

# Support to private and community farm forestry in China

*J.L. Liu*

*In China, recent reforms allow the private sector to manage forests, but high forest charges and other institutional constraints may discourage private involvement in forestry.*

**M**acro-level political and economic reforms in China (the “opening up” policy begun in the late 1970s and the “socialist market experiment” introduced in the early 1990s) have led to changes in the forest sector intended to decentralize forest management and use and to increase public participation. In 1983, the “household responsibility system” was extended to the forest sector, giving individual households the responsibility for managing a large share of collective forest land. By 1985, it was estimated that private entities accounted for over 50 percent of the increase in forest area (Li *et al.*, 1988). In the mid-1980s, the forest products market was also liberalized. Since the early 1990s, the right to extend and auction leases and to sell land-use rights, including use rights to State-owned forest land, has been introduced.

Allowing the private sector to manage forests can make forestry more profitable, but the private sector has to be given the freedom to manage the forests to make a profit (particularly if there are very high taxes in place). The potential for private participation in forestry to provide benefits to people in China depends on three fundamental requisites: suitable channels of participation, rational benefit-sharing mechanisms and favourable land and tree tenure arrangements (Liu, 1999).

As this article shows, the reforms in China have undoubtedly boosted public participation in forestry, but they could possibly be made more effective. In particular, there is a need to pay more attention to incentives for stimulating public involvement, encouraging sustainable forest management and increasing the profitability of forestry.

## China's forestry objectives

Although China is the country with the world's fifth largest forest area, it has only 0.1 ha of forest land and 7 m<sup>3</sup> of growing stock per capita (considerably less than the world averages of 0.6 ha and 71 m<sup>3</sup>, respectively) and only 17.5 percent forest cover (FAO, 2001). In 2001, imports accounted for 62 percent of the country's total wood consumption, a proportion more than 12 percent higher than in 2000 (State Forestry Administration, 2002). From an environmental point of view, 38 percent of the country (about 367 million hectares) is affected by soil erosion, while desertification is prevalent in 27 percent of the land area and spreads annually by a quarter of a million hectares (State Forestry Administration, 2000). About one-third of all grassland is subject to degradation. Biodiversity is also under threat, with 15 to 20 percent of the country's fauna and flora species report-

edly threatened with extinction (World Bank, 1994).

In response, the Chinese Government has placed great emphasis on forestry development for a variety of objectives – environmental enhancement, soil conservation, flood control, combating desertification, timber production and poverty alleviation. Today, China has the largest forest plantation area in the world with 45 million hectares; plantations account for 27.5 percent of the total forest cover (FAO, 2001). The government is seeking to increase the country's forest cover to 20.3 percent, 23.4 percent and over 28 percent of the total land area by 2010, 2020 and 2050, respectively (RGFSCS, 2002).

**Liu Jinlong** is Community Forestry Specialist, Associate Professor, the Sustainable Forestry Research Center, Chinese Academy of Forestry, Beijing, China.

### ENCOURAGING PEOPLE'S PARTICIPATION IN FORESTRY DEVELOPMENT

The national-level plans in China most relevant to forestry include the Environmental Plan (1998) and the Forestry Action Plan for China's Agenda 21 (State Forestry Administration, 1995). These plans have adopted the concept of public participation by including objectives such as the development of participatory monitoring mechanisms for environmental protection and increasing the level of democracy in environment-related decision-making and management. However, these plans do not clearly define how public participation should be implemented.

To meet their objectives, the plans stress the need to strengthen market-based instruments (e.g. auction) and to provide incentives to encourage the private sector or individual farmers to participate in the restoration, protection and management of degraded land. For instance, it is clearly stated that any private individual or group that afforests barren land could be awarded long-term, heritable land-use rights. In addition, the Forestry Action Plan proposed the establishment of an Environmental Benefit Compensation Fund to subsidize forest management for environmental functions. In 2001, 1 billion yuan (about US\$120 million) were allocated to this fund from the central government's

fiscal account for subsidies to forest management units.

From 1978 through 2000, ten programmes were launched to expand China's forest resource, targeted mainly at safeguarding and maximizing the environmental benefits of forests such as watershed protection, soil erosion control and biodiversity. They were traditionally implemented in a top-down manner. Examples include the Three North Shelterbelt Programme and water conservation programmes in the catchments of major watercourses. By 1999, these ten programmes had established a total of 38.4 million hectares of forest plantations. After 2000, they were integrated into a single programme, the Key Protection Forests Construction Programme.

Since the late 1990s, there has been a shift towards increased interest in community participation. The five new programmes developed since then – the Desertification Control Programme around Beijing and Tianjin, the Wildlife and Nature Reserve Construction Programme, the Commercial Forest Development Programme, and especially the Natural Forest Protection Programme and the Grain for Green Programme – have largely focused on targets for planting trees, but the need to offer support for rural communities to develop alternative livelihoods has frequently been pointed out.

The Natural Forest Protection Programme indicates that the government will "vigourously encourage private involvement in forest protection and management and gradually set up a new model of programme implementation which is market-economy-oriented and includes the participation of multiple stakeholders, including the private sector" (State Forestry Administration, 2000). In practice, most of the funds from the programme have been channelled to financially challenged State-owned forestry enterprises. This has led to great debate in China about how to bring rural communities into the programme, and is a reason why the State Forestry Administration is emphasizing market instruments and participation of multiple stakeholders in the programme.

The Natural Forest Protection Programme has succeeded in encouraging private-sector participation to some extent. For instance, in Heilongjiang Province, the household responsibility system has been promoted and expanded; this means that farmers can contract out a certain piece of forest land for management according to management criteria established by the forest authorities, with compensation from the Natural Forest Protection Programme. In Shaanxi Province, State-owned forests have been contracted out to rural communities or the private sector for management, and these farmers are compensated by the programme. In southwestern China, the government has been promoting the contracting of procurement and services such as raising seedlings, tree planting and guarding the forest to the private sector and individuals. The government has also begun to test a system of compensation for private forests which will remain protection forests for environmental services after the programme is implemented.

The Grain for Green Programme (whose full name is the Conversion of Farmland into Forests and/or Grasslands Pro-



*Before 2000, programmes directed primarily at environmental recovery, such as the Three North Shelterbelt Programme, established millions of hectares of forest plantations, but they were traditionally implemented in a top-down manner*

*More recent tree planting programmes demonstrate a shift towards increased participation and benefits for rural communities – this farmer has collected stalks from maize interplanted among the trees, for use as fuel and fodder*



gramme), introduced in western China in 2000, aims to reverse land degradation and soil erosion through the conversion of almost 1 500 ha of steep lands that are currently cultivated or barren into forest and pasture by 2010. It will do this by providing a mixture of food and cash subsidies in the first eight years (2 250 kg of grain in South China and 1 500 kg of grain in North China, and 300 yuan [US\$36] for management annually) and 750 yuan for seedling costs per hectare in the first year. At the core of this programme are the ideas of “voluntary participation by farmers” and “contracting private individuals”, but it is not yet specified how these ideas will be implemented.

#### **CONSTRAINTS TO THE IMPLEMENTATION OF PRIVATE AND COMMUNITY FORESTRY**

##### **Institutional arrangements**

China’s government has a complex hierarchy of administrative institutions. There are five vertical levels of forestry administration, including the State Forestry Administration, provincial and prefecture or city forestry departments, county forestry bureaus and township forestry stations. This hierarchical system of administration fosters an approach to forestry development that is top-down in terms of planning, project formulation and implementation and therefore does not lend itself easily to public participation. It also

implicitly encourages forestry staff at each level to be more concerned about answering to higher levels of the administration than about answering to other stakeholders. Forestry projects undertaken in this top-down system have been characterized by a lack of coordination among government agencies, low efficiency, financial “black holes”, the improper use of natural resources and low levels of participation (Liu, Ye and Zheng, 2000).

Twenty years of the “opening up” policy reforms have gradually created some space for participation by individuals and communities. Most importantly, while ownership of forest land remains in public hands (either State forest farms or collectives), forest utilization and management is increasingly being handed over to households, communities and private enterprises. In addition, responsibilities within the public sector are gradually being transferred from central towards local-level authorities. However, since 1987 the government has implemented a centrally determined annual allowable cut system, which makes it necessary to apply for a harvesting quota from the forestry authorities before any commercial harvesting can be carried out.

In 1994 Hainan Province implemented a logging ban in natural forests, and after implementation of the Natural Forest Protection Programme began in 1998, the provinces in the upper reaches of the Yangtze River and the upper and middle reaches of the Yellow River stopped all commercial logging. Rural farmers and communities lost their economic returns from the forests affected by the ban without any compensation from the project. There is a need for the Chinese authorities to reconsider the logging ban policy with the aim of enhancing sustainable forest management, rather than upholding a “do not touch” policy.

While local authorities receive project funds from the State Forestry Administration, they depend on local treasuries and their own revenue (from local charges and taxes) to cover recurrent costs such as staff salaries. Overstaffing is prevalent in many public forestry institutions, and it has drained financial resources and inevitably led to higher taxes and prices for forest products. It has also contributed to maintaining a high level of bureaucracy in forest management, which leaves less space for community participation.

### Forestry regulations

In general, the Forest Law of the People's Republic of China has not created a favourable environment for the promotion of community participation. There is no clause referring to community participation in forest management planning, project design, implementation, monitoring or evaluation, in any legislation relevant to forest management.

The law also allows for significant flexibility in interpretation. Although ideally this flexibility could be used to benefit local people, in practice local authorities are inclined to use it to take more control over forest resources to meet their own personal and institutional interests (even though this goes against the intent of government reform).

### Land and tree tenure

Unstable land tenure policy is a major factor affecting community participation in forest management (Liu, Ye and Zheng, 2000). Forest land in China is either owned by the State (41.2 percent) or by collectives (58.8 percent). Since the mid-1980s it has been legal to assign the use rights on collectively owned forest lands to private individuals and groups, and this liberty was extended to State-owned land in the 1990s, as a means of encouraging community forestry. However, ownership of trees and forests is often fragmented and ambiguous. (Although the scientific definition of forest includes land, China's Forest Law stipulates that individuals and the private sector can own trees and forests but not forest land, which is owned by the State or collective.) Further efforts are needed to clarify land and tree tenure and to implement legislation in this regard.

In less than 55 years, there have been five large reforms governing land-use rights for forest land. Evidence suggests that frequent changes in forest land-use rights – at a rate more rapid than the natural growth cycle of forest trees – affects

farmers' attitudes, diminishes confidence in property ownership and interest in forest management and results in the destruction of forests (Liu, Ye and Zheng, 2000; Ye, Liu and Lin, 2001). For example, when a policy of giving short-term leases to individuals to manage collective forests was implemented in the mid-1980s, a result was extensive destruction of forests in collective forest areas.

The limited right of communities to determine how forest land is used remains a problem. In many cases, the local authorities, in their efforts to strengthen forest management, interfere with farmers' decisions on what species to plant, when and how. Senior officials in Hunan and Inner Mongolia have explained that "a unified layout, afforestation and management strategy is considered a core requirement for the success of plantation and forest management" (Ye, Liu and Lin, 2001). The conflict between the need to plan and control tree planting activities and farmers' desires to determine when or what they should plant has not yet been resolved.

In many places, local authorities have issued a policy that the rights for forest land use will be revoked if bare mountains are not planted within three years, but have not addressed the constraints faced by farmers or helped the farmers to overcome them. In some areas, practically bare mountains or other wastelands are used by local communities for rangeland, rest places and collection of wood and non-wood forest products, and afforestation by other parties can impair the right of access of local people.

Another problem is that the implementation of land-use policies is subject to interpretation by local officials, whose views may sometimes differ from those of local people. The rights to manage forests should include control over what is planted and when, but in many rural areas forest regulations feature the words "forbidden"

and "banned", and farmers are forced to plant particular species. The current level of control by local authorities often dampens farmers' enthusiasm for participating in forestry projects.

### Incentives

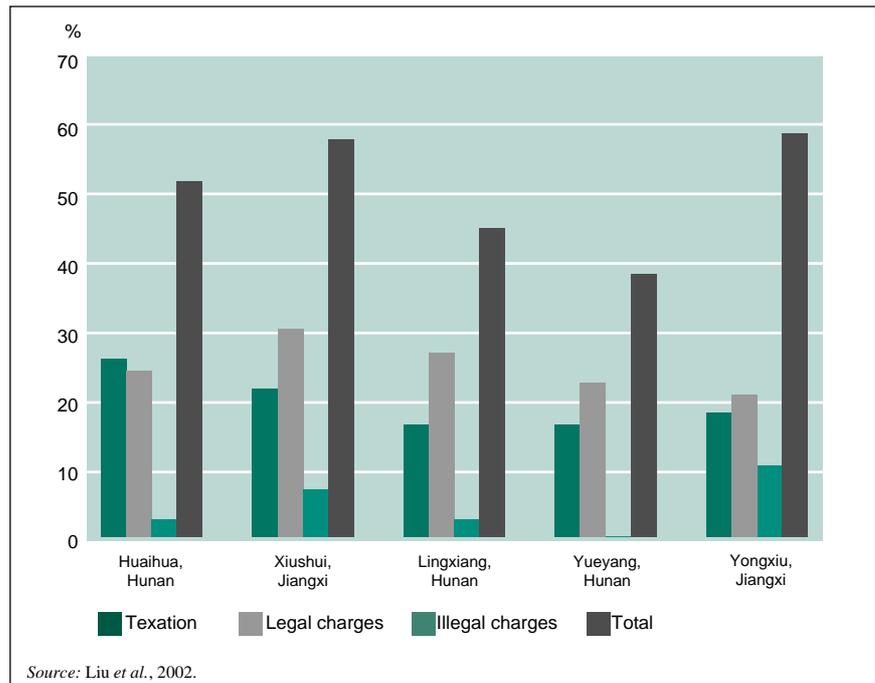
Although the importance of promoting community participation has been recognized, China needs to examine the incentives included in current forestry policies in terms of how they can improve the efficiency of government investment and increase the share of private-sector and community investments in forestry.

The central government's budget for forestry development increased dramatically after 1998. For example, by 2001, total annual forestry investment amounted to about US\$3.1 billion, of which US\$2.1 billion was from the central government. These figures are about 7 and 17.5 times higher, respectively, than in 1997. In contrast, community investment in forest development declined to less than 15 percent of the total in 2001, suggesting that the government has not been successful in encouraging other investors to join in its effort.

Most current incentive schemes financed from the central government's budget give priority to tree planting, for example for flood prevention in downstream areas, which primarily benefits rich and urban regions. Most of the forestry development programmes are not focused on providing benefits to rural communities and people living in hilly or mountainous regions.

An exception is the most recent programme, the Commercial Forest Development Programme, which has proposed a set of market-based tools for private-sector and community participation and explicitly targets market-oriented community-based enterprises. The tools include a government subsidy for planting (10 percent of total investment for planting)

**Forestry taxation and charges in five areas – percentage of timber value**



and non-State forest enterprises (an additional 5 percent of planting costs for a minimum area) and a subsidy for loans for afforestation.

### Taxation and charging

In 1994, the central government reformed the centralized fiscal system to divide power between the central and local governments. This “decentralized fiscal reform” has had some positive impacts on forest management, but they have probably been outweighed by the negative impacts. For example, because most of the revenue from forest charges goes to the local government treasury, local governments usually try to collect as much as they can from forest charges. This problem is exacerbated by the fact that forests are often located in poor regions where local governments suffer from a shortage of revenue and see the forests as a vital source of funds.

The Figure illustrates the total burden of forestry taxes and other charges in several areas (Liu *et al.*, 2002). It shows that total forest charges can amount to as much as 50 percent of the value of timber sales. Of the total forest charges, government taxes account for about 40 percent, while other legal charges account for about 55 percent. Such high charges are a disincentive for households and communities to invest and participate in forest management.

The central and local governments have recognized that high forest charges can restrict the development of community participation in forest management. In 2000, the central government began some pilot projects for rural tax reform in Anhui Province and a few counties in other provinces. In 2003, these reforms were extended to all of rural China.

In addition, one of the major forest taxes – the Agriculture Special Product Tax – is now only collected once from either the producer or buyer of forest products, whereas previously it used to be collected from both. The central government has recently started to implement a policy of eliminating this tax entirely.

A number of provincial authorities, mostly in southeastern China, have started to reduce official forest charges and have made great efforts to eradicate the collection of unofficial forest charges in order to promote community participation in forest management. It is clear that the agencies that rely on forest

charges for significant portions of their budgets are reluctant to reduce charges, fearing that a decrease in their budgets will lead to reductions in their overall staff support and operations. Thus, the reform of local forestry administrations and the reduction of staffing must be considered as part of any fiscal policy reform.

### CONCLUSIONS

China has recently taken major steps to give communities and the private sector greater freedom to manage forests for a profit. It has incorporated public participation into centrally coordinated large-scale afforestation projects such as the Natural Forest Protection Programme and the Grain for Green Programme. However, some aspects of current legislation, policy and administration, intrinsic to China’s history as a centrally planned economy, continue to constrain public involvement in forestry.

In China, the amounts collected from forest charges are potentially great, but



E. DELAETHAUWER

**The recent Commercial Forest Development Programme targets market-oriented, community-based enterprises**



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they are not used efficiently and not enough of these funds are used for the benefit of the forestry sector. The flexibility in the law and overstaffing in government allow forestry administrations to drain a great deal of money from the sector, and this does not support the broader aims of forestry policy in the country.

New policy reforms are currently being implemented in the areas of land and tree tenure, incentives, forest charge collection and forestry administration. These are geared towards releasing direct governmental control over forest management, decentralizing the powers of forest administrations to lower levels and promoting community participation in forest management. The current emphasis on good governance and on capacity building for local authorities should help to increase the effectiveness of these reforms. ◆

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