papers are being produced and issued as they arrive. Some effort at uniformity of presentation is being attempted, but the contents are only minimally edited for style or clarity. FAO welcomes from readers any information that they feel would be useful for this work. Such material can be mailed to the contacts given below, from whom further copies of these working papers, as well as more information about this programme of work, can be obtained:

Mr Adrian Whiteman  
Forestry Officer (Sector Studies)  
Planning and Statistics Branch  
Policy and Planning Division  
Forestry Department  
Food and Agriculture Organization of  
the United Nations  
Viale delle Terme di Caracalla  
Rome, 00100, ITALY  
Tel: (39-06) 5705 5055  
Fax: (39-06) 5705 5137  
Email: [adrian.whiteman@fao.org](mailto:adrian.whiteman@fao.org)

Mr Peter Lowe  
Forestry Officer  
FAO Regional Office for Africa  
Gamel Abdul Nasser Road  
PO Box 1628  
Accra, GHANA  
Tel: (233-21) 675000 ext. 3404  
Fax: (233-21) 668427  
Email: [peter.lowe@fao.org](mailto:peter.lowe@fao.org)



## **ABSTRACT**

This report describes the relatively straightforward forest revenue system currently used in Lesotho. Lesotho has 12,000 hectares of forest plantations (State Forest Reserves), which are managed by the government. Forest charges are levied on the production of roundwood from these forests. The report describes the various ways in which forest products are measured and marketed. It also outlines the charges that are levied on these products. The report describes the tariffing system used in Lesotho and the procedure used to set and collect forest revenues. Forest charges have not changed since 1988. It also presents some information about total government revenue collected from the sector, expenditure on the sector and the operation of the Forestry Fund. The report shows that, although the Government supports the recurrent budget for the Forestry Division, the capital budget is largely supplemented by foreign assistance. The report describes some of the ways in which the Government is trying to encourage sustainable forest management with their fiscal policies in the forestry sector.





## EXECUTIVE SUMMARY

This report describes the relatively straightforward forest revenue system currently used in Lesotho. Lesotho has 12,000 hectares of forest plantations (State Forest Reserves), which are managed by the government. Forest charges are only levied on the production of roundwood from these forests and there are no other forest charges on any other production or trade in forest products. The relatively small area of natural forest in Lesotho is under the control of traditional authorities and falls outside the revenue system.

The first part of the report outlines the charges for roundwood production. It describes how roundwood is sold in five different ways, namely as; headloads; standing trees; felled trees; stacked fuelwood; and poles. Lesotho imports forest products from South Africa and VAT is charged on the value of these imports as they enter the country. Lesotho does not export any forest products and there are not, anyway, any charges trade in on forest products.

Section 3 of the report gives a detailed account of the administration of the forest revenue system. This section outlines the process used to set and collect forest charges, Forest charges are determined using a tariffing system and this is explained here. This section also describes some of the legal instruments underlying the forest revenue system (e.g. the operation of the Forestry Fund, as described in the 1998 Forestry Act). It also presents a detailed description of the standard government procedure used to collect revenue and credit such money to the Government's bank accounts.

Sections 4 and 5 give some historical information about total revenue collection and expenditure. Up until 14<sup>th</sup> December 2000, a total of M 985,655 has been collected from forest charges. Sales costs (e.g. the cost of felling and extracting roundwood for sale) are credited to the Forestry Fund. All other forest revenues collected are divided as follows: 80 percent into the Forestry Fund and 20 percent into a Woodlot Community Account. The Forestry Division's budget is based on an annual workplan and is submitted to the Ministry of Finance as part of a larger departmental budget. Currently, the recurrent budget for the Forestry Division is a little over M 2.5 million. The budget for capital investment is funded entirely by foreign assistance.

The final part of the report gives an overall appraisal of the forest revenue system, including the impact of the forest revenue system and other fiscal policies on sustainable forest management and a discussion of the Government's overall attitude towards the sector. This section argues that government is committed to supporting the forestry sector, as shown by the National Forestry Policy of 1997. However, it recognises that there are still institutional constraints that have to be addressed (e.g., the future ownership of the State Forest reserves and the relatively low level of forest charges overall).





# 1 INTRODUCTION

The overall objective of this report is to review the current situation in Lesotho, with respect to financing government forestry institutions from revenues collected from the forestry sector and general government revenues. In other words, it will examine:

1. how much money flows from the forestry sector to the government (i.e. in taxes and levies paid to government by the forestry sector); and
2. how much money flows back into the forestry sector from the government (i.e. in the form of government expenditure).

The remainder of this section provides some brief background information about the forestry sector in Lesotho. This is followed by two sections describing the structure of the forest revenue system and administration of the revenue system. Section 4 presents some estimates of total charge collection from the forestry sector in Lesotho and, following this, Section 5 presents estimates of total expenditure on forestry in the country. The final section discusses the impact of fiscal policies in Lesotho on sustainable forest management and presents the conclusions of this study. Appendices give more details about revenue collection and some of the specific procedures used in the revenue collection process.

## *1.1 Background information*

The main forest resource in Lesotho is 12,000 hectares of forest plantations, which are mostly planted with *eucalyptus* and pine species. These forest plantations have all been designated as State Forest Reserves and are used for the production of fuelwood and poles. The area of private forest is not known, but is suspected to be much smaller than this.

Currently, there are no forest processing plants operating in Lesotho and all processed forest products are imported. The only organised forestry activities are managed by the government and there are no private forestry companies operating in the country.

Value added tax (VAT) is the only tax levied on forest products in Lesotho and this is levied on imported wood products (i.e. mostly sawnwood) entering Lesotho from South Africa. This tax is collected at the border between Lesotho and South Africa by the Department of Customs and Excise (on behalf of the Ministry of Finance).

Tree seedlings are highly subsidised (i.e. they currently cost 20 lisente per seedling), but this is soon going to be phased out when tree seedling production is privatised.

Before 1987, the main forest product produced in Lesotho was fuelwood, which was produced from the forest plantations and other forest areas. However, in May 1987, the Forestry Division's Leribe Treatment Facility became operational and large-scale pole production started. Reflecting this, in the financial year 1987/88, the target for revenue from pole sales was set at M 30,000, with a target for revenue from other forest product sales of M 100,000. The figure for these other sales included sales of fuelwood from woodlots, wholesale fuelwood sales (often delivered to customers), revenues from some contract felling

activities and sales of minor forest products. Actual achievement for the year 1987/88 was M 105,630, or 82 percent of the target.

Although the actual achievement of revenue collection in the financial year 1987/99 did not meet the target, the revenue collected was an increase of 80 percent over the total amount of revenue collected in the previous year (i.e. M 59,202 in 1986/87). This increase was due to a number of factors, including:

1. intensified activities on the part of the Harvesting and Marketing Foresters, who increased the number of sales of forest products from 33 to 38 per month;
2. the start of operations at the Leribe Pole Treatment Facility and, consequently, sales of treated poles;
3. increased sales of untreated poles (up from M 3,476 in 1986/87 to M 12,487 in 1987/88); and
4. increased wholesale sales of fuelwood (up from M 1,222 in 1986/87 to M 7,176 in 1987/88).

Total revenue collection has continued to improve from this point forwards. However, the amount of revenue collected each year continues to fail to meet the specified targets. This, in part, emphasises the fact that utilisation activities in Lesotho are low and so, consequently, is revenue collection.

The Forestry Division is failing to market forest products very well and the reason for this, as consistently stressed by the Utilisation Officer in monthly reports to the Forestry Division, is a chronic lack of transport. The lack of forestry personnel and transport has prevented the implementation of a full forest products sales programme, particularly in the south of the country. The average number of forest product sales per month is only six and has not increased over the last year. Moreover, despite an abundant demand for fuelwood in the country, the lack of truck transport has prevented active marketing of surplus fuelwood from the larger State Forest Reserves. This is leaving a legacy of forest areas with increasing stem diameter, which will become increasingly more difficult to market. Due to this lack of transport, the current access difficulties to these areas of local surplus (often situated on plateaux), dictates the need for 4 x 4 capability if this problem is to be overcome in the short to medium-term.

## **2 DESCRIPTION OF THE FOREST REVENUE SYSTEM**

### **2.1 *Charges for roundwood production***

Forest revenues in Lesotho are collected from the State Forest Reserves, which comprise 12,000 hectares of *eucalyptus* and pine plantations that are controlled by the government. The charges set-out below (for headloads, felled trees and standing trees) apply only to forest products harvested from these reserves. Private forest owners and co-operative forest owners are free to sell and charge whatever they want for their forest products. Natural forest areas are controlled by traditional authorities.

There are five different ways in which roundwood is measured and charges are assessed in Lesotho: headloads; standing trees; felled trees; stacked fuelwood; and poles.

#### **2.1.1 Charges for headloads**

This is a traditional measure of roundwood, best suited to branches and small diameter stems of less than 7 cm diameter at breast height (dbh). An average headload is estimated to equal approximately 30 kg of wood (in practice, weight and volume are not assessed when wood is sold this way). Changes (i.e. the tariff rate for a headload) are made periodically by Orders published in the Government Gazette. The charge for a headload of wood was set at 50 lisente in 1986 and was increased to 60 lisente in 1988. This charge remains in operation to date.

#### **2.1.2 Charges for standing trees**

The charge for felling a standing tree is assessed from tariff tables, by measuring the dbh (overbark) of the tree. The measured dbh is rounded up or down to match a volume in the tables, from which the charge is then derived. The charges in the tariff tables are based on a charge of M 22.50 per cubic metre. This charge was set in 1988 and remains in operation to date.

#### **2.1.3 Charges for felled trees**

Volume and charges for felled trees are assessed in basically the same way as for standing trees. Volume is assessed from tariff tables by measuring the dbh (overbark) of the felled tree. The height of the stump is measured in order to estimate where the dbh-point would have been on the standing tree (note, however, that the stump height should generally not exceed 10 cm). The charges in the tariff tables for felled trees include a 14 percent allowance to cover the cost of felling and extraction. Therefore, the charges in the tariff tables are based on a charge of M 25.75 per cubic metre. This charge was set in 1988 and remains in operation to date.

Where average tree sizes are small, felled trees are sometimes pre-bundled into parcels of set value (e.g. M 2.00). Fieldworkers supplied with callipers or diameter tapes and tariff tables in order to perform this task. Sold stacks of trees are marked with timber crayon.

#### **2.1.4 Charges for fuelwood**

Fuelwood is cut to into lengths of 1.4 metres and stacked between pairs of upright sticks spaced 1 metre apart. Each layer of fuelwood is stacked with the largest ends in the same direction but alternate layers are reversed. Stacks are built up to a height of either 1 metre or 0.5 metres high. The solid volume of each stack is assumed to be 1 cubic metre, in the case of stacks 1 metre high, or 0.5 cubic metres, in the case of stacks 0.5 metres high.

The charge for fuelwood is based on a wood price of M 22.50 per cubic metre (solid volume), plus a 14 percent addition to cover the cost of crosscutting, extraction and stacking. Thus, the charge for a 1 metre high stack is M 25.65 and the charge for a 0.5 metres high stack is M 12.83.

#### **2.1.5 Charges for poles**

In order to assess charges for poles, pole volumes are obtained from log volume tables. This is done by measuring pole lengths and mid-diameters and reading the corresponding values from the log volume tables. With poles longer than 5 metres in length, each log is divided in portions of 3 metres length and the total volume is estimated by adding together the volume of the individual portions (estimated from the log volume tables). For debarked poles, the volume derived from the log volume tables is multiplied by 1.15 to convert from an underbark to an overbark measure of volume.

The charge for poles is also based on a wood price of M 22.50 per cubic metre. In addition to this, a charge of M 5.00 per pole is added to cover the cost of selection plus, in the case of debarked poles, a charge of M 5.00 per pole is added to cover the cost of debarking.

### ***2.2 Charges for the production of non-wood forest products and services***

Currently, there are no charges on the harvesting of non-wood forest products or the use of forests for other services. Communities are given permits free of charge to graze their animals, especially in winter when they cannot get any good grasses outside the forests. Most forest services (e.g. forest recreation) are still free and there is not a well-established ecotourism industry in Lesotho.

### ***2.3 Charges on processed forest product production and trade***

Lesotho does not produce any sawnwood, wood based panels, pulp or paper. All of these items are imported from the Republic of South Africa. The only charge on these products is VAT, which is collected at the border. There are no specific forest charges on forest product production or trade in forest products.

### ***2.4 Other charges***

The only other charges levied on the forestry sector in Lesotho are penalties for breaking forestry laws or regulations. These penalties have recently been revised, to encourage

communities to look after their planted trees as well as to protect trees in the State Forest Reserves. An extract from the 1998 Forestry Act describing these penalties is given in Box 1 below.

**Box 1 Penalties for forestry offences in Lesotho**

Any person, who:

- a. contravenes any term or condition of a licence issued under section 23 of this Act; or
- b. contravenes section 30 of this Act; or
- c. knowingly receives any forest produce which has been obtained in contravention of this Act; or
- d. has in his possession any forest produce which has been obtained in contravention of this Act and is unable to account satisfactorily for such possession,

commits an offence and on conviction is liable to a fine not exceeding M 2,500 or to imprisonment for a period not exceeding one year or both.

Any person, who:

- a. contravenes section 26 or section 27 or section 29 of this Act; or
- b. injures, alters, shifts, removes, or interferes with any beacon, boundary mark or fence on a forest reserve; or
- c. counterfeits, alters, obliterates, defaces, or fraudulently uses any mark used by forestry officers on any forest produce; or
- d. obstructs or impedes any forestry officer in the execution of his duties,

commits an offence and on conviction is liable to a fine not exceeding M 5,000 or to imprisonment for a period not exceeding 2 years or both.

If an owner of a private forest or a co-operative owner of a forest, as the case may be, infringes the agreement referred to in section 17 of this Act, they shall be guilty of an offence. On conviction he will be liable to a fine not exceeding M 5,000 or to imprisonment for a period not exceeding 2 years or both.

Any forestry officer, or employee of the Forestry Division, who:

- a. solicits or receives or agrees to receive, whether or not for himself, any payment, advantage, or reward, pecuniary or not, in consideration of his doing anything in conflict with his duty or of his refraining from doing his duty; or
- b. solicits or receives or agrees to receive from any person, any payment, advantage or reward pecuniary or not, in consideration of his doing his duty; or
- c. any person trading in government forest products or acts as an agent for any person trading in forest produce without the prior approval of the Chief Forestry Officer,

commits an offence and on conviction is liable to a fine not exceeding M 5,000 or to imprisonment for a period not exceeding 2 years or both.

*Source: Government of Lesotho (1998).*





### **3 ADMINISTRATION OF THE FOREST REVENUE SYSTEM**

#### **3.1 *The process of setting forest charges***

The charges for roundwood identified in the previous section of this report are determined by way of tariffing. At least four weeks, but preferably no more than six weeks before a sale is due, the Inventory Officer must be notified by the District Forestry Officer (DFO) of the area that will be harvested. The Inventory Officer will either prepare a new tariff table for the area or supply an appropriate table, together with an estimate of likely revenue. A copy of both documents will be given to the Harvesting and Marketing Officer, who will supply the DFO and Harvesting and Marketing Forester with the tariff table. A copy of the tariff will be entered in the woodlot register.

A detailed example of how the tariffing exercise works is given below.

##### **3.1.1 Wholesale tariffing system**

Originally, tariffs for timber sales were based on detailed inventories of areas that would be harvested. These inventories included measurements of dbh and estimated volume for a sample of trees in the sale. However, when the labour and transport costs of inventory teams were taken into account, the construction of such local tariff tables was very expensive compared to the revenue from sales. Thus, following the recommendations of a harvesting and marketing study supported by the UK Overseas Development Administration,<sup>1</sup> the Forestry Division in Lesotho now uses a wholesale tariffing system

Under the wholesale tariffing system, all trees in a sale are counted but, rather than measuring and recording the size of every individual tree in a sale, dbh size classes are used. In other words, the number of trees in each size class in a sale is recorded, rather than an exact dbh for a sample of trees. An average volume for each size class is then used (based on the mid point of each size class) and is multiplied by the number of trees in each size class in order to calculate the total sale volume and value. Details of how the relationships between dbh and volume were estimated are given in Box 2.

##### **3.1.2 Advertising the sales**

Effective advertising is essential to the success of a timber sale. *Pitsos* (public gatherings) may be effective but they are time-consuming. Forest rangers should also be notified of forthcoming timber sales, but this alone is also not very effective. Thus, timber sales are advertised on the radio before a new forest area is marketed. Information is given to the Agriculture Information Service of Radio Lesotho (telephone 312330) at least a week before the sales take place and this information is usually broadcast (at 6.15 am and 6.45 pm) a few days before the sales take place.

It is essential that the Harvesting and Marketing Forester consults with the local chief to determine the best date(s) for sales. If possible, the date(s) of forthcoming sales should also be

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<sup>1</sup> Now the UK Department for International Development (DFID).

announced during a timber sale, along with information about the dates of sales in neighbouring woodlots.

**Box 2**      *Estimation of the volume-dbh relationship used in wholesale tariffing*

**The data set.** Under the previous tariffing system used in Lesotho, the Research Section had, over time, collected a lot of measurements of *Eucalyptus* species volume and dbh from Quthing to Butha-Buthe (and some from Thaba-Tseka). Indeed, sufficient data was available from these measurements to statistically analyse the data and make generalised volume tables rather than have to make local volume tables for every individual sale. Thus, data from all of the Research Section's tariffing exercises was put onto computer, checked and double-checked. Unreliable measurements were removed from the data set and inventory teams felled some additional large trees in the North and South of the country in order to make sure that the volume tables would give accurate estimates for the larger tree sizes. In total, measurements of 1,584 trees were used in the final analysis.

**Data analysis.** For the sake of simplicity, it would have been desirable to have had a general volume table for all *Eucalyptus* species in all parts of the country. However, there were concerns about whether this would be sufficiently accurate. Thus, the data was split up first into regions and then by species and each of these samples were analysed separately. The data was analysed using regression techniques, to find the line that had the best fit through the many individual observations of volume and dbh (i.e. the line that gave the best unbiased estimate of volume for a given dbh, based on the measurements in each sample).

The measurements for *E. rubida* in the North, Central and Southern districts showed that, for a given dbh, trees tend to be bigger in the North than in the Centre and those in the Centre tend to be bigger than those in the South. This result occurred because trees in the North tend to be taller than those in the South, probably because of the higher rainfall there. The analysis also indicated that there were some differences in the volume-dbh relationship between species, but that these were not as great as the differences between regions.

On the basis of these results, it was decided that an overall national volume table would not be sufficiently accurate, because of the significant differences between regions. Therefore, it was decided that different volume tables would be constructed for each region, but that one table would be sufficient for all *Eucalyptus* species in any particular region.

IN terms of the functional form of the relationship, the following two simple models were tested:

1.  $\text{Volume} = a + b(\text{dbh})^2$
2.  $\text{Ln}(\text{Volume}) = \text{Ln}(a) + b(\text{Ln}(\text{dbh}))$

The first model was the model previously used for the construction of local volume tables. The second model was a model expressed in natural logarithms (Ln). It was found that the second model fitted the data somewhat better, especially for the bigger trees. Statistical tests also showed that the second model gave a better fit. Therefore, it was decided to use the second model to construct the regional volume tables.

**Construction of the tariff tables.** Volume equations were estimated for all *Eucalyptus* species in each region, using the second model above. These equations were then used to estimate the average volume of a tree with a dbh equal to the mid point of each of the dbh size classes used in the tariff tables. This average volume was then multiplied by the price (per cubic metre) to give an average price per tree in that size class, which is the price used in the wholesale tariff tables. It should be noted that, for any given dbh, trees in the South are cheaper than in the North because the regression results showed that these trees tend to be shorter and, hence, have a lower volume.

### 3.2 *The legal basis for the forest revenue system*

The ultimate responsibility for setting forest charges lies with the Minister of Agriculture, who publishes forest charges in the Government Gazette when they are revised. The price of wood in Lesotho is determined by market forces and, because Lesotho is surrounded South Africa (which has abundant forest resources), prices do not necessarily rise with inflation each year. Thus, for example, the last time that forest charges were revised was in 1988.

Box 3 and Box 4 below give extracts from the 1998 Forestry Act and 1983 Forest Regulations, which are the legal instruments that form the legal basis for the forest revenue system and overall fiscal policy affecting forest management in Lesotho.

#### **Box 3**      *Section 7 of the 1998 Forestry Act, establishing the Forestry Fund*

1. The existing Forest Fund created by the Forest Regulations, 1983, shall be redesignated as the Forestry Fund and its control and administration shall be transferred to the Principal Secretary.
2. All fees, monies and fines collected under this Act, as well as, any voluntary contributions shall be paid into the Forestry Fund.
3. The Principal Secretary shall administer the Forestry Fund and shall keep proper accounts and other records in respect with the operations of the fund.
4. As soon as possible after the close of the financial year, but not later than three months thereafter, the Principal Secretary shall submit to the Accountant General, accounts of the Fund including-
  - (a) a statement of receipts and payments for the period of the financial year;
  - (b) such other statements as may be prescribed in the Regulations.
5. The Ministry of Finance shall cause the accounts of the Fund to be audited annually by the Auditor-General
6. The proceeds of the Fund shall be used for establishment and sustained management of forests and forest research, and in particular, for-
  - (a) payments agreed to with the representatives of a community in terms of a written contract;
  - (b) assistance to owners of private, community or co-operative forests in accordance with Section 17 of this Act;
  - (c) to defray the cost of reforestation conducted by the Forestry Division or by a person or an entity, who is not required to reforest under this Act;
  - (d) to provide subsidies, seedlings, technical assistance and other incentives as may be specified in Regulations made under this Act to a person or an entity wishing to establish forests in accordance with this Act.

*Source: Government of Lesotho (1998).*

**Box 4 Forest Fund Regulation 1983**

In exercise of the powers conferred on me by section 21(5) of the Finance Act 1978, I, Khetla Thabo Joshua Rakhethla make the following regulations-

- |  |                               |
|--|-------------------------------|
| 1. These regulations may be cited as the Forest Fund Regulations 1983.   | <b>Citation</b>               |
| 2. In these regulations unless the context otherwise requires, "Fund" means the Forest Fund.   | <b>Definitions</b>            |
| 3. The Fund shall be administered by the Permanent Secretary.  | <b>Administration</b>         |
| 4. The purpose of the Fund shall be to provide funds for afforestation and to support community development.   | <b>Purpose</b>                |
| 5. There shall be paid into the fund all monies collected under the Forest Act 1978 from tariffs, fees, charges or otherwise.  | <b>Receipts into the Fund</b> |
| 6. (1) The balance of the Fund after 20% has been disbursed for the benefit of the community pursuant to the Forest Order 1983 shall be disbursed for afforestation purposes.<br>(2) No payments shall be made from the fund except on the authority of the Permanent Secretary or his deputy.   | <b>Payments</b>               |
| 7. (1) The Permanent Secretary shall prepare estimates for the fund for consideration by the Minister.<br>(2) The estimates shall be submitted to the Minister of Finance for approval.  | <b>Estimates</b>              |
| 8. (1) In terms of Section 21 (4) of the Act, the Accountant-General shall maintain a separate account entitled "Forest Fund".<br>(2) The Permanent Secretary shall maintain accounts in which he shall record all receipts and payments into the fund.<br>(3) The Permanent Secretary shall observe the Financial Regulations and other laws and regulations governing the receipts, control and disbursement of public funds.  | <b>Accounts</b>               |
| 9. (1) As soon as possible after the close of the financial year, but not later than three months thereafter, the Permanent Secretary shall submit to the Accountant-General accounts of the Fund including-<br>(a) a statement of receipts and payments for the period of the financial year; and<br>(b) such other statements as the Accountant-General may direct<br>(c) A copy of the annual accounts shall be included as a supplementary statement to the annual account submitted by the Accountant-General, in accordance with section 31 of the Finance Act 1978. | <b>Annual Accounts</b>        |

**K T J Rakhethla,**  
**Minister of Finance**

Source: Government of Lesotho (1983).

### 3.3 *Collection of charges and monitoring*

Local communities are involved in the collection of fines through their Chiefs, because they are the custodians of forest reserves but they do not necessarily collect revenues. Because forest revenues are collected using a standard government procedure, the Auditor-General's Office is responsible for monitoring and auditing, but this is not necessarily done regularly.

As indicated above, there are linkages between the administrative processes involved in revenue collection and the generation of primary forest production and utilisation statistics. This is because the tariff tables are based on the standard volume tables produced from permanent sample plots, which are used to estimate the growth and yield of the forest estate.

#### 3.3.1 **Standard government procedure for collecting revenue**

The standard government procedure for collecting revenue is outlined below.

**Receipts.** A Government Receipt (AG8 Large) is required for every transaction and must be issued for every timber sale. Only once the receipt has been issued, may the purchaser remove the produce they have bought. In addition, the purchaser must be able to produce the receipt if required to do so.

Each receipt must show the following

- date of issue
- name of purchaser
- address of purchaser
- woodlot name
- amount of money (words and figure)
- type and quantity of produce (i.e. the amount in the sale)
- signature of the issuing officer
- Forest Fund Account Number (code-511, sub head-001, item-03715)

A line should be drawn through any unused sections of a receipt.

**Receipt books.** Anyone issued with an official receipt book is held personally responsible to account for every receipt. If a receipt book is lost, the matter must be reported the same day to the Senior Accountant and the Harvesting and Marketing Officer.

**Change float.** A float of M 10 is held by each Harvesting and Marketing Forester for change. This sum is carried forward from one sale to the next. Each Harvesting and Marketing Forester must carry change and money from sales in a moneybag.

**Vehicles.** The vehicle used by the Harvesting and Marketing Forester must remain on site at all times. Foresters must not be left alone with the sale proceeds without means of transport.

**Fund allocation.** Revenues resulting from the sale of woodlot produce are allocated as follows: 20 percent to the Woodlot Community Account; and 80 percent to the general Forest Fund.

The Forest Fund Account Number is 511-001-03715.

Separate accounts have not been opened in the Treasury for every woodlot. Instead, a Deposit Account exists for every District, under the administration of the sub-accountant. The exceptions are Mokhotlong and Qacha's Nek, where no revenue has yet arisen (see Figure 1).

The numbers of these Deposit Accounts are as follows:

Butha-Buthe	503-001-23723	Mohale's Hoek	503-001-23761
Leribe	503-001-23730	Quthing	503-001-23778
Berea	503-001-23747	Maseru	503-001-23785
Mafeteng	503-001-23754	Thaba-Tseka	503-001-23792

**Figure 1** A map of Lesotho showing the location of Districts



*Note: this map has been drawn by FAO to show the location of Districts in Lesotho and is only an approximation.*

**Additional charges.** The costs of felling, extraction, transport, crosscutting and treatment are recovered in the selling price of the wood. The total amount of these extra charges is paid into the general Forest Fund (i.e. nothing is allocated to the Woodlot Community Account).

**Records.** Recording of sales revenue is as follows:

At the completion of a day's sale, the Harvesting and Marketing Forester must check that the money (i.e. revenues) collected matches the total amount specified on all of the receipts issued. The Harvesting and Marketing Forester then completes the following forms:

- GP 142 Paying-in Voucher (4 copies);
- AG 162 Revenue Collector's Cash Book (duplicate);
- Monthly Revenue Return (triplicate); and
- Monthly Expenditure Return (triplicate).

Copies of each of these forms are shown in Appendices 1 to 4.

In the North and South regions, the Harvesting and Marketing Forester hands the timber sale revenue, duplicates of timber sale receipts and forms GP 142 and AG 162 to the sub-accountant. These forms are then date-stamped, signed and certified by the sub-accountant, who issues a General Acknowledgement Receipt AG 59 (1 copy) to the Harvesting and Marketing Forester. Duplicates of forms GP 142, AG 162 plus the General Acknowledgement Receipt are then sent to the Forestry Division's headquarters. One copy of form GP 142 is held at the Regional Office.

In the Central Region, the procedure is the same except that, instead of giving completed forms to the sub-accountant, the Harvesting and Marketing Forester hands the timber sale revenue and duplicates of timber sale receipts direct to the Headquarters Accounts Clerk. The Accounts Clerk in turn

- date-stamps the Receipt Book;
- issues a receipt to the Harvesting and Marketing Forester;
- deposits the money in a Government of Lesotho revenue account at the Central Bank; and
- arranges the subsequent completion of forms and delivery of revenue to the district sub-accountant.

All Harvesting and Marketing Foresters complete Monthly Revenue and Expenditure Forms after each timber sale, retain one copy for themselves and send two copies to headquarters each month, together with receipts and copies of the paying-in documents GP 142 and AG 162.

### ***3.4 Centralised and decentralised levels of government in revenue administration***

All of the fees and fines collected as revenue are deposited into the Forest Fund, which is administered by a Principal Secretary in the Central Government. In other words, revenue is collected by different districts or regions, but finally gets deposited into a central point in the Ministry of Finance at headquarters. Hence, the provisions under the 1998 Forestry Act and



1983 Forest Fund Regulations indicate clearly how the various levels of government should operate with respect to the Forestry Fund and these provisions are followed.

## 4 TOTAL REVENUE COLLECTION AND DISTRIBUTION

### 4.1 Total collection and distribution of forest charges

Information about the area clearfelled and forest revenue collected over the period 1975 to 1987 is given in Table 1. This table also includes information about revenue collected from sources other than wood. At 31<sup>st</sup> March 1987, the total amount of money in the Forest Fund stood at M 214,688.30, with an additional M 36,719.66 in the Woodlot Community Account.

**Table 1 Forest area clearfelled and forest revenue by source 1975 - 1987**

Year	Area clearfelled (in hectares)	Revenue by source (in Maloti)		
		Fuelwood	Nursery	Sundries
1975 - 1980		658.04	1,513.06	0.00
1980 - 1981		2,982.65	5,696.86	180.23
1981 - 1982	178.15	14,031.16	11,118.89	1,188.05
1982 - 1983		11,462.79	4,075.68	1,373.18
1983 - 1984	42.45	12,768.06	9,771.80	592.00
1984 - 1985	105.24	20,871.92	3,895.10	7,493.13
1985 - 1986	291.24	38,622.94	8,797.25	2,451.71
1986 - 1987	163.20	71,254.73	15,253.99	2,156.04
1987 - 1988		75,000.00	24,291.00	2,500.00
<b>Total 1975-1987</b>	<b>780.28</b>	<b>247,652.29</b>	<b>84,413.63</b>	<b>17,934.34</b>

Twenty percent of the revenue collected is returned to communities for them to use for approved community development schemes. A procedure for the disbursement of this revenue has been finalised and communities have been advised twice of the revenue standing to their credit. The remaining 80 of revenue collected goes into the Forestry Fund, to be used for afforestation.

Table 1 clearly indicates how much money has been collected each year from different forest products. An attempt was made to get some more up-to-date figures on charge collection but it was not possible to get information at this level of detail, because revenue reports are no longer sent to the Forestry Division's headquarters.

The total amount of forest revenue collected to date<sup>2</sup> by centralised and decentralised levels of Government from the main charges identified above is M 985,655.13. An estimate of the revenue collected in the current financial year (based on the figure up to 14<sup>th</sup> December 2000) is approximately M 90,000.

Details of the revenue collected and put into the Forestry Fund in the 1999 – 2000 financial year are shown in Table 2, along with the expenditure from the fund in this year. This information is kept at the National Treasury within the Ministry of Finance in their main financial database (called GOLFIS) where all the details of the Forestry Fund are kept. As the table shows, there was a significant flow of money into the fund in this year and very little expenditure on afforestation.

<sup>2</sup> Balance up until 14<sup>th</sup> December 2000.

**Table 2**      *Forestry Fund income and expenditure during the 1999-2000 financial year*

<b>Year</b>	<b>Income (in Maloti)</b>	<b>Expenditure (in Maloti)</b>
April 1999	15,406.69	
May 1999	7,012.72	
June 1999	24,898.30	
July 1999	26,874.26	
August 1999	19,900.28	
September 1999	33,950.26	
October 1999	5,232.70	
November 1999	7,532.44	
December 1999	19,224.16	
January 2000	5,901.35	757.70
February 2000	9,491.21	
March 2000	17,799.57	98.50
<b>Total</b>	<b>193,223.94</b>	<b>856.20</b>

## 5 GOVERNMENT EXPENDITURE ON FORESTRY

### 5.1 *Expenditure by the main government forestry institution(s)*

#### 5.1.1 Budget preparation

Each year, the Forestry Division draws up a workplan, showing all of the activities it plans to carry out. This annual workplan is based on an overall 3 year rolling plan. After approval of the workplan at the divisional level, budget estimates are made on the basis of the planned activities. Estimates from all divisions are added together to give a departmental budget, which is submitted to the Ministry of Agriculture. Budget ceilings are normally given in advance for each Ministry and this encourages each department to submit realistic estimates. Budget discussions are normally held with the Ministry of Finance to justify the proposed budget estimates.

#### 5.1.2 Recurrent budget

The Forestry Division's current recurrent budget is shown below in Table 3.

**Table 3** *The Forestry Division's recurrent budget for the financial year 2001/ 02*

<b>Item</b>	<b>Estimates (in Maloti)</b>
Salaries	1,696,020
Running costs	78,600
Other office overheads	70,024
Special expenditure	88,566
Minor works	18,500
Fuel & vehicle maintenance	171,500
Subsistence allowances	155,320
Purchases of production material	113,579
Operating costs	9,000
Power	50,996
Maintenance of public assets	25,000
International fares	28,317
Communication	2,000
<b>Total</b>	<b>2,507,422</b>

#### 5.1.3 Capital budget (the Social Forestry Project)

The main capital expenditure in recent years has been on the Social Forestry Project, supported by the German co-operation agency (Deutschen Gesellschaft für Technische Zusammenarbeit or GTZ) and the German development bank (Kreditanstalt für Weideraufbau or KfW). The total project cost amounts to DM 27.5 million, divided as follows:

Technical assistance	(GTZ)	up to DM 19.0 million;
Financial co-operation	(KfW)	DM 3.5 million; and
Government contribution		DM 5.0 million (estimate)

On the project, GTZ has financed the salaries of most of the professional expatriate personnel for the duration of project plus almost all of the training of Basotho to diploma and degree level and travel and subsistence.

KfW has financed capital and direct expenditure including:

- the construction of buildings, offices, stores and houses;
- the purchases of vehicles, including tractors and trailers;
- the procurement of stores, equipment and materials such as tools; and
- establishment costs, including road building and maintenance.

The Government of Lesotho's contribution to the project has covered the following items:

- the salaries and benefits of all established personnel;
- a proportion of wages for daily paid staff;
- the maintenance and upkeep of the transport fleet including tractors;
- fuel and oil requirements;
- some travel and subsistence;
- limited supplies of office machinery; and
- the bulk of office overheads.

From its inception in 1993 to date, the project has received funding largely from these three sources and details of expenditure on the project over the last six years is given in Table 4.

**Table 4 Expenditure on the Social Forestry Project since 1993**

Item	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	TOTAL
<b>INVESTMENT IN FIXED ASSETS (FROM FOREIGN ASSISTANCE)</b>							
<b><u>Nursery investment</u></b>							
Buildings	23,527	5,457	192,399	295,902	4,455	3,606	525,348
Feeder roads	0	0	0	0	138,814	57,675	196,489
Irrigation system	719	169,601	15,491	64,240	103,244	8,190	361,487
<b>Subtotal nursery</b>	<b>24,247</b>	<b>175,058</b>	<b>207,891</b>	<b>360,142</b>	<b>246,513</b>	<b>69,472</b>	<b>1,083,325</b>
<b><u>Extension investment</u></b>							
Buildings	111,440	38,819	629,969	709,588	63,610	156,769	1,710,197
Vehicles	500,475	650,445	137,000	55,040	42,300	4,299	1,389,559
Office Equipment	43,753	56,793	34,855	11,126	60,813	33,116	240,459
Training & Education	80,567	69,983	4,150	87,596	52,148	162,732	457,177
<b>Subtotal extension</b>	<b>736,236</b>	<b>816,041</b>	<b>805,974</b>	<b>863,351</b>	<b>218,872</b>	<b>356,917</b>	<b>3,797,393</b>
<b><u>Investment in fruit trees</u></b>							
Seed & seedlings	0	0	0	73,893	96,331	36,636	206,860
Irrigation equipment	0	0	0	30,370	89,741	7,998	128,111
<b>Subtotal fruit trees</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>104,263</b>	<b>186,073</b>	<b>44,635</b>	<b>334,972</b>
<b>TOTAL INVESTMENT</b>	<b>760,483</b>	<b>991,099</b>	<b>1,013,865</b>	<b>1,327,757</b>	<b>651,459</b>	<b>471,025</b>	<b>5,215,691</b>
<b>VARIABLE INPUTS (FROM FOREIGN ASSISTANCE)</b>							
<b><u>Nursery</u></b>							
Consumables	2,480	58,610	36,904	70,551	92,158	21,485	282,190
Nursery repairs	9,965	8,059	2,964	71,703	4,870	8,395	105,958
Technical equipment	12,581	6,736	30,824	26,694	44,714	26,895	148,447
<b>Subtotal</b>	<b>25,027</b>	<b>73,407</b>	<b>70,693</b>	<b>168,949</b>	<b>141,743</b>	<b>56,775</b>	<b>536,596</b>
<b><u>Extension</u></b>							
Vehicle repair & maintenance	590	9,647	195,164	221,072	117,983	197,549	742,008
<b>Subtotal</b>	<b>590</b>	<b>9,647</b>	<b>195,164</b>	<b>221,072</b>	<b>117,983</b>	<b>197,549</b>	<b>742,008</b>
<b>TOTAL VARIABLE INPUTS</b>	<b>25,617</b>	<b>83,054</b>	<b>265,857</b>	<b>390,021</b>	<b>259,726</b>	<b>254,324</b>	<b>1,278,604</b>
<b>TOTAL FOREIGN ASSISTANCE</b>	<b>786,101</b>	<b>1,074,154</b>	<b>1,279,724</b>	<b>1,717,780</b>	<b>911,186</b>	<b>725,350</b>	<b>6,494,296</b>
<b>VARIABLE INPUTS (GOVERNMENT OF LESOTHO)</b>							
Nursery labourers	240,431	520,757	646,092	569,896	567,422	568,078	3,112,678
Water	45,660	18,000	2,418	47,041	27,306	45,262	185,689
Electricity	9,180	44,000	45,438	93,640	82,395	59,552	334,208
<b>Total variable inputs</b>	<b>295,272</b>	<b>582,757</b>	<b>693,949</b>	<b>710,577</b>	<b>677,125</b>	<b>672,894</b>	<b>3,632,577</b>
<b>TOTAL FROM DOMESTIC FINANCES</b>	<b>295,272</b>	<b>582,757</b>	<b>693,949</b>	<b>710,577</b>	<b>677,125</b>	<b>672,894</b>	<b>3,632,577</b>
<b>TOTAL EXPENDITURE FROM ALL SOURCES</b>	<b>1,081,373</b>	<b>1,656,912</b>	<b>1,973,673</b>	<b>2,428,358</b>	<b>1,588,311</b>	<b>1,398,244</b>	<b>10,126,873</b>

Note: all figures are in Maloti.



## **6 DISCUSSION AND CONCLUSIONS**

### **6.1 Overall appraisal of the forest revenue system**

The efficiency of the forest revenue system is reasonably high, because the costs of collection are relatively low compared to the amounts that are collected. However, this is only because the officers collecting revenue are not adequately paid. Implementation of the forest revenue system in the field is quite simple and straightforward, because the rules governing revenue collection, as indicated in the Forest Fund regulations, are straightforward. However, there is a general feeling that the system is not fair because, in order to reinvest the money in afforestation activities, the bureaucracy is very complex. Moreover, the revenue that is collected from forest charges can only be used to support the capital budget or cover the direct costs of afforestation and can not be used to support the recurrent budget.

Another concern is that, at the moment, the forest charges are very low. For instance, the amount charged to purchase a seedling (20 lisente per seedling) does not cover the production cost (of M 2.00 per seedling). Other establishment costs have also risen, so it would seem reasonable to increase the prices paid for fuelwood, seedlings and other forest products. However, as already noted, forest charges have not increased for a long time.

Access to some of the forest areas is also poor, which makes it difficult to harvest these areas. This is because people do not see any benefit in harvesting these areas and hauling the fuelwood for long distances, because fuelwood is such a cheap commodity.

#### **6.1.1 The impact of the forest revenue system on sustainable forest management**

When the forest plantations in Lesotho were first planted, local communities contributed their land and labour during planting operations. They did this on the understanding that, in most cases, they must give up some of their rangeland in order to meet their future needs for fuelwood. Thus, as mentioned earlier, some of the revenue collected from State Forest Reserves is shared with local communities. It is believed that this in itself encourages communities to look after the State Forest Reserves to a certain extent. It is also believed that this has led communities to support sustainable forest management more generally.

#### **6.1.2 Government expenditure on sustainable forest management**

National Forestry Policy in Lesotho clearly indicates that the primary responsibility for the sustainable and beneficial management of natural resources and the environment lies with individuals and communities. Therefore, the Government allocates very little money to sustainable forest management activities. This is clearly reflected in the current condition of State Forest Reserves in Lesotho, most of which have not been tended since they were planted.

However, the poor management of the State Forest Reserves in Lesotho has been influenced by many other factors in addition to budgetary constraints. For example, decentralisation and restructuring of the Ministry of Agriculture, has led to the District Forestry Officer having no control over the use of resources such as vehicles. These resources are required to help the officer to manage the forest properly. However, with the present administrative structure in



districts, the District Agricultural Officer is in charge overall. In most cases, these officers give priority to the needs of the local agricultural sector rather than the forestry sector.

## **6.2 *The effect of other fiscal policies on sustainable forest management***

Currently, deforestation in Lesotho is mainly due to fuelwood collection rather than agricultural activities such as shifting cultivation. Thus, other fiscal policies have relatively little effect on the forestry sector. Furthermore, the Government is now engaged in a process of restructuring the whole agricultural sector and, as part of this process, subsidies are being strongly discouraged. However, a proposal has been suggested to the authorities, to use incentives to encourage forestry activities. A pilot study is currently under way to examine the use of forestry incentives, under the Agricultural Policy and Capacity Building Programme between the World Bank and Government of Lesotho.

Another attempt to increase the financing of sustainable forest management from domestic resources is also currently underway, through a number of water catchment programmes. A small proportion of the funds from these programmes is used to raise tree seedlings and establish trees in the catchment areas.

## **5.5 Attitude to change**

The Government's commitment to support the forestry sector can be seen in various ways. In 1997, the Government approved a National Forestry Policy and followed this by passing the Forestry Act in 1998. The basis for these policy initiatives was the National Forestry Action Plan (NFAP) process, which was approved in 1996 and supported by FAO, DFID, GTZ and the Government of Lesotho. In 1997, the same document was incorporated into the overall Agricultural Sector Investment Programme and some of its proposals are currently being implemented under the Agricultural Policy and Capacity Building Programme between the World Bank and Government of Lesotho.

Thus, it would seem that the Government's attitude towards the forestry sector is positive. This is because forestry is seen as a rural development activity and, therefore, politicians view the sector as one that can generate income for rural communities, particularly those in mountainous areas where there are very cold winters. Hence, the forestry sector is always mentioned in Lesotho's national development plans. Unfortunately however, the socio-economic and environmental performance of the sector has not been analysed.

On the other hand, given the number of complaints that are received from communities, it would seem that forest revenues have not been efficiently and adequately distributed to all of the stakeholders in the forestry sector. It seems inevitable that the forest revenue system will have to be revised soon, because all of the State Forest Reserves will be transferred to communities themselves in the near future.

## REFERENCES

**Government of Lesotho**, 1983, Forest Fund Regulation 1983, Legal Notice No 129, Government of Lesotho, Maseru.

**Government of Lesotho**, 1998, Forestry Act 1998, Government of Lesotho, Maseru.



**APPENDIX 1: AN EXAMPLE OF FORM GP 142**

**GP 142**

**LESOTHO GOVERNMENT**

**PAYING-IN VOUCHER FOR REVENUE AND OTHER RECEIPTS**

TO: .....

.....

.....

Departmental Date Stamp

Please receive the sum shown below the analysis of which is shown overleaf.

Signature .....

Ministry / Department .....

---

Full particulars of credit and serial numbers of receipts issued must be summarised on this form. The duplicate copies of receipts issued will be attached to this form together with a copy of the Revenue Collector's Cash Book where appropriate.	Amount	
	R	C
.....		
.....		
.....		
Please credit as shown below:	Total	

---

For use in Treasury:    Checked by: .....    Receipt No. ....

Allocation			Dept. Vr. No.		Station	Treasury	Amount			
Head	S/Head	Item	D.W.	Vr. No.			Debit		Credit	
					Vr. No.	R	C	R	C	
.....										
.....										
.....										
.....										
.....										
.....										
.....										
.....										



**APPENDIX 2: AN EXAMPLE OF FORM AG 162**

<b>AG 162</b>								
<b>Revenue collectors' Cash Book</b>								
Collector's Name: .....								
Station: .....								
Date	Receipts Serial Numbers		No. of Receipts	Amount Collected		Coinage Allocation		
	From	To		M	L	Details	M	L
.....						M10 .....		
.....						M5 .....		
.....						M2 .....		
.....						M1 .....		
.....						50L .....		
.....						20L .....		
.....						10L .....		
.....						05L .....		
.....						02L .....		
.....						01s .....		
.....						P.Os & M.Os .....		
.....						Shortage-		
.....						Vr. No .....		
.....						Surplus-		
.....						Rt. No. ....		
.....						Gross Total		
.....						Revenue Allocation		
.....						Head and Item : M L		
.....						..... : .....		
.....						..... : .....		
.....						..... : .....		
.....						Total = .....		
Total						I certify that receipts and Cash have actually been Checked and found correct  ..... Sub-accountant/checking officer  Date Stamp .....		
Scheduled of cancelled Receipts Bank Deposit Slips (Where applicable) are attached.								
Signature of Revenue Collector .....								
Date .....								

## ANALYSIS OF MONIES PAID IN

CASH	M	L
M10 Notes.....		
M5 “ .....		
M2 “ .....		
M1 “ .....		
Other Notes .....		
Silver .....		
Bronze .....		
Postal & Money Orders .....		
<b>CHEQUES</b>	<b>DRAWER’S NAME</b>	
.....		
.....		
.....		
.....		
.....		
<b>TOTAL</b>		

**APPENDIX 3: AN EXAMPLE OF A MONTHLY REVENUE RETURN**

MONTHLY REVENUE RETURN						MONTH .....	DISTRICT .....	
DATE	CODE	WOODLOT	SUBCPT	SPECIES	AREA SOLD (ha)	REVENUE (M)	RECEIPT No.s	SUB-A/C RECEIPT No.
<b>TOTAL</b>								





### APPENDIX 4: AN EXAMPLE OF A MONTHLY EXPENDITURE RETURN

**NOTE:** The area sold entry should only be completed when the sub-compartment has been completely sold.

**MONTHLY EXPENDITURE RETURN** MONTH ..... DISTRICT .....

DATE	CODE	WOOLOT	SUBCPT	AREA WORKED		TYPE OF LABOUR (a)	MAN DAYS		OPERATION			REMARKS (e.g. completed)
				IN MONTH	TO DATE		No.	COST (M)	H1	H2	H3	
<b>TOTAL</b>												

(a) Type of labour: WFP, DP, Contract  
 (b) Operation: H1 Felling H2 Extraction H3 Crosscutting/Stacking H4 Debarking



**LIST OF PAPERS PRODUCED UNDER THE FAO PROGRAMME ON  
FINANCING SUSTAINABLE FOREST MANAGEMENT**

**Whiteman, A, 2001**, Financing sustainable forest management: constraints and opportunities, working paper on financing sustainable forest management: FSFM/WP/01, Food and Agriculture Organization of the United Nations, Rome.

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**Maile, N, 2001**, The forest revenue system and government expenditure on forestry in Lesotho, working paper on financing sustainable forest management: FSFM/WP/03, Food and Agriculture Organization of the United Nations, Rome.