



FOREST FINANCE



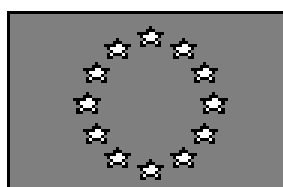
*The forest revenue system and government
expenditure on forestry in Central African Republic*

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on financing sustainable forest management

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**THE FOREST REVENUE SYSTEM AND GOVERNMENT
EXPENDITURE ON FORESTRY IN CENTRAL AFRICAN REPUBLIC**

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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:

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LIST OF ACRONYMS USED IN THE REPORT

AID	Agency for International Development
ARFR	Project “Application of Research to the valuing of Forestry Resources”
ATW	Agreement on Tropical Woods
CAEMC	Central African Economic and Monetary Community
CARTO	Central African Republic Tourism Office
CBD	Convention on Biological Diversity
CITES	Convention on International Trade in Endangered Species of Wild Fauna and Flora
CO	Certificate of Origin
CT	Company Tax
ED	Exit duties
FA	Firearms permit – unregistered arms
FCFA	Central African Franc
FDF	French Development Fund
FFTD	Fund for Forestry and Tourism Development
FOB	Free on Board
FOT	Free on Truck (departure from the Central African Republic per truck)
GDP	Gross Domestic Product
GIS	Geographic Information System
GSC	General Surveillance Company
GTC	German Technical Co-operation
IATW	International Agreement on Tropical Woods
LHP	Large-scale hunting permit for tourists
MFT	Minimum Fiscal Tax
MOW	Mutual Obligations on Wood (between ACP countries and the European Union)
NCPDF	National Centre for the Protection and Development of the Fauna
NFO	National Forestry Office
OAB	Agreement between African countries producing and exporting wood
ORTMAP	Office for Regulation and Trade and of the Monitoring of Conditioning of Agricultural Produce
PFP	Program of Preparation of Forestry Projects
PHD	Permits for Harvesting and Development
PMNR	Project for the Management of Natural Resources
PPMNR	Program for Participative Management of Natural Resources
RMPEI	Regional Management Program and Environmental Information
SAA-FTD	Special Allocation Account – Forestry and Tourism Development
TMF	Transport costs and setting of the FOB Douala
TOT	Tax on Turnover
TOTE	Tax on turnover on export
TSD	Taxes for Social Development
TV	Taxable value
UNCCD	United Nations Convention to Combat Desertification
UNESCO	United Nations Education, Scientific and Cultural Organization
UNFCCC	United Nations Framework Convention on Climatic Changes
VAT	Value Added Tax

ABSTRACT

Forestry makes a significant contribution to the economy of Central African Republic and is the second or third most important sector in terms of income, employment, exports, etc. The most significant source of forest revenue for the government is export duties on wood products. Following this, there are three main forest charges used in the sector (surface tax, felling tax and reforestation tax). In addition to these, there are a few minor charges on non-wood forest products and services. These forest charges are shared between the central government, the forest administration and local authorities. To some extent, forest charge collection suffers from problems of poor monitoring and arrears of charges. However, Central African Republic is one of the few African countries where charge collection exceeds public expenditure on the sector. In 2000, direct public expenditure on forestry was only FCA 322 million, compared with about FCA 1.5 billion collected in forest charges.

EXECUTIVE SUMMARY

Natural resources are very important for the economy of Central African Republic. Forestry activities are the third most important component of GDP, second in terms of exports and second in terms of government revenue collection. The forestry sector is also the major private-sector employer in the country.

Roundwood production in Central African Republic has declined in recent years and is currently around 500,000 cubic metres per year. Thirty percent of this is exported and 65 percent of exports go to Europe. Most of the roundwood that is consumed locally is used to make sawnwood. Sawnwood accounts for 80 percent of the production of processed products. Sixty percent of this is exported to Europe and neighbouring countries.

The main forest charges in Central African Republic are the surface tax, felling tax and reforestation tax. The surface tax is CFA 500 per hectare per year for the whole of a concession area and this accounts for 40 percent of all government revenue collected from the sector. In addition to paying the surface tax, concessionaires must also pay a deposit of CFA 200 per hectare against their first payment of this tax before they can start operations.

The felling tax is levied on all industrial roundwood produced. The level of this tax is calculated using a formula based on the mercurial value of roundwood (calculated as a percentage of log export prices) minus transport costs from two zones in the country. The reforestation tax is only levied on log exports and this is also based on the mercurial value. In addition to these taxes, there are some minor fees for the production of woodfuel, awarding licences and transferring licences.

Forest charges are also levied on non-wood forest products (NWFPs) and services. The main charges are charges for issuing a Certificate of Origin for NWFPs that will be exported and export charges on wild pepper and bark of the *rawolfia* tree. Safari and ecotourism operators also pay lease fees and area fees for areas where they operate and there are some charges to for issuing hunting licences and permits.

Most of the forest charges are shared between the central government, the forestry administration and local authorities. There are different arrangements for revenue sharing (i.e. the proportions for the three different stakeholders), depending on the type of charge.

There are no charges on the production of processed forest products, but there are export duties on exports of all forest products. Currently, export duties are levied at a rate of 10 percent of export values in the case of processed products and 20 percent in the case of logs. Export duties are the most significant source of revenue from the forestry sector, accounting for 43 percent of all export duties or 53 percent of all taxes paid by the forestry sector in 1996. In addition to export duties, there are also some general taxes on the sector, such as VAT, income and profit taxes.

Fines and penalties are another source of forest revenue for the government. For breaking the Forest Code, fines of up to CFA 1 million are imposed. For tax evasion, fines can range from CFA 5 million to CFA 10 million.

The forestry administration is part of the Ministry for Environment, Water, Forestry, Hunting and Fishing. The forestry administration has sole responsibility for collecting forest charges, while other parts of government collect the other taxes from the sector. Monitoring of production is a problem and it is suspected that there is some under-reporting of production and charge evasion. In addition, the report shows that there are some differences between the actual amounts of forest charges collected and the assessed charges, suggesting that arrears of charges may be a problem.

A comprehensive audit of tax collection was implemented in 1996. This showed that the sector contributed FCA 4.9 billion to government revenues from all taxes. In 2000, it was estimated that FCA 1.5 billion was collected from forest charges, while direct expenditure on forestry was only FCA 322 million. In addition to this, the Ministry spent FCA 445 million on training, although this was for the whole Ministry. Recent statistics on capital investment on forestry by the Ministry are not available, but this amounted to FCA 770 million in 1997.

Regarding the strengths and weaknesses of the current system, the benefits of the area tax are that it is dependable and easy to collect and it encourages complete utilisation of the forest. However, there are problems when concessionaires are allocated forests that are poorly stocked. The felling tax is fairer, but it is difficult and expensive to monitor production to ensure that the correct amounts of charges are paid. Export duties are very effective, because they are easy to collect and amount to a huge part of the total revenue collection. Overall, the system of forest charge collection is quite efficient. For example, in the 1996 audit, it was estimated that the costs of charge collection were only FCA 26 million compared to the total amount of charges collected of FCA 4.9 billion.

1 INTRODUCTION

1.1 *Context of project*

FAO and the European Commission have a partnership programme with the aim of gathering and analysing data for the sustainable management of forests in ACP countries.

In the context of the GCP/RAF/345/EC project “The Sustainable Management of Forests in ACP African Countries”, the EC-FAO partnership programme (2000-2002) plays a role, notably in the examination and reform of fiscal policies affecting the management of forests.

For the Central African Republic, a country with a surface area of 623,000 km² and a population of more than 3 million inhabitants, the services of a national consultant were required in order to:

- describe and enumerate all types of taxes collected from the forestry sector;
- describe the means of determining and revising taxes, methods of collection, follow-up and monitoring, the intervention at different levels of government in the administration of forestry revenue and the workings of existing links;
- take into account the total revenue collected from the forestry sector, as well as the distribution of payments between the different institutions;
- take into account the total amount of public spending in the forestry sector;
- comment on the strong and weak points of the current tax system, the criteria being the contribution of forestry taxes to the sector’s spending and the impact of the tax system on sustainable forestry management; and
- comment on the impact of all other fiscal measures having either a positive or negative impact on the forestry sector or on sustainable forestry management.

This work is done under the general management of the head of the technical group of the regional bureau for Africa (RAFO) in Accra and of the main forester responsible for sector studies in Rome. It is also under the direct supervision of the specialist in fiscal policies in Accra.

This work has the main aim of assessing the general situation with regard to the financing of public financial institutions from different sources, such as: revenue collected from the forestry sector and general public revenue collected from individuals and other sectors of the economy.

1.2 Central African Republic's forestry resources

Central African Republic's forests represent 3.8 million hectares, of which 0.4 million hectares are made up of inaccessible or unproductive forests. It is considered thus that productive forests in the southwest of the country covers a surface area of 3.4 million hectares, rich in very harvested species like the *Sapelli*, the *Sipo*, the *Ayour*, and the *Limba*.

In the year 2000, 15 permits said to be "Permits for Harvesting and Development" (PHD) were granted to 13 companies, one of these permits being a special felling permit and two others for craft work purposes. The total surface area of the permits granted covered 3,466,600 ha. These permits for which most of the forestry taxes are applied are only requested for production zones following prospecting. Forests for production which allow harvesting for craft or industrial purposes belong to the State forestry area. This area includes, amongst others, whole natural reserves, national parks, fauna reserves, forests for the purpose of recreation, and areas for protection and reforestation.

The permit for harvesting and development is granted for a period equal to the duration of the company and for a surface area which can ensure the reconstitution of the forest by an alternating system between the closure of harvested areas and the opening of new ones. A schedule of conditions specifies the different means of harvesting.

2 DESCRIPTION OF THE TAX SYSTEM FOR FORESTRY

The Central African Republic's economy is an extractive type economy. Mining products (diamonds notably), cotton, coffee and forestry products are the main products for export. Already in 1993, wood was in second position after diamonds in terms of product value for export. The forestry sector played an important role in the national economy in that the contribution of the modern forestry sector to GDP (Gross Domestic Product) in the primary sector is still currently in third place in the balance of payments. There is also the importance of the sector's share in public finances, and the share of forestry employment in the employment sector. The forestry industry also contributed significantly to the development of economic activity in the regions where it was implanted. The sector is the first private employer in the country. In 1997 for example, it had 3,500 employees but with the setting up of new transformation units, this figure could be closer to 5,000 employees for 2001. The forestry sector is the second most valuable exporter after the diamond sector with almost 15 billion FCFA. It is also the second private taxpayer, as it contributes 5 billion FCFA to the national budget, that is 15% of tax revenue.

The Central African Republic's forestry sector thus represents an important element in the collection of new tax revenue, given that the possibilities for increasing revenue from the government are limited. Adequate taxation from the forestry sector would allow on the one hand for an increase in State revenue and, on the other hand, would promote better management of forestry resources. Indeed, all tax systems influence the behaviour of companies and as a result, the long-term use of forestry resources.

Current forestry taxation in application is that laid down in the 1990 Forestry Code and the different finance laws. This taxation is made of three main areas:

- Forestry taxes;
- Customs taxes and others; and
- Indirect taxes.

2.1 Taxes on the production of roundwood

These are the taxes said to be forestry taxes as defined by the Forestry Code and which are applied to all physical or moral persons, either publicly or privately carrying out the export or trade of wood in the Central African Republic. The Code provides for three taxes: surface area tax, felling tax and reforestation tax.

2.1.1 Surface area tax

At the outset, the rate of this tax was 125 FCFA/ha for permits granted under the old system and for permits for an unlimited amount of time. This rate varies according to the duration of the permit. It is 125 FCFA/ha for a permit lasting less than 5 years. This tax was modified by the 1998 finance law.

In 1998, It is an annual rent which can be split into two parts: a fixed part with a lump sum of 300 FCFA/ha and a variable part at the rate of 0.035% of the value calculated of the Permit for Harvesting and Development (PHD). It should be noted that for a question of availability of data on the state of the permit, only the fixed part of this tax is actually paid by companies.

The 2001 finance law has just modified the surface area tax into a rent tax based on a package of 500 FCFA per hectare of PHD per year. It represents today around 40% of forestry taxes. The PHD is granted by a presidential order for a period equal to the duration of a company – only those companies legally constituted and established in the Central African Republic, with public, mixed or private capital can request the PHD. The rent is payable at the time of attributing the permit and annually until its expiry.

All requests for a permit for harvesting and management must be accompanied by a deposit of 200 FCFA per hectare requested. The total amount for the deposit is deductible from the first rent payment.

2.1.2 Felling tax

This is applied to the volume of wood felled and it's rate was 5% of the mercurial value per cubic metre of the species concerned. The mercurial value in itself was fixed at a quarter of the FOB (Free On Board) value of the LM quality and each year is the subject of a joint decree from the ministers responsible for forestry and trade.

The rate of felling tax is now set at 7% of the mercurial value per cubic metre by the 2001 finance law.

2.1.3 Reforestation tax

This only concerns volumes of wood exported as logs and for which the mercurial value is greater than 20,000 FCFA/m³. The rate of this tax was 8% of this mercurial value. According to article 37 of the 2001 finance law, the rate of this tax rose from 8% to 11%.

Apart from these three taxes, the authorisation for the prospecting of a production forest gives rise to the payment of a fixed duty of 200,000 FCFA, a sum which is payable when authorisation is requested. This duty, allowing for the obtaining of a prospecting authorisation essential for a PHD, is paid once and for all.

The felling of wood, for the purposes of the production of fuelwood, consumer wood or other industrial roundwood gives rise to the payment of a tax of 50 FCFA per stacked cubic metre.

The validity of a transfer of a PHD is conditioned by the payment of transfer duties, which is 50 FCFA per hectare.

2.1.4 Mercurial values and FOT

The amount of felling tax, reforestation tax and exit duties (see customs taxes) is based for the most part on the mercurial values of each species for the first two taxes and on the FOT (Free On Truck – departure from the Central African Republic per truck) values for the exit duties.

The mercurial value per cubic metre for each species is established by a joint decree based on the average value of the price of wood, FOB Douala of the preceding year expressed in FCFA. It is set according to article 54 of the finance law 95-001 at 40% of this annual FOB value of the LM quality. However, applying article 47 of the 1999-finance law, the FOT value is established on a three monthly basis by joint order from the minister for finance and the minister responsible for forestry. It is calculated every three months by deducting from the FOB Douala value of the three months just passed, the transport costs and the setting of the FOB Douala (TMF). Where the FOT value calculated is negative, it is set at the fixed rate of 5,000 FCFA per cubic metre.

Exit duties	=	X% x FOT value
FOT	=	FOB Douala – transport costs
Felling tax	=	7% of the mercurial value
Reforestation tax	=	11% of the mercurial value
Mercurial value	=	40% FOB Douala

The mercurial values, defined in Article 72 of the Central African Republic's Code, are established as follows for the year 2001 (see Table 1)

Table 1 *Mercurial values for the year 2001*

Essence	Mercurial value (FCFA/m ³ log)	Species	Mercurial value (FCFA/m ³ log)
<i>Acacia</i>	52,000	<i>Iroko</i>	70,000
<i>Aile</i>	26,000	<i>Kosipo</i>	36,000
<i>Ayau</i>	41,000	<i>Longhi</i>	118,000
<i>Azobé</i>	36,000	<i>Movingui</i>	58,000
<i>Bahia</i>	46,000	<i>Niové</i>	30,000
<i>Bilinga</i>	32,000	<i>Sapelli</i>	64,000
<i>Bosse</i>	68,000	<i>Sipo</i>	78,000
<i>Dibetou</i>	38,000	<i>Tiama</i>	44,000
<i>Doussié</i>	100,000	<i>Tola</i>	64,000
<i>Raw ebony</i>	160,000	<i>Wengué</i>	153,000
<i>Ebène Desanbière</i>	200,000	Various red wood	35,000
<i>Limba</i>	38,000	Various white wood	25,000
<i>Padouk</i>	40,000		

Since 1999, with the creation of two tax areas, the FOT value depends on the geographical position of the forestry permits:

- Area 1 is made up of Basse Lobaye for which the amount of TMF costs is fixed at 90,000 FCFA/m³; and

- Area 2 including the rest of the Central African Republic's forest in the Southwest where the amount is set at 70,000 FCFA.

2.2 *Taxes on non-wood products and services provided by forests*

2.2.1 **Taxes on non-wood products**

In forestry areas, but also in the savannah regions, native populations carry out harvesting for their food and other services. The products thus harvested vary according to the regions. They extract palm wine; they collect wild fruit, and mushrooms, caterpillars, snails, insects and vegetables notably the *Gnetum africanum* (*Koko*) very much prized by people in the Central African Republic. The caterpillars, often collected in large quantities according to the season, are only interested in a limited number of tree species.

Certain products from forests other than wood are traded with other countries. Thus, the Forestry Office had to issue Certificates of Origin (CO) for plant species used for medical purposes and others such as Rotin, *Rauwolfia vomitoria*, *Piper guinesse*, *Xylopi aethiopica*, *Kilinga erecta*. The quantity exported every year varies between five and 10 tons.

The different taxes on these products are the following:

- **Technical taxes:** They are set according to a decision from the General Management of the Office for Regulation and Trade and of the Monitoring of Conditioning of Agricultural Produce (ORTMAP). The taxes are declared as follows:
 - *Piper guinesse* (wild pepper) = 7 FCFA/kg
 - Bark of *rauwolfia vomitoria* = 15 FCFA/kg
- **Dues on issuing the Certificate of Origin :** These dues are paid to the Forestry Office and are set at 1,500FCFA per CO (this certificate does not take into account the volume of produce); and
- **Customs taxes on export:** Exit duties and tax on turnover for export.

According to the Technical Services of the ORTMAP, the statistics on these products are not kept because the irregularities noticed in the export of these products is often carried out fraudulently in the direction of Nigeria (notably wild pepper and the *Xylopi aethiopica*). However, it is estimated that a quantity of three tons/ha of wild pepper is taxed, which is equivalent to a profit gain of 21,000 FCFA/year for the ORTMAP.

Another product which is consumed a great deal locally is the maranthacée leaf which is used for packaging and other cooking purposes.

2.2.2 **Taxes on services provided by forests**

In the area of hunting, forests in the Southwest and the east are overflowing with many species of mammals, birds and many families of reptiles and insects. Traditional hunting is

widespread in these areas and is practised all year round. Game constitutes an enormous source of revenue and protein for populations in rural areas. Game meat is thus traded in towns where markets are stocked practically the whole year.

Sellers of hunting meat pay taxes to the tax services said to be a game traders licence. The hunters themselves pay for annual licences according to a particular category (small, average or large-scale hunting).

The management of the fauna, like forestry, is entrusted to the Department for the Environment for Water, Forestry, Hunting and Fisheries. This Department has put strategic orientations into operation, amongst others, the promotion of the setting up of private operators in the hunting safari networks, and ecotourism. Thus, three safari companies have permits in the forest areas. These companies pay amongst others, the lease payment and an area charge:

- **Lease payment** = 750 FCFA/km² of which 60% is paid to the territorial community and 40% to the SAA-FTD; and
- **Area charge** = 750 FCFA/km² paid in its totality to the SAA-FTD.

The following table presents the other taxes on hunting and fauna products.

Table 2 *Other taxes on hunting and fauna products*

Type	Amount
Guide licence	Native guide : 100,000 FCFA of guide licence + 35,000 FCFA of guide dues;
	Foreign guide 100,000 FCFA of guide licence + 200,000 FCFA of guide dues
Leopard licence	800,000 FCFA/head
Slaughter tax	It varies depending on the animal:
	eland = 800,000 FCFA/animal
	bongo = 1,000,000 FCFA/animal
	cephalope = 60,000 FCFA/animal
Taxidermy tax	5% of the total slaughter tax of the season for one person.
Large-scale hunting permit for tourists (LHP)	200,000 FCFA/person + 5,000 FCFA LHP processing costs ; + 200,000 FCFA (tourist dues) ; + 9,000 FCFA firearms permit – unregistered arms (FA) + 3,000 FCFA processing costs

2.3 *Taxes on transformed products*

Forestry companies (holders of harvesting permits) based in the Central African Republic are subject to the payment of forestry taxes, customs taxes and indirect taxes.

Several indirect taxes are generated through the economic activity of the forestry sector. They are: taxes on wages (spontaneous taxes), taxes on turnover (currently Value Added Tax or

VAT), exit duties (ED), taxes for social development (TSD) paid by holders of harvesting permits to personnel, company tax (CT), and the minimum fiscal tax (MFT).

All these taxes are applied to transformed products such as sawnwood and plywood.

2.3.1 Taxes on wages

These concern money from wages being retained at the source. Companies who transform forestry products are to take 5% of the net sums at the source to be paid to the account of the Public Treasury Department.

2.3.2 Value Added Tax (VAT)

It was instituted by law number 2000-001 of 29 February 2000 decreeing the Central African Republic's budget for the year 2000 and came into operation from 1 January 2001.

It is neither a new tax nor an additional tax. It replaces the Tax on Turnover (TOT) for which it make up its shortcomings. The general rate applicable to all operations is 18%.

Zero percent is applied to direct exports having been subject to a declaration issued by the customs services.

2.3.3 Exit duties (ED)

These are customs taxes. For transformation products like sawnwood and plywood, the exit duties are 10% of the taxable value.

In 1995, the share of ED (sawnwood, plywood and logs) in the total value of direct taxes was estimated to be 43% (1,046 million FCFA). This represents 53% of the total direct taxes from the forestry sector to the Public Treasury Department.

2.3.4 Taxes for Social Development (TSD)

They are set for each budgetary tax year on the amount of net retributions of all kinds, paid for or provided free of charge to a company's personnel during the civic year corresponding to the forementioned tax year. They represent 10% of the wage bill.

2.3.5 Company tax (CD)

This tax is only payable when companies make a profit. Indeed, at the end of each budgetary tax year, companies are supposed to assess their state of affairs. If results are positive, that is, if there is a profit, the tax services will deduct the amount of minimum fiscal tax paid as a down payment and companies pay the difference by way of company tax.

2.3.6 Minimum fiscal tax

This tax is paid off jointly by the licence paid in advance by those eligible for tax in three monthly payments and without forewarning before 31 January, 28 February and 31 March of the year following the end of the tax year, to the fund of the principal receiver of taxes. In the case of where the beginning of the activity took place during the year, if the amount of turnover or revenue is lower than 6 million, the minimum amount of tax due will be calculated for that year at *pro rata temporis* (article 15 of the 1998 Finance Law, modifying the clauses of article 125A 7 paragraph 1 of the General Tax Code).

Table 3 Amount of minimum tax

Turnover or revenue (FCFA)	Amount (FCFA)
Revenue of 0-50 million	1 million
Revenue of 50-100 million	1.5 million
Revenue of 100-200 million	2% of turnover
Revenue of 200-500 million	1.85% of turnover
Revenue greater than 500 million	1.70% of turnover

Source: Finance Law (1999)

2.4 Taxes on trade of forest products

2.4.1 History of production

Forestry harvesting was a small affair for a long time, the production of logs only reaching 100,000 m³ from 1960 onwards. Following that, it grew to reach a peak of 670,687 m³ in 1974. It was with the beginning of harvesting in the Sangha region (Southwest) towards the end of the 1960s that statistics on log production began to be kept. In 1966, log production reached 128,000 m³ then 260,000 m³ in 1984 with a peak of 400,000 m³ in 1973. Nevertheless, this production dropped to its lowest level in 1991 to 114,000 m³. It has continued to grow over the past number of years, culminating with 553,000 m³ in 1999.

Log production in the Central African Republic is subject to a great many ups and downs of all kinds. It is conditioned not only by the international market situation, but even the distance of this market limits the number of species for export, thus obliging companies just to concern themselves with species of great value in economic terms, such as species from the Méliacées family. The percentage of log exported, around 25-30% of the volume felled, is on the decrease since 1980, the foreign market essentially being Europe (almost 65% in volume).

Sapelli represents more than 75% of the volume of log exported and *Sipo* more than 20%, *Acacia*, *Kossipo* and *Tiama* make up the rest for export.

The place of sawnwood is dominating in the volumes of transformed wood (almost 80%). The changes in their production follow that of log. *Sapelli* represents approximately 60% of log sawn, *Ayous* around 30%, *Sipo* around 5%, *Acacia*, *Kossipo*, and *Tiama* less than 5%. For sawnwood, the domestic market is weak, being in the region of 20,000 to 25,000 m³. The percentage of sawnwood exports is close to 60%. Around 30% is sent to Europe, Chad, Sudan and some countries of the Central African Economic and Monetary Community (CAEMC). These figures have not grown for quite a while now.

The production of veneer (products almost all of which are exported) and veneer sheets (around 80% in *Sapelli*, 12% in *Ayous* and less than 5% for *Sipo*) has been falling since 1983. Plywood is maintaining its position somewhat better, half of its production being destined for local markets.

2.4.2 Main taxes on trade in forestry products

Four taxes are defined in the finance law. The main ones are tax on turnover for export and the exit duties on log and products having undergone a first transformation. In 1995, the proportion of exit duties in the total value of direct taxes was estimated to be 43% (1,026 million FCFA), this figure thus representing 53% of the total of direct or indirect taxes from the forestry sector destined for the Public Treasury Department.

Several indirect taxes are generated from the economic activity in the forestry sector. The four most important ones are:

- Taxes on wages;
- Tax on Turnover (TOT), which became Value Added Tax (VAT);
- Customs taxes on imported products;
- Social contributions paid by the holders of permits to the territorial communities.

The means of determining these taxes are:

- Tax on Turnover for export = 2% of turnover;
- Statistical tax = 0.25% of turnover;
- Tax on Central African Republic's shippers = 0.25% of turnover;
- Exit duties = 20% of taxable value (TV) according to the species per m³ exported (for log) or 10% of the taxable value according to the species per m³ exported (sawnwood and plywood).

From 1995 onwards, the finance laws reformed this taxation in the following areas:

- The 1995 finance law, article 53, in effect from 1 January 1995: the mercurial value per cubic metre of each species was set at 40% of the FOB value of the LM quality. Concerning sawnwood, veneer sheets and plywood, the mercurial value was set at 30% of the FOB value. It will be revised when required, at least once a year (before, this value was set at a quarter of the FOB value for all types of products).
- The 1999 finance law: exit duties applicable to wood (one of the customs taxes) are set as follows:

- log:	= 10.5% of the FOT value;
- sawnwood:	= .05% of the FOT value; and
- Minimum Inclusive Tax (MIT)	= 2% of the FOT value.

The FOT in the Central African Republic is determined every quarter by an inter-ministerial order.

2.5 *Other taxes*

In the schedules of conditions concerning permits for development and harvesting, there is a mention of particular clauses pertaining to the upkeep of tracks and listed roads as well as social clauses. The obligations that can be assimilated to these taxes are the following:

- The company is to contribute to the maintenance of all roads and tracks listed, these constituting the means of removing forestry products. They are also to take part in the construction or upkeep of works of art;
- The company must assure ongoing training and living conditions for its personnel, notably accommodation, sanitary and schooling facilities, built in durable materials;
- It is committed to receiving and granting the use of facilities to research projects in forestry and to students during study trips or during their professional training; and
- In the case of a breach of laws or forestry regulations, notably the clauses of the Forestry Code, the repression of offences is covered in the sixth clause. The penalties envisaged range from imprisonment to a fine varying from 100,000 to 1,000,000 FCFA according to the offence as well as other penalties laid down in the penal code.

3 ADMINISTRATION OF THE FORESTRY TAX SYSTEM

3.1 *Procedure for setting forestry taxes*

Law number 90-003 of 9 June 1990 relative to the Central African Republic's Forestry Code was promulgated by the President of the Republic having been presented to and passed by the National Assembly. It replaces the old Forestry Code which dated from 1961. The 1990 Code, unlike the 1961 code, was the fruit of large-scale concentration, interdisciplinary and inter-ministerial cooperation. Article 1 of this law stipulates that the present code has the aim of:

- Harmonising the priorities of making the forestry heritage profitable and the priorities of conservation through management in view of a natural balance; and
- Conserving and protecting plant formations to allow for their regeneration and to guarantee the perennial nature of forestry.

The code is divided up into seven parts, that is: the definitions and categories of plant formations, the usual rights of use, types of harvesting, the listing rules, taxation, procedures for cracking down on offences and transitory clauses. It is the masterpiece of the Central African Republic's forestry policy. Laws from this Code were taken and for this reason, decree number 91-018 of 2 February 1991 will be quoted in particular. This sets out the methods for granting permits for harvesting and development (PHD) and which institutes a mechanism for consulting local populations in forest areas for all questions pertaining to the harvesting of the forest. It should be highlighted that article 2 of this decree stipulates that only companies legally constituted in the Central African Republic with public, mixed or private capital, can request a PHD. All granting of forestry permits is accompanied by a schedule of conditions, which specifies the technical conditions of harvesting.

It is thus this Forestry Code which outlines forestry taxes. As it was said previously, the Code was revised by different finance laws from 1994 onwards. The finance law decrees the budget for the Central African Republic for a given year. It is then deliberated upon and passed by the National Assembly, then promulgated by the President of the Republic, the Head of State.

These finance laws directed by government policy modify certain clauses in the Forestry Code according to importance of forestry sector activities. The two official documents (the Forestry Code and the Finance Law) are published in the Official State journal, as well as in the public and private media.

Customs taxes and others, linked to export, are defined by the customs code. Their rates are also modified by the different finance laws. The same applies to indirect taxes, which are the taxes on turnover (TOT) on local sales and on transport, which today is called Value Added Tax (VAT).

3.2 *Collection of taxes and monitoring*

The administration and management of forestry resources are under the Ministry for the Environment of Water, Forestry, Hunting and Fisheries. This Ministry is responsible under general government policy for the drafting and setting up of national policy for forestry. It has the objective of studying, regulating, managing and monitoring all economic development

activities in forestry. The General Management of Central Services in this department is responsible for the application of development policy in the sector. For this reason, it more specifically monitors the harvesting of forestry resources, follows the changes in taxes and forestry dues and proposes their eventual re-evaluation. It includes two management sectors, that is, the Forestry Office and the Fauna Office.

The Forestry Office has the task of drawing up forestry inventories and development plans, of creating and monitoring forestry regulations, of keeping projects assigned to forestry up-to-date and issuing invoices for revenue pertaining to taxes and forestry dues.

The Regional Services Office is responsible for co-ordinating and supervising all activities of the Forestry Divisions (Regional Offices for Water and Forestry). Forestry Divisions ensure the monitoring of harvesting in forests; they do research and sanction all offences relative to forestry. They must monitor the harvesting of forestry resources and ensure the collection of the different taxes and dues of the department.

Concerning the evaluation of taxes, article 79 of the Forestry Code specifies that:

“The holders of permits are to present to the Forestry Office, before the 20th of each month, a state of affairs for the previous month indicating the number of cubic metres per species felled. When this state of affairs is judged to be exact, the Forestry Office establishes an invoice for revenue which must be paid in the thirty days which follow its reception. The products taxed (log and sawnwood) are thus evaluated, listed according to their quality and declared by forestry companies themselves to the Forestry Office.”

Concerning customs taxes and other indirect taxes, the Central African Republic's government signed a convention on wood harvesting with the General Surveillance Company (GSC), a branch of the GSC Forestry Division. It is responsible for declaring wood exports (declaration on the quality, quantity, price and revenue). This declaration implies the issuing of a certificate of verification (inspection of products before embarkation.)

In order to avoid an inaccurate registration of the production of forestry companies, article 10 of the schedule of conditions foresees having a worksite logbook which will be gradually completed as felling takes place. Information is recorded under the different headings (species, diameters, quality, length of trunk, the trunk volume, number and volume of billets etc.).

This document will be used for the purposes of producing monthly statistics and of monitoring by the services of the Forestry Department quoted previously. Tax evasion probably occurs either due to this worksite logbook being completed on an irregular basis or due to the irregularity and or inefficiency in the monitoring carried out by the monitoring services quoted previously also.

In the case of omissions and fraud which tend to modify or manipulate the decrease in volumes of wood felled, the holders of permits will be liable for a fine of 5 to 10 million FCFA. If this reoccurs, the pure and simple withdrawal of the harvesting permit will take place, in spite of legal procedures which will be undertaken by the holders of the permits.

With regard to the collection of taxes, this is done separately at the level of each structure to benefit from these taxes and according to the types of taxes:

- Forestry taxes: The invoices for revenue are issued by the Forestry Office in the name of the different beneficiaries. That is, the Fund for Forestry and Tourism Development (FFTD) which became under the 2000 finance law, the Special Allocation Account – Forestry and Tourism Development (SAA-FTD), the Office for National Property for the Account of the Public Revenue Department and the Towns.
- On reception of the invoices for revenue, special agents are responsible for collection for the SAA-FTD and the Office for National Property, the mayor of the town or the secretary general of the Town Hall or the accountant for the towns.

The invoices for revenue issued are paid either in cash or by cheque. The forestry administration is responsible for issuing only invoices for revenue. However, institutions benefiting from this are responsible for following up the collection of these taxes. In the case of non-payment, the institutions have recourse to two possibilities:

- To consult the General Finance Inspection (under the auspices of the Ministry for Finance) in order to take progressive steps with regard to the subjects concerned, leading sometimes to legal proceedings; or
- To consult the special commission responsible for collecting credit and debt from public and State companies. Legal proceedings could be undertaken in the case of non-payment with an enforcement notice and or a seizure of goods.

However, it can be noted that concerning all of these taxes together, the 2000 finance law put in place a regular monitoring system authorised by the Director General for Taxes and National Property for the whole country for those eligible for tax. During these regular monitoring operations, seizures can be carried out by Tax Inspectors supported by the Public Authorities. Inspectors can go to close establishments that have not settled all their fiscal debts.

The rights liquidated during these regular monitoring operations vary in penalties for which the amount is determined taking into account the clauses pertaining to each tax, and the behaviour of the person eligible for tax.

With regard to the production of primary statistical information on forestry production and utilisation, four structures are involved in this area. There is the Office for Study, Co-ordination and Projects of the Ministry for Water and Forestry, the Office for Foreign Trade at the Ministry for Trade, the Statistical Information Office at the General Customs Office and the General Surveillance Company (GSC) responsible for the monitoring of quality, quantity, and the price of wood before export.

The Office for Study, Co-ordination and Projects of the Ministry for Water and Forestry centralises all the statistical information from other structures.

The Office for Foreign Trade at the Ministry for Trade registers export declarations from Customs who are responsible for specifying the value of exports. There is thus a sharing of information between the Ministry for Trade and the Customs Office in relation to wood exports.

The General Surveillance Company, following its monitoring operations, issues a certificate of verification to wood exporters. At the end of each year, it produces statistical information on the production and export of wood.

3.3 Intervention of the different levels of government in fiscal administration

As it was mentioned previously, the forestry fiscal administration is based on a main law which is the Forestry Code. This Code is modified according to the content of the different finance laws which set the State budget for a given year.

The initiative in the legislation contained in the different finance laws comes from the Ministry for Finance. The technical offices concerned make their proposals, and following discussion in commissions, are presented to the government in a cabinet session. When passed by the cabinet, the proposals are presented to the National Assembly for passing and are then promulgated by the Head of State.

The technical services and the heads of the Department of Finance are to defend and justify their proposals at all levels in the procedure for passing the bill. These proposals take into account the transparency and the adaptation to market demand.

It should also be mentioned that the government had the audit of the forestry sector re-read by the Forestry GSC. The conclusions of this audit guided to a great extent the reforms in forestry taxation.

There is no efficient liaising process between the different administrations linked to forestry taxation in the country (the Ministry for Water and Forestry, the Ministry for Finance and the Ministry for Trade).

However, the ministries concerned have highlighted some common action:

- Inter-ministerial decrees (Ministry for Trade and the Ministry responsible for Forestry) setting the FOT values and the mercurial values of forestry products; and
- In accordance with the 2000-finance law, quotas on trees for export are set by the Ministry responsible for Forestry. The Ministries for Finance and Forestry will take all the necessary means in order to monitor the carrying out of these measures.

4 TOTAL AMOUNT AND DISTRIBUTION OF REVENUE COLLECTED

As a reminder, the different taxes paid by the forestry sector are the following:

Direct taxes	<i>Forestry taxes</i>	Surface area tax (or rent)
		Felling tax
		Reforestation tax
	<i>Customs taxes</i>	Exit duties
		Statistical tax
		Dues for Central African Republic's shippers
		Tax on turnover on export (TOTE)
	<i>Hunting taxes</i>	Licence
		Lease payment
		Area charge
		Guide licences and dues
		Leopard licence
		Slaughter tax
Taxidermy tax		
Permit for large scale hunting and for hunting guide		
Firearms permit + dues + processing costs		
Indirect taxes	This tax includes taxes on wages, the TOT/VAT and customs taxes on imported products.	

An estimation of these taxes was done by and audit of the forestry sector carried out in 1997. The data is estimated on the basis of taxable volumes for 1996. The following table, from the audit of the forestry sector presents a summary of taxes and their redistribution for 1996.

Table 4 Summary of taxes and distribution for 1996

Taxes	Amount in 1996 (FCFA)
Surface area tax	259,000,000
Felling tax	812,000,000
Reforestation tax	273,000,000
Exit duties	676,000,000
Statistical tax	30,000,000
Dues for Central African Republic's shippers	30,000,000
Tax on turnover on export	240,000,000
Indirect taxes	2,576,000,000
Total tax revenue	4,896,000,000
Distribution	
Public Revenue Department	3,991,000,000
FFTD	580,000,000
Towns	325,000,000

Note: the data from the audit of the forestry sector come from a theoretical tax collection calculated on the basis of taxable units: Surface area tax = 2,069,106 ha of PHD based on 25FCFA/ha of PHD, Felling tax = 305,464 m³ based on 5% TV according to the species; Reforestation tax = 4.644 m³ exported based on 10 % TV according to the species.

Public institutions to which the taxes are paid are the following:

- Public Treasury Department;
- The Fund for Forestry and Tourism Development (FFTD) became in 2000 the Special Allocation Account – Forest and Tourism Development (SAA-FTD); and
- The towns in which the forestry harvesting permits are in application.

The following tables present the total amount of these different charges in FCFA during the past five years as well as their distribution.

Table 5 *The total amount of different charges over the past five years and their distribution (in FCFA)*

Designation	Year				
	1996	1997	1998	1999	2000
Felling tax					
Treasury	152,142,944	410,920,441	633,789,698	646,685,069	837,244,800
FFTD	175,431,134	468,298,503	524,628,940	484,085,119	627,933,600
Towns	109,905,838	293,514,416	479,330,865	491,471,433	627,933,600
Total	437,479,916	1,172,733,360	1,637,749,503	1,622,241,621	2,093,112,000
Surface area tax					
Treasury	104,244,825	137,077,950	322,041,850	627,876,690	702,361,590
FFTD	72,504,490	91,385,300	140,700,190	269,090,010	301,012,110
Total	176,749,315	228,463,250	462,742,040	896,966,700	1,003,373,700
Reforestation tax					
Treasury	0	0	71,342,139	126,403,132	140,775,840
FFTD	228,320,457	321,713,965	233,441,480	264,336,699	281,551,680
Towns	0	0	70,133,917	131,173,799	140,775,840
Total	228,320,457	321,713,965	374,917,536	521,913,630	563,103,360
Deposit tax					
Trésor	14.950.400	0	0	0	0
Transfer tax					
Treasury	6.840.000	0	0	0	0
FFTD	4.560.000	0	0	0	0
Total	11.400.000	0	0	0	0
TOTAL	868,900,088	1,722,910,575	2,475,409,079	3,041,121,951	3,659,589,060

Source: Statistical directories (Ministry for Water and Forestry). Note: the data from the invoices for revenue issued from the Forestry Office of the Ministry responsible for forests. All values are expressed in FCFA.

Table 6 *Distribution of forestry taxes in 1996 and 2001*

In 1996	State Treasury	FFTD	Towns
Surface area tax	60%	40%	0%
Felling tax	40%	40%	0%
Reforestation tax	0%	100%	0%
In 2001	State Treasury	SAA-FTD	Towns
Surface area tax (rent)	70%	30%	0%
Felling tax	40%	30%	30%
Reforestation tax	25%	50%	25%

Revenue from hunting activity comes from several types of taxes, that is: licences hunting permits, firearms permits and processing costs, lease payments and area charges. These

different taxes are generalised for the whole of the country and not per ecological region. For the total revenue from hunting activity, see Table 7.

Table 7 *Revenue from hunting activity and its distribution during 1998, 1999 and 2000 (in FCFA)*

Designation	1998	1999	2000
Licence	6,750,000	7,500,000	7,500,000
Guides licences	2,400,000	2,400,000	3,270,000
Dues on guide licences	3,730,000	3,955,000	n.a.
Statistical tax	27,448,500	54,267,000	40,712,250
PLH, FP+ dues and processing costs	48,172,925	70,455,000	n.a.
Area charge	27,448,500	54,267,000	40,712,250
Slaughter tax	116,786,000	175,000,000	n.a.
Leopard licence	2,400,000	8,000,000	4,100,000
PLH for hunting guides	2,106,500	2,885,000	n.a.
Taxidermy tax	2,106,500	2,500,000	n.a.
Total	239,842,425	381,229,000	n.a.
Distribution			
Public Revenue Department	64,505,500	94,510,000	n.a.
SAA-FTD	125,553,825	205,953,800	n.a.
Towns	49,783,100	80,765,200	n.a.

The following table presents the historical information on part of these taxes.

Table 8 *Historical information of taxes on trade of forestry products*

Year	1991	1992	1993	1994	1995	1996	1997	1998	1999	TOTAL
Production (in thousands of m3) and turnover (in millions of FCFA)										
Production for export	63.0	84.2	77.4	122.0	103.3	72.9	111.3	189.4	218.3	1.041.8
- log	31.5	45.5	43.3	84.2	72.8	41.6	63.9	116.9	153.7	653.5
- sawnwood and plywood	31.5	38.7	34.0	37.8	30.5	31.3	47.4	72.5	64.6	388.3
Production for local markets (sawnwood and plywood)	22.1	30.3	25.0	32.3	30.6	16.8	19.1	21.8	18.7	216.7
Turnover	10.395	13.983	12.771	20.130	17.000	12.000	18.364	31.251	36.000	171.804
Customs taxes (in millions of FCFA)										
Exporters Turnover Tax	207.9	227.9	255.4	402.6	340.0	240.0	367.3	625.0	720.0	3.436.1
Statistical tax	26.0	34.7	31.9	50.3	42.5	30.0	45.9	78.1	90.0	429.5
Taxes on Central African Republic's shippers	26.0	34.7	31.9	50.3	42.5	30.0	45.9	78.1	90.0	429.5

5 PUBLIC SPENDING IN FAVOUR OF THE FORESTRY SECTOR

The administration and management of forestry resources are entrusted to the Ministry for the Environment, Water, Forests, Hunting and Fisheries. For the financing of action in the development of the sector, organisations were set up under the auspices of the Ministry. At the outset, towards the end of the 1960s, three offices came into being. They were:

- The National Forestry Office (NFO);
- The National Centre for the Protection and Development of the Fauna (NCPDF);
and
- The Central African Republic Tourism Office (CARTO).

The organisations were dissolved in July 1993 to be replaced the same year by another one for financing activities, which was the Fund for Forestry and Tourism Development (FFTD). This public establishment endowed with legal powers and financial autonomy was created by order number 93-0111 of 8 July 1993. It had the mission of financing the Development Programme for the Forestry, Fauna and Tourism sectors and to ensure the follow up and monitoring of the carrying out of these actions.

The net assets as well as the other resources of the organisations mentioned above (ONF, NCPDF, and CARTO) are allocated to the FFTD. These statutes were approved by decree taken by the Cabinet.

The FFTD was dissolved by the January 1999 finance law and was redirected a year later under the form of a Special Allocation Account – Forestry and Tourism Development (SAA-FTD). The 2000-finance law which created the Special Allocation Account of the Public Revenue Department specifies that the operations on these accounts are planned, authorised and carried out in the same conditions as those operations for the general budget. The total amount of spending pledged or ordered for these accounts at no time can exceed the total amount of revenue in those accounts.

Still according to the 2000 finance law, revenue from this account is made up of:

- Taxes and dues from forestry, hunting and tourism;
- Subsidies, donations, legacies and aid;
- Borrowings;
- Seized products;
- Products from services rendered.

Authorised expenditure on this account is the following:

- The carrying out by law or in business of equipment work programmes;
- Operating expenditure, fuel, material and supplies from the special account;
- National payments to international forestry and tourism organisations; and
- National counterparts for the financing of projects.

The distribution of spending between these four posts is set annually by joint decree from the Minister for Finance, the Minister for the Environment, Water, Forestry, Hunting and Fisheries and from the Minister for Tourism. The clauses concerning the operation and current management of the account are set by order from the Minister for Finance.

The FFTD being the main public forestry institution, the summary of its budget for the year 2000 is the following:

Table 9 *Summary of FFTD budget for year 2000*

Titles	Resources (FCFA)	Expenditure (FCFA)
Forestry revenue	735,000,000	
Hunting revenue	150,000,000	
Tourism revenue	65,000,000	
FFTD equipment		57,000,000
Forestry programmes		284,000,000
Hunting programmes		70,000,000
Tourism programmes		121,526,000
FFTD operations		87,671,000
Contribution to organisations		87,000,000
Project counterparts		227,803,000
Redundancy payments		15,000,000
Totals	950,000,000	950,000,000

The information in this table comes from FFTD book-keeping. These amounts are those actually collected during 2000. The differences with the data in Table 5 come from the fact that it is the end of the tax year. Certain invoices for revenue issued in the name of the FFTD by the Forestry Office have not yet been paid by the companies due to pay them. This reflects the problem of tax collection evoked in Section 3.2. Table 11 gives details of spending of activities for 2000. Table 10 reiterates the total revenue as well as spending in favour of the forestry development for the past five years.

Table 10 *Total revenue and spending in favour of forestry development 1996-2000 (in thousands of FCFA)*

Titles	Years				
	1996	1997	1998	1999	2000
Revenue	867,483	864,909	1,152,359	703,132	1,507,562
Spending					
Reforestation, development and protection of forests	108,569	149,432	182,392	168,704	301,946
Teaching	0	720	50	4,215	4,260
Training and work experience	0	0	8,852	10,765	14,389
Forestry research	0	21,537	28,128	4,214	1,640
Total spending	108,569	171,689	219,423	187,899	322,234
Spending compared with revenue	12.5%	19.8%	19.0%	26.7%	21.3%

Table 11 *Details of spending on activities for year 2000*

Titles	Amount (in FCFA)
Forestry programmes (29.8% of spending)	
Equipment for heads of worksites	1,000,000
Equipment for forestry guards	2,500,000
National tree day	6,000,000
Seedlings (seeds and bags)	7,000,000
Follow-up and monitoring of forestry activities	44,500,000
Meetings, seminars, conferences and workshops	20,000,000
Environmental programme	10,000,000
Fishing and pisciculture	3,000,000
Follow-up committee, Yaoundé declaration	12,000,000
Reforestation work and other in the Regional Offices for Water and Forestry	178,000,000
Total	284,000,000
Personnel costs (4% of spending)	
Wages	25,956,000
Social contributions	2,015,000
Other premiums and medical expenses	10,930,000
Total	38,901,000
Operating costs (9.1% of spending)	
Total	87,671,000
Contributions to international organisations (9.1% of spending)	
Forestry organisations(OAB, OIBT, PNVE, Basin of Lake Chad)	64,000,000
Fauna organisation (OCFSA)	10,500,000
Tourism organisations (OMT)	12,500,000
Total	87,000,000
Counterparts in financing conventions (23.9% of spending)	
AIAF project	103,000,000
Cell for Forestry Management(Berbérati)	70,000,000
ARC/CFD/ SAA-DFT	15,000,000
ECOFAC/RCA	27,000,000
PRGIE	12,803,000
Total	227,803,000

As it was mentioned for Table 9, data for Table 10 comes from the FFTD accounting and the difference with data in Table 5, comes once again, with the delay in collecting the invoices for revenue.

It should be pointed out that the central State budget through the intermediary of the Public Revenue Department finances the operations of the Ministry for the Environment, Water, Forestry, Hunting and Fisheries and the institutions for forestry training which are:

- The programme for forestry engineers and higher technicians in Water and Forestry at the Higher Institute for Rural Development (HIRD) at the University of Bangui; and
- The programme for technicians in Water and Forestry at the Rural Development Technical College (RDTC) in Grimari.

It should also be noted that as well as students choosing the water and forestry option, these establishments also train students of other disciplines such as agriculture and livestock breeding.

The table to follow presents the summary of this expenditure from the Public Revenue Department for the Ministry for the Environment, Water, Forestry, Hunting and Fisheries and the two training establishments for the past five years.

Table 12 *Spending from the Public Revenue Department for the operations of the two training establishments and the Ministry responsible for forestry (in thousands of FCFA)*

Titles	Years				
	1996	1997	1998	1999	2000
Operations of training establishments	72,000	49,978	46,500	79,400	79,400
Personnel of Ministry for Water and Forestry	336,484	285,484	323,053	323,053	323,053
Current and misc. expenditure from the Ministry for Water and Forestry	48,809	42,118	42,800	42,800	42,800
Total	515,253	412,353	377,580	457,293	445,253

Source: Finance law

In the area of investment, the forestry sector was subject to continuous government attention as the importance of projects carried out in the different areas demonstrates. In the area of forestry:

- The «*Application of Research to the valuing of Forestry Resources (ARFR)*» project. It operated from 1978 until 1985 and intervened in the areas of forest and the savannah.
- The Programme of Preparation of Forestry Projects (PFP). In 1982, the Central African Republic's government obtained from the World Bank the backing for the realisation of the study of the forestry sector which then gave rise to several studies aiming to know, manage and protect natural resources, a study financed by the Agency for International Development (AID); a study carried out with the support for maintaining and developing the forestry industry, the production of a dendrology manual to know better the forest species, the taking of aerial photographs of forestry areas and cartography of forestry formations in the Central African Republic.

- The Project for the Management of Natural Resources (PMNR) was the most important forestry project financed by the World Bank at a cost of 26 million US dollars. This project had four aspects: a forestry inventory, agri-forestry, support for the management of reserves and national parks, and the restoration and reinforcement of the Ministry.
- The conservation and rational use of ecosystems in Central Africa, which is a sub-regional project financed by the European Union.
- The Project for Conservation and Rational Management of dense forests in Bangassou financed by several sponsors.
- The Programme for Participative Management of Natural Resources (PPMNR) financed by German Technical Co-operation (GTC).
- The Regional Management Programme and Environmental Information (RMPEI).
- The support project for the realisation of forestry development plans financed by the French Development Agency.
- The Development Project of the Salo forest financed by the French Development Fund (FDF).

The following table regroups the public investment in favour of the forestry sector from 1992-1997.

Table 13 *Public investment in the forest sub-sector 1992-1997 (in millions of FCFA)*

Years	Initial forecast	Realisation of spending			Rate of realisation	
		Foreseen spending	Unforeseen spending	Total spending	Foreseen spending	Total spending
1992	1,378	1,180	376	1,556	86%	113%
1993	1,615	1,408	49	1,457	87%	90%
1994	2,518	2,412	308	2,720	96%	108%
1996	1,308			374		29%
1997	770			677		88%

Source: Reports of realisation of State investment (Ministere for the Economy, Ministry for Planning and Ministry for International Co-operation, 1992-1997).

Table 12 presents the spending carried out, foreseen in the State budget for the years 1996 – 2000 in favour of public forestry institutions (training establishments and the ministry responsible for forestry). The spending was done with revenue from several State sources (the Public Revenue Department). With regard to Table 13, it presents the amount of investment carried out by the State in the area of forestry (the projects) based on borrowings and foreign subsidies.

6 DISCUSSION AND CONCLUSION

6.1 *Overall evaluation of the forestry tax system*

The main forestry taxes applied in the Central African Republic are the surface area tax which constitutes 40% of forestry revenue, felling tax applied on the volume of wood felled and the reforestation tax on the volume of log for export.

The taxation system must allow the State to benefit from revenue which it has the right to expect while still leaving the different operators a normal profit margin, that is, comparable to that obtained in other economic activity. Thus, the system must endeavour to maximise State revenue through dues and amounts to pay to benefit forestry. However, the amount of dues and taxes must be in relation to the state of the market and the effective possibilities for valuing economic development.

From the point of view of forestry tax, the price or total amount of dues is in part constituted upstream from the network. This upstream taxation corresponds to the following objectives:

- Increasing the cost of access to the resource should commit the operator to limiting wood losses at all stages of harvesting and to increasing transformation efficiency so as to economise on the resource; and
- Linking the price to the area of land harvested encourages the operator to increase the amount taken on the surface area allocated. This brings about a greater range of species harvested and should lead to research in new markets.

The surface area tax which became a rent which is one of the constituents of this upstream taxation and which represents, let us recall, 40% of forestry revenue, would lead to a reduction in waste and wood losses on worksites, leading to a rationalisation in the management of felled trees without great changes to the volumes taken from forests. The disadvantage is that the dimensions and riches of permits (concessions) are not the same for all companies although they are all subject to the same rate of taxation. Due to the heterogeneousness of the tree stocking, the risks of arbitrary treatment of different operators is encountered, they being obliged to pay a uniform price for species with different commercial potential. This taxation could be detrimental for sustainable management for an operator for example, who has a large transformation unit with a surface area available to him which is poorly stocked, leading him to shorten rotation time in order to maintain the flow of log coming into his factory.

Taxes on volume (felling tax and reforestation tax) have the advantage of allowing differentiated treatment of species and encouraging by means of a low tax, the promotion of harvesting of so-called secondary species. They are flexible, depending on transport costs for each cubic metre and therefore contribute to the harvesting of the most remote and faraway forests.

Taxes on the volume felled depending on the mercurial value, and thus differentiated according to the species, have the advantage of limiting the selection for harvesting only the accessible plantations, and allows for taking into account the other rare species. On the other hand, this taxation requires a monitoring of the terrain which is closely followed up by the forestry administration.

Taxes on export of which the most significant are the customs exit duties currently based on the FOT value, constitute 53% of direct taxes destined for the Public Revenue Department because these are the taxes most suitable for collection and for which, in principle, the possibilities for fraud are most reduced. It is for these reasons that it is necessary to reserve a significant share for them in the taxation system.

This taxation has become more important because log quotas for export (which are taxed at 10.5% of the FOT value in the Central African Republic) is set according to the 2001 finance law concerning local transformation. The volume of log exported is equal to the volume of sawn wood exported. To encourage companies to widen their production range per species, the export quota of so-called secondary species to be promoted is not limited for the moment.

Since the exit duties are more of the important resources for the Public Revenue Department and that their collection is efficient and does not pose great many problems with regard to fraud, it can be estimated that forestry taxation is heavy downstream and could discourage exporters. However if taxation upstream is too low, the State loses on fiscal resources. The current system sets the taxable value for each species in the form of mercurial values. The tax is applied in principle on the volume of log felled or on volume in the form of sawnwood exported for 27 species. Currently the mercurial values in relation to log are defined by taking 40% of the FOB value by LM quality. These values are estimated from sources such as the « *Tropical Markets* » magazine, however the system lacks a little transparency and is not only adapted to market demands and does not allow for adjustment of mercurial values according to market fluctuations.

In particular, the system takes into account neither the quality of the wood nor the necessity of carrying out reductions on volume to consider faults, changes caused by pathogens and the presence of sapwood. The system could benefit from certain procedures and the drafting of the following documents:

- A three-monthly report on tropical wood markets, including a press release for general information on economic reports and use by the forestry administration and the customs services;
- A FOB values grid on the domestic market for information from the government and the production of an economic report, for the revision of taxable values, for the checking of prices aimed at fighting against the evasion of capital and to adjust the tax benefit in cash (depending on turnover and the sales prices);
- A FOB Douala price grid to be a reference point for Central African Republic's exports for a group of species as defined for taxable values;
- A « Central African Republic's exports » price grid adjusted at 40% of the FOB Douala prices for log; and
- A table of taxable values.

According to the audit of the forestry sector done in 1997, the cost of tax collection for the 1996 tax year was 26 million FCFA with net profits for the State of 4,870 million FCFA. Therefore, the costs of collection are sufficiently low compared to the amounts received.

The government could increase revenue that it receives from the forestry sector by first of all increasing the efficiency of its collection methods. Tax reform in the area of wood harvesting has just been passed in recent finance laws (1999, 2000 and 2001). Their effect will be awaited before any other increase in taxes. What there is room to do is to reinforce monitoring and follow up operations.

6.2 *Impact of tax system for forestry on sustainable forest management*

For some years now, there has been a worldwide awareness concerning the limited aspect of forestry resources, the erosion and the destruction of tropical forests. In this context, felling which has neither planning nor management involved is no longer acceptable. All use of forestry resources should rest on the principle of sustainable management. The Ministry for Forestry has the responsibility of establishing management plans and the schedule of conditions containing all the necessary elements for monitoring sub-tenders who fell, unload and transport wood in the framework of the PHD. Current legal requirements concerning forestry management operations are to be outlined in the management plans drawn up by the Ministry.

As a result, all fiscal reforms aiming to increase State revenue should, either come from the Department responsible for forestry, or beforehand have the agreement of this department because all tax systems have a bearing on the behaviour of companies and thus the long term use of forestry resources. It is noticed that putting the totality of productive forestry areas into production and an increase in wood production represent possibilities for increasing tax revenue.

The Forestry Code, which is remarkable in its clarity of vision, is based on the management of the forestry patrimony and in certain clauses, notably in reference to the illimited duration of permits. Given the recent acceleration in the sector's development, it is necessary to examine again some legislative bases in order to promulgate new laws especially in relation to the allocation of permits, management norms to add to the PHD schedule of conditions, rights of use, the role of local populations and forestry taxation.

For social aspects, current legislation recognises the rights of use of local populations and regional forestry services issuing a public notice and ensuring that local communities in a PHD area, are correctly informed and that a procedure for collection observations and objections is foreseen. Since the recognition of PHD as forestry areas must be accepted by populations and that they make a financial profit from forestry activities, they are systematically involved in the follow up of forestry operations.

Local communities, through the intermediary of towns, receive a share of forestry taxes thus making up a separate accounting system and which is destined exclusively to meeting the needs of towns. This collection of a fraction of forestry taxes is not synonymous with setting up an automatic partnership between those willing to undertake activity, that is the operators, the administration and local populations. The partnership must still be established and practised.

The risk is that such a measure might only be understood as a «right to take» profits provided by forestry, which does not modify practices and even encourages populations to accelerate and increase harvesting to benefit from a maximum of possible revenue. It would

be desirable that this partial redistribution of tax result in a negotiation process between the different parties involved aiming to establish the rights and duties of each one in the framework of participative management of PHDs. The use of revenue paid out could be decided as a group. The operators would thus commit themselves in social or development action which remains their responsibility whilst the other actions would be financed by tax revenue put at the profit of villages. This clarification of roles seems all the more desirable in that operators complain quite rightly, about certain local outbidding on social actions which are asked of them, whilst they pay new taxes which are supposed to serve to finance local development.

A taxation system which has an impact on sustainable forest management is based on upstream taxation. Now in order for this system to be efficient, there would be monitoring and follow-up of harvesting activities. It is obvious that respecting conditions imposed by the PHDs and the schedule of conditions pose a problem. The government cannot follow up industrial harvesting operations of natural resources appropriately through a lack of human and material resources concerning the Forestry Divisions (Regional Offices for Water and Forestry). Therefore, the following recommendations are given.

6.2.1 Training

The State is responsible for the training of its managers and technical personnel so that they know and understand the new regulations concerning legislation, and the tax and management systems. It must train monitoring personnel to (amongst other factors):

- Guide the PHD managers in the drafting of management inventories (note: this activity is being undertaken thanks to the Support Project for the realisation of management plans);
- Verifying and approving documents ;
- Verifying volumes harvested and abandoned in the forestry ; and
- Monitoring and following up harvesting activities.

The state must make sure that the managers employed by the forestry companies have an adequate training and if not, provide them with some.

6.2.2 Committee for monitoring and follow-up

Clear monitoring procedures should be established in order to allow for an adapted form of follow up for sustainable forest management policy, and forestry taxation moving more or less upstream from the network.

A committee for monitoring and follow-up made up of representatives from different ministries should be put into place to check, approve different documents and monitor the different aspects of proposed reforms.

The co-presidency of this committee is preferably assured by the Ministry for Finance. The composition of this committee could be the following:

- Representatives from the Ministry for Water and Forestry;
- Representatives from the Ministry for Planning;
- Representatives from the Ministry for Finance;
- Expert forestry managers.

The function of this committee is essentially a technical one. Moreover, the committee must provide recommendations to the ministries involved in the forestry sector. The monitoring is carried out on the different documents required during the allocation of PHDs and the documents drafted by harvesters when development is taking place.

Another type of monitoring could be carried out on the ground in order to evaluate the different activities and to check adherence to the schedule of conditions:

- Development and harvesting inventories;
- Harvesting work;
- Respecting norms and harvesting guides
- Volumes harvested; and
- Management of fauna.

6.2.3 Coordination of different administrative documents

Fiscal measures must also be accompanied by a reinforcement of collaboration between forestry administration and customs, notably by the use of the same documents for calculating dues and exit duties.

Offences highlighted to forestry harvesters and or holders of a PHD must be resolved within a given timeframe determined by the committee for monitoring and follow-up. Following a verification of the terrain, if the offences are still evident, the committee will be able to choose a sanction proportional to the seriousness of the facts noted. These sanctions can include:

- Warnings; and
- Extra fines.

6.3 Public spending on sustainable forest management

Public spending on sustainable forest management is carried out through two types of institutions, that is:

- The Fund for Forestry and Tourism Development (FFTD) which became the Special Allocation Account-Forestry and Tourism Development (SAA-FTD) for which resources come from taxes and forestry dues and others ; and
- The projects under the auspices of the Ministry responsible for the Environment and Forestry, receiving foreign financing for which the main sponsors are: the World Bank, French and German Co-operation, the European Union, the World Fund for the Environment, the International Organisation of Tropical Woods, and the African Development Bank.

Technical activities of the FFTD are essentially based on reforestation (plantations in savannah areas), the rehabilitation of eroded areas. They also support the Regional Offices for Water and Forestry and sometimes the ministry responsible for the Environment, Water and Forestry, the Ministry for Tourism, all counterparts in the projects.

Thanks to the projects, activities for the sustainable management of forests in the Central African Republic have begun. Two pilot management operations have been carried out with the SESAM Company in the Salo region and with the IFB Company in Ngotto. These pilot programmes have allowed for a definition of development techniques compatible on the one hand with possibilities of the forests, and on the other hand with the economic imperatives linked to industrial activity. These techniques have facilitated better reflection on the adequacy of harvesting and perennality of forestry plantations. This has thus secured that all this experience that the Central African Republic's government has set up in Berberati in the north-west of the country, since 2000, a cell for forestry management for which the aim is to carrying out for the Forestry Administration management plans for all the PHD in the different areas of forestry harvesting.

The other activities featured in the sustainable forest management carried out by the projects are the following:

- The trial plantations of fuelwood, roundwood and firewood;
- Study relative to the support, maintenance and development of the forestry industry;
- Production of a dendrology manual to obtain greater knowledge about the species in the dense humid forests;
- Taking of aerial photographs of forestry and peri-forestry areas to 1/20,000 and 1/50,000;
- Forestry inventory of the south-west area of the country;
- Biophysical management inventory for the agricultural forestry area of Bangui;

- Numerical cartography of the area under inventory on the support of the Geographic Information System;
- Conservation and rational management of the dense forest of Bangassou; and
- The participative management of natural resources around large cities such as Bangui and Bossangoa (reforestation work, plantations for enriching stocks and agricultural forestry).

Sustainable forest management requires knowledge of the forest massif with all its changing parameters (compositions, structure, growth, regeneration, enriching and shoots). For this reason, forestry research is essential for drafting a plan for sustainable forest management.

This management also requires qualified personnel for the follow-up and monitoring of activities pertaining to it. Unfortunately, these are the two areas (forestry research and personnel training) which are insufficiently financed. The improvement of the transformation system for forestry products, research into new areas for secondary species and supporting the agricultural production system with the aim of slowing the impact of itinerant agriculture around PHD areas can all also be added to this list.

6.4 *Impact of other fiscal measures on sustainable forest management*

The survival of the industrial sector is an ever more real worry when the added factor of searching to strike the balance between the production of wood matter and the protection of the environment is present.

In fact, itinerant agriculture, the extension of coffee plantations, mining and stocking of firewood are all activities which in general are badly controlled and which contribute to reducing the surface area of productive forests. Now the development of the forestry industry implies significant investment, which means that the specific purpose of land be clearly defined. This thus involves an injection of fiscal resources in the agriculture sector such as taxes on coffee, tobacco and palm oil production and export. This measure could be widened to include taxes from hunting and mining activities from safari companies and miners having concessions in productive forestry areas.

In the context of Mutual Obligations on Wood (MOW), STABEX forestry revenues layed down by the Lomé convention that ties together the developing countries (ACP countries) to the European Community, will have to be spent as a priority within the forestry sector.

6.5 *Attitudes in the face of change*

The valuing of resources in the Central African Republic began after the Second World War. After a phase of knowledge of the resources characterised by many forestry inventories, the country's new resources were open for harvesting at the beginning of the 1970s. So as to better integrate the forestry sector into the Central African Republic's economy whilst still ensuring the conservation of the patrimony, the State set three main long term objectives in its 1986-1990 five year plan and reiterated in its declaration of sectorial policy in November 1988. It concerns:

- Preserving the natural balance in forestry and ensuring the perennial nature of forestry by the mastery of management and development;
- Ensuring the valuing of forestry land and the rational use of its resources; and
- Protecting the fauna patrimony, mainly in savannah areas, so as to preserve it for future generations.

In order to reach these objectives, the State had an institutional and legislative framework and sought the support of sponsors in order to finance the development activities quoted previously.

Investment tax in the forestry sector for the past five years has been on the increase even if staff is still lacking in this sector.

Investment in the private sector in the wood industry has also been significant these past years thanks to government policy tending to encourage investors. In 1999, nine transformation units are still effectively in service: three sawmills and a plywood factory in Lobaye (IFB and SCAD), three sawmills in the Southwest, the Sangha-Mbaéré region (SEFCA and SESAM), and two sawmills in the Mamberé-Kadei region (SEFCA and Central African THENRY). It is planned that the following be set up during 2000-2001: a sawmill in Ngotto (IFD), a sawmill and a veneer sheets unit in the Sangha-Mbaéré region (SBB), two sawmills in the Mamberé-Kadei region (Colombe Forest and SOVOKAD). There is also a mobile sawmill having a special permit for felling which exists in Lobaye. All harvesters are thus in principle also transformers of wood products, but it should be said that the industrial fabric in place does not only stop at the first level of transformation. The total capacity installed in transformation units is very little known because certain installations are obsolete so they no longer render their original output. Real production currently represents 35-40%. Harvesting methods are those which are commonly used in dense tropical forests with felling and cutting up which leave almost 40% of wood products on felling which is actually a loss of this potentially tradable wood produce of 10-15%. The government decided to write in ways and means to remedy these losses into the Plan for Agricultural Development.

The evacuation of log or transformed products was done either via the river from Oubangui-Congo to Brazzaville and then via the Congolese railway to the Pointe Noire port. Otherwise, there was the other option of the road to Belabo to Cameroon then by road or railway to the Cameroon port of Douala.

Taking into account the social problems and navigating other routes, evacuation via Cameroon is the most used route. Government support for the extension of the Salo-Nola-Berbérati-Gamboula road by the road said to be the fourth parallel has helped a great deal, and now, it is the Cameroon road which is almost always used to this very day. The government was able to find sponsors, financial support for the realisation of two important bridges to replace the ferries on the Lobaye and M'Baéré rivers from the road said to be the fourth parallel. Other important work to put government assets in the forestry sector was the tarmacking, with foreign technical and financial support, for road number one linking Bangui-Bouar-Garaboulaye.

The Central African Republic is part of several agreements, conventions and treaties on the conservation and use of natural resources. The following can be quoted:

- Convention on the international trade of wild fauna and flora species threatened with extinction (CITES);
- Convention on biological diversity;
- Convention on desertification;
- UNESCO convention on world heritage;
- United Nations convention framework on climatic changes;
- International Agreement on Tropical Woods (IATW); and
- Agreement between African countries producing and exporting wood.

The various actions and commitments are the proof that the country is trying within its means, to respond to the challenge of development whilst still conserving its natural resources.

Various actions can aid the follow-up and reprise of the sector. These could include the modernisation of forestry companies, their participation in protective action, satisfactory equipment for the operations of the forestry administration (the administration, as it was previously stated, is unable to play its role due to a lack of means and sufficient training), the carrying out of teledetection work, cartography and production of inventories, a policy for listing forests and the setting up of pilot management programmes in dense forests. They can be actively followed up and researched with the aid of potential sponsors.

Administrative measures are becoming necessary because the impact of natural formations which agriculture can have and which will be gained by demographic development means that better co-ordination on administrative and political levels will be necessary especially with regard to the occupation of ground, mainly reconstituting a listed forest area, that is protected from all agricultural occupation. The adaptation of forestry and land regulations to improve the management of wood resources is necessary. For this reason, the 1998 order relative to the organisation of territorial communities which introduced the notion of forestry heritage, notably for villages and the decentralisation policy led since 1993 are a very useful support for populations interested in collective forestry action and to give back to the rural world the responsibilities for managing their heritage which is essential for the intensification of agriculture and the planning for the use of rural space.

One of the key actions, if not the most important at the moment, is that not only of seeing the realisation of management plans through the Support Project for the Realisation of Management Plans for PHDs, but also the setting up and follow-up of these plans by all parties concerned.

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