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## THE USE OF THE FOREST FUND IN THE PROTECTION OF NATURAL RESOURCES IN POLAND

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### WYKORZYSTANIE FUNDUSZU LEŚNEGO W OCHRONIE ZASOBÓW NATURALNYCH W POLSCE

STRESZCZENIE: W artykule przedstawiono zasady gromadzenia i wydatkowania środków Funduszu Leśnego oraz przeanalizowano wielkość i strukturę jego dochodów i wydatków. Ze względu na sposób prezentacji danych dotyczących kierunków wydatków Funduszu Leśnego przez PGL LP i GUS trudności sprawia dokładne oszacowanie, w jakim stopniu środki Funduszu są przeznaczane na działania służące ochronie zasobów leśnych. Można jednak przyjąć, uwzględniając specyfikę i zasady prowadzenia gospodarki leśnej w PGL LP, że większość środków Funduszu Leśnego wspiera ochronę tych zasobów.

SŁOWA KLUCZOWE: fundusze ekologiczne, ochrona zasobów leśnych, Lasy Państwowe

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## Introduction

In the system for financing environmental protection in Poland, a special role is played by environmental funds whose essence is to collect funds in accordance with the “polluter pays” principle and their redistribution aimed at supporting projects for the protection of natural resources and sustainable development. Ecological funds include the Polish National Fund for Environmental Protection and Water Management (NFEPWM) and its provincial counterparts (PFEPWM), currently operating as public entities. By 2010, there were also district and municipal earmarked funds for environmental protection and water management that have been incorporated directly into the budgets of the local government units and are the so-called environmental budgets of districts and municipalities. Environmental funds also include the Forest Fund<sup>1</sup> which is “a form of the management of funds for the purposes specified in the Forest Act”<sup>2</sup> and constitutes a separate account of the State Forests National Forest Holding.

The aim of the article is to demonstrate the functioning of the Forest Fund and to evaluate its use in terms of the financial support for the protection of natural resources.

## Principles of the Forest Fund’s operations

The Forest Fund that has been existing in Poland for more than 40 years in its current form was created under the Forest Act of 1991<sup>3</sup> and plays an important role in the financial management of the State Forests. Its financial resources are under the control of the General Director of the State Forests National Forest Holding. The income of the Forest Fund, as defined in the Forest Act, includes:

- the basic write-off calculated from the value of timber sales, burdening the operating costs of forest districts;

<sup>1</sup> A. Barczak, E. Kowalewska, *Źródła finansowania zadań z zakresu ochrony środowiska w Polsce – przegląd stosowanych rozwiązań*, “Prawo Budżetowe Państwa i Samorządu” 2014 no. 1(2), p. 43; A. Lipiński, *Prawne podstawy ochrony środowiska*, Warsaw 2010, p. 353.

<sup>2</sup> The Forest Act of 28 September 1991 (“Journal of Laws” 1991 no. 101, item 444, as amended).

<sup>3</sup> J. Piekutin, *Analiza funkcjonowania funduszu leśnego w systemie finansowym Lasów Państwowych na przykładzie Regionalnej Dyrekcji Lasów Państwowych w Radomiu*, “Sylvan” 2006 no. 6, p. 4.

- charges, penalties and fees associated with the exclusion of forest land from production;
- claims arising from damages:
  - civil law for damages being as a result of the impact of industrial gases and dust, as well as other titles,
  - due for the premature felling forests on the basis of the Act on the protection of agricultural and forest land<sup>4</sup>,
  - for damages resulting from fires, mining and geological activities;
- income resulting from the shares or from the sale of shares in companies;
- budgetary subsidies;
- other income.

The size of the basic write-off calculated as a percentage for the year in relation to the income planned from timber sales on the basis of the financial and economic plan of the State Forests National Forest Holding in the years 2002–2016 ranged from 10% to 15%.

The amendment to the Forest Act dated 2016<sup>5</sup> extended the possibilities for the use of the Forest Fund by supporting national parks, among others, at the purchase of real estate located within parks to the Treasury and the creation by parks of the infrastructure necessary for the nature conservation implemented through forest management methods.

According to the amended Forest Act, the income of the Forest Fund is spent on offsetting shortfalls of financial resources (funding) in forest districts resulting from the implementation of the tasks of forest management arising from the differing conditions of the economy and (in 2016) the tasks relating to public administration in the field of forestry. The funds for offsetting shortfalls of financial resources are determined according to the financial result, liquidity ratios and debt of forest districts<sup>6</sup>.

Other trends include spending the Forest Funds' financial resources on<sup>7</sup>:

- joint ventures of the organizational units of the State Forests, in particular in the field of forest management;
- scientific research;
- creating the necessary infrastructure for forest management;
- preparation of forest management plans;

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<sup>4</sup> The Act on the protection of agricultural and forest land of 3 February 1995 ("Journal of Laws" 1995 no. 16, item 78, as amended).

<sup>5</sup> The Act of 11 March 2016 amending the Forest Act and the Nature Protection Act ("Journal of Laws" 2016, item 422).

<sup>6</sup> Decree No. 1 of the General Director of State Forests of 31 January 2012 on the rules and procedures in the organizational units of the State Forests in terms of disposing of the Forest Fund, "Bulletin of the State Forests" 2012 no. 3(231), pp. 3–14.

<sup>7</sup> The Forest Act of 28 September 1991 ("Journal of Laws" 1991 no. 101, item 444, as amended).

- works related to the assessment and forecasting of the state of forests resources;
- protection in the forests implemented through the methods of forest management;
- acquisition by the State Treasury of forests and land for afforestation;
- other tasks in the field of forest management in forests.

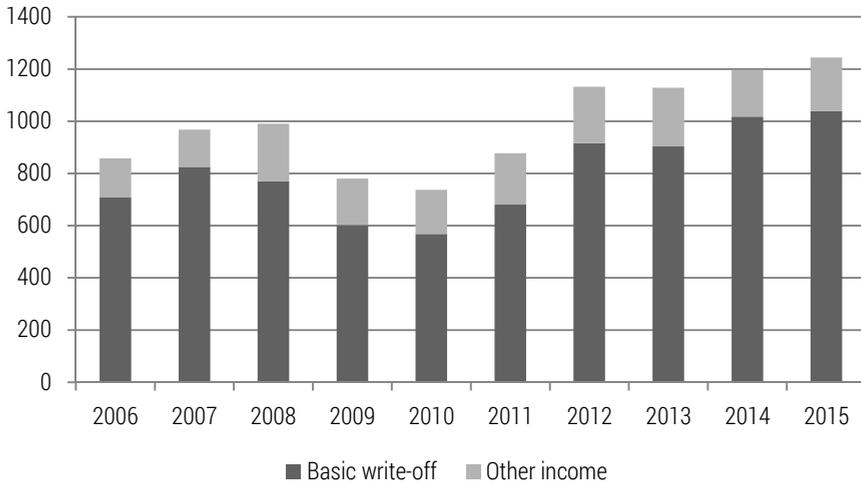
The use of the Forest Fund's income arising from receivables, penalties and fees associated with the exclusion of forest land from production and due for premature felling forests in the forests not owned by the Treasury and in national parks is strictly defined and includes, among others, afforestation of non-state land and the purchase by national parks of real estate located within their boundaries.

Since the late 90s of the previous century, various legislative proposals have been developed focusing on the use of the Forest Fund's financial resources for other tasks than those associated with forest management, as defined in the Forest Act. They mainly concerned compensation for lost property within re-privatization settlements. The government draft act on the re-privatization of property and some personal belongings taken by the State or the municipality of the city of Warsaw and compensations dated 1999 provided for the redemption of re-privatization bonds by the State Forests National Forest Holding from their owners who had to receive them for the loss of forest real estates. The redemption of bonds was to be financed by the Forest Fund. A similar proposal was included in another government draft act dated 2008 on redress in respect of the damages resulting from the nationalization processes during the years 1944–1962. The draft act amending the Public Finance Act and other acts of September 2010 provided for including the State Forests National Forest Holding in the public finance sector. The Minister of Finance was to be authorized to dispose of the free funds of National Forests, including the financial resources of the Forest Fund, in order to reduce the borrowing needs of the state budget. Finally, the provisions have not been implemented.

### Income of the Forest Fund

In Poland, the annual income of the Forest Fund in the years 2006–2015 (see figure 1) was at the level of 737 – 1,244 mill. PLN (in fixed prices of 2015). The amount of the financial resources held by the Fund is relatively large in comparison with other funds for environmental protection: the National Fund, provincial funds for environmental protection and water management and environmental budgets of districts and municipalities. According

to the data published by the Polish Central Statistical Office<sup>8</sup>, the Forest Fund was the second among environmental funds, following the National Fund, in terms of the size of income as well as expenditure in 2012–2014<sup>9</sup>. Figure 2 shows the increase and decrease of environmental protection funds in 2014.



**Figure 1.** The income of the Forest Fund in the years 2006–2015 in mill. PLN (fixed prices 2015)

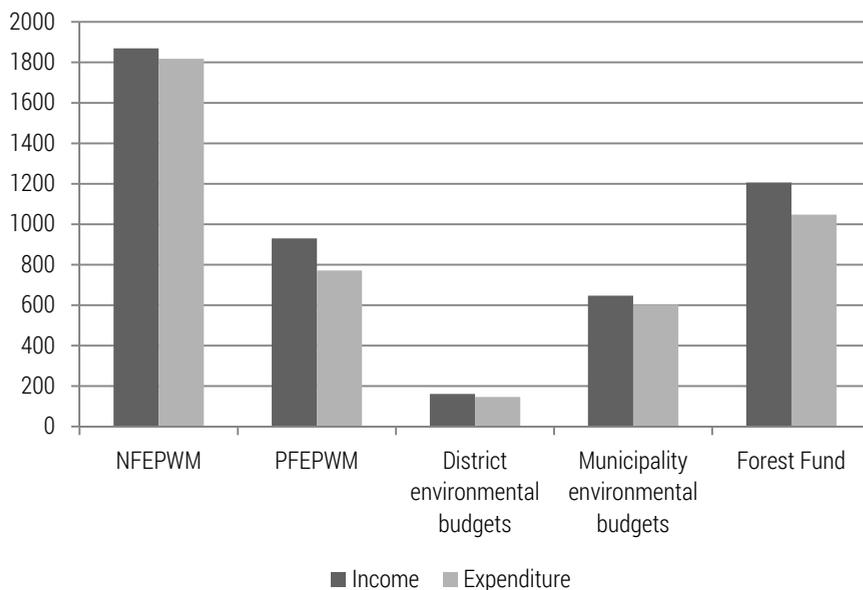
Source: own development based on: *Forestry 2007*, Warsaw 2007; *Forestry 2008*, Warsaw 2008, financial and economic reports of the State Forests National Forest Holding for 2008–2015 and the Central Statistical Office data concerning the annual price indices of consumer goods and services.

As in the case of other environmental funds, the financial resources collected for the Forest Fund are primarily associated with the use of natural resources (felling forests) and the negative impact of human activities on the environment, in line with the “polluter pays” principle.

The main source of the income of the Forest Fund, from the beginning of its operations, has been the basic write-off burdening forest districts, the size of which depends on the price and sales volume of the harvested timber and the fixed percentage surcharge on income from timber sales. In 2011–2015, the share of the basic write-off in the total income of the Fund ranged from 78% to 85%. Detailed data on the Forest Fund’s income structure is presented in table 1.

<sup>8</sup> *Environmental protection* [2013–2015]; Central Statistical Office, Warsaw [2013–2015]; *Forestry* [2013–2015], Central Statistical Office, Warsaw [2013–2015].

<sup>9</sup> The exception is 2012 when the income of provincial environmental protection funds was greater than the income of the Forest Fund by 7 mill. PLN.



**Figure 2.** The income and expenditure of funds for environmental protection and water management, environmental budgets and the Forest Fund in 2014 [mill. PLN]

Source: *Environmental protection 2015*, Warsaw 2015, p. 449–450; *State Forests National Forest Holding. Financial and economic report 2014*, Warsaw 2015, p. 17.

**Table 1.** The Forest Fund's income structure in 2011–2015 [%]

Specification	2011	2012	2013	2014	2015
The basic write-off burdening the costs of forest districts	77.6	80.9	80.2	85.1	83.5
Additional income a)	12.9	10.1	10.0	9.9	11.2
Additional income b)	3.8	3.1	3.8	3.2	3.7
Income from shares in companies	0.2	0.4	0.0	0.0	0.0
Other income related to the State Forests	4.6	4.5	5.5	1.3	1.2
Other income for the forests constituting property of the Treasury and national parks	1.0	0.9	0.5	0.5	0.4
Total	100.0	100.0	100.0	100.0	100.0

a) Receivables, penalties and fees associated with the exclusion of forest land from production; receivables arising from compensations for damages resulting from the impact of industrial gases and dust, fires, mining and geological activities and due for the premature felling forests on the basis of the Act on the protection of agricultural and forest land

b) the funds related to the exclusion of forest land constituting property of the Treasury and the forests managed by national parks from production.

Source: own development based on financial and economic reports of the State Forests National Forest Holding for the period 2011–2015.

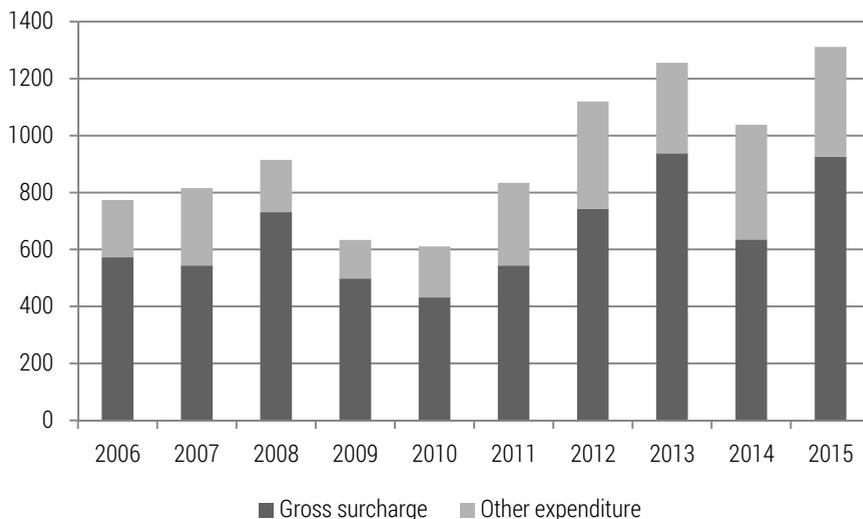
The share of income related to compensations for the negative impact of economic activity on the quantity and quality of forest resources (dues, penalties and fees associated with the exclusion of forest land from production, receivables arising from compensation for damages resulting from the impact of gases and industrial dust, fires, mining and geological activities and due for the premature felling forests on the basis of the Act on the protection of agricultural and forest land and related funds, excluding the production of forest land not owned by the State Treasury and the forests managed by national parks) totaled approx. 13–17% in the total income of the forest Fund in the reporting period of 2011–2015.

The least important to extending the Forest Fund is the income due from the bonds and shares in companies held by the State Forests National Forest Holding. In 2011 and 2012, they amounted to 1.8 mill. PLN and 4.4 mill. PLN, which accounted for 0.2% and 0.4% of the total income of the Fund.

### Trends of Forest Fund's expenditure

The level of expenditure of the Forest Fund in the years 2006–2015 varied and ranged between 611 and 1312 mill. PLN (in fixed prices of 2015, cf. figure 3). The annual average expenditure in the period amounted to 931 mill. PLN. The expenditure incurred accounted for 43% (in 2010) to 68% (in 2006) of the disposable funds, the total of the Fund's income at the beginning of the year and collected over the year. This means that the Forest Fund has certain reserve funds which, under unfavorable natural and/or economic conditions, can provide financial stability necessary for forest management, taking into account the principles of sustainable development.

The largest share in the total expenditure of the Fund is the so-called gross surcharge to the activities of forest districts allocated to offsetting shortfalls of the financial resources (funds) of forest districts resulting from the implementation of the tasks of forest management. In 2011–2015, the share of the surcharge in the total expenditure was from 61% to 75% each year. The structure of the Fund's expenditure in the reported period is presented in table 2. Other important categories of expenditure in terms of the share in the total volume include: "the creation of infrastructure for forest management" (5%–16%) and "joint ventures of the organizational units of the State Forests" (7%–9%).



**Figure 3.** Expenditure of the Forest Fund in the years 2006–2015 mill. PLN (fixed prices 2015)

Source: own development based on: *Forestry 2007*, Warsaw 2007; *Forestry 2008*, Warsaw 2008, financial and economic reports of the State Forests National Forest Holding for 2008–2015 and the Central Statistical Office data concerning the annual price indices of consumer goods and services.

The ratio of the size of gross surcharge to the size of the basic write-off in the period 2011–2015 amounts to 78, 80, 81, 104% and 62% respectively, which indicates that the Forest Fund is mainly used as a tool for the redistribution of funds between forest districts.

The level of the available Central Statistical Office data detail (the *Forestry* yearbook) and the data from the State Forests National Forest Holding (financial and economic reports) shown in table 2 do not enable specifying how much of the Fund's expenditure can be classified as expenditure for the protection of forest resources.

For example, the subject of the joint ventures of the organizational units of the State Forests can be tasks including the field of telecommunications and road construction<sup>10</sup>, not environmental.

<sup>10</sup> The guidelines on the participation of the organizational units of the State Forests in the implementation of joint projects with the involvement of the funds of the State Forests, the Annex to Order No. 44 of the Director General of the State Forests of 29 June 2009.

**Table 2.** Forest Fund's expenditure structure in 2011–2015 [%]

Specification	2011	2012	2013	2014	2015
Offsetting shortfalls of financial resources (gross surcharge for forest districts' activities)	65.2	66.4	74.7	61.2	70.6
Joint ventures of the organizational units of the State Forests	8.4	8.0	8.1	8.6	7.3
Creating infrastructure for forest management	16.1	15.3	5.3	15.3	10.7
Scientific research	3.7	3.8	3.4	4.3	3.2
Preparation of forest management plans	5.8	4.6	4.8	6.5	5.4
Work related to the assessment and forecasting the state of forests and forest resources	0.1	0.1	0.1	0.1	0.1
Funding afforestation of land not owned by the State Treasury and scientific research and tasks within forest management in national parks	0.7	1.2	2.4	3.3	2.2
Other expenditure	0.0	0.7	1.2	0.7	0.5
Total	100.0	100.0	100.0	100.0	100.0

Source: own development based on financial and economic reports of the State Forests National Forest Holding for the period 2011–2015.

Not all scientific research funded by the Forest Fund is related to the preservation, protection and enlargement of forest resources. For example, in 2011, out of the 69 implemented research projects 15 were related to forest protection, 8 – environmental protection, 33 – forest cultivation and use, the other 13 were related to such areas as marketing, economics, human resources and occupational health and safety<sup>11</sup>.

**Table 3.** Financing the protection of forest ecosystems in national parks from the Forest Fund

Specification	2012	2013	2014	2015	2016
Number of parks receiving support	9	16	21	21	20
Number of contracts signed with national parks	16	21	24	26	No data
Amount of contracts signed [mill. PLN]	11.9	19.8	24.6	30.2	60.5
Use of funds [mill. PLN]	No data	No data	19.7	20.5	No data

Source: own development based on financial and economic reports of the State Forests National Forest Holding, the information at the Coordination Centre for Environmental Projects; [www.ckps.lasy.gov.pl](http://www.ckps.lasy.gov.pl) [15-09–2016] and the websites of national parks.

<sup>11</sup> *The State Forests National Forest Holding financial and economic report 2011*, Warsaw 2012.

It should be noted, however, that in accordance with art. 8 of the Forest Act, forest management should be conducted according to the principles of universal forest protection, durability, maintenance of forests, continuity and sustainable use of all of the functions of forests and expansion of forest resources. It can therefore be assumed that offsetting shortfalls of financial resources in forest districts as well as other generally defined trends of the Forest Fund spending partly benefit, directly or indirectly, the expended protection of forest resources.

More detailed data on the use of the Fund for strictly environmental purposes concerns financial support for national parks. The financing projects aimed at environmental protection implemented using the methods of forest management and scientific research carried out in these entities have been taking place in a wide range from 2012<sup>12</sup> (cf. table 3). The websites of national parks include information about contracts concerning the use of the Fund along with descriptions of the funded projects (in most parks) and the size of funding granted. In some national parks (including the Tatra National Park, the Gorce National Park), the funds from the Forest Fund have been the main and significant source of funding for projects in recent years. For example, the Gorce National Park signed an agreement for co-financing projects from the financial resources of the National Fund for Environmental Protection and Water Management in 2013–2016 totaling 3,425 thous. PLN and from the financial resources of the Forest Fund in the total amount of 6,055 thous. PLN.

## Conclusions

The Forest Fund, classified as environmental fund, is an element of the financial management of the State Forests. The size of the income and expenditure is comparable to the (total) funds collected and used by provincial funds for environmental protection and water management. The structure of the income and expenditure of the Forest Fund has not been subject to fundamental change from the beginning of its activities. The main source of its income is the basic write-off burdening the operating costs of forest districts. Most of the expenditures of the Fund is intended to offset the shortfalls of the financial resources of forest districts arising from the differing conditions of forest management. The use of the Fund is therefore primarily for the redistribution of funds between individual forest districts.

The Forest Fund has been becoming an increasingly important source of financing for the protection of forest ecosystems in national parks since

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<sup>12</sup> *The State Forests National Forest Holding financial and economic report 2014*, Directorate General of State Forests, Warsaw 2015, p. 21.

2012. Due to the presentation of the data on the spending trends of the Forest Fund by the State Forests National Forest Holding and the Central Statistical Office, accurate estimation of the extent to which the Fund's financial resources are spent on measures aimed at protecting forest resources is difficult. However, it can be assumed, taking into account the specificities and principles of forest management at the State Forests National Forest Holding, that the majority of the Forest Fund financing supports the protection of natural resources.

## Literature

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