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Private Investment in Plantation Forestry: A Review of Lessons from Uganda Sawlog Production Grant Scheme

Ofoegbu C[1]* and Babalola FD[2,3]

[1]SAFCOL Postgraduate School of Forestry Programme, Department of Plant Production, University of Pretoria, Hatfield 082, Pretoria 001, South Africa
[2]Centre for Environmental Economics and Policy in Africa, University of Pretoria, South Africa
[3]Forest Resources Management, University of Ilorin, Nigeria

Abstract

Promotion of private investment has been a challenge in the forestry sector of most African countries due to broad range of issues such as land tenure, low availability of financial capital, long gestation period, to mention but a few. This paper is focused on review of lessons from implementation of Sawlog Production Grant Scheme (SPGS) in promoting private investment in the development of commercial forestry in Uganda. The aim of the paper is to present lessons and experience that are crucial for commercial forestry development in Africa especially for those countries with low private investment in plantation forestry. The paper shows that provision of incentives and technical support offers an opportunity for risk management and stimulation of private investment in development of commercial forestry in Uganda. This offers a strategy that can be replicated in other African countries in stimulating a viable private sector propelled forestry business.

Keywords: Commercial forestry; Private investment; Tree plantation; Public subsidy

Introduction

Forest resources play a crucial role in rural lives and livelihoods of people in Uganda. Households depends on various categories of forest resources such as firewood, charcoal, timber, poles; and non-timber products such as honey, craft materials, fruit, and mushrooms [1]. Forest resources also provide raw materials for various categories of industries such as boat-building, carpentry, furniture, and sawmilling [2]. However, forests in Uganda's have been under severe pressures from increasing demand for agricultural practices, population increase, unregulated charcoal production practice, over grazing, and uncontrolled timber harvesting [3]. Another significant factor that facilitated forest loss in Uganda is as a result of the civil war where guerrilla groups inhabit the forest to launch their attacks [4]. Vast areas of forests were lost during the war thereby threatening the sustenance of essential role of forest to households' livelihood and national economy. The country has lost vast area of its forest estate from 45% of total land area in 1890 to 20.3% of total land area in 2001 [5,6].

Re-thinking forest management and development practices in Uganda in order to manage the challenges facing the sector and the looming scarcity of timber in the country are issues of urgent necessity. In the same vein, Harrison et al. [2] opined that promotion of private sector participation in the development of commercial plantation forestry in Uganda will be an essential step towards reducing deforestation rate and promoting sustainable forest management in the country. Kazoora [7] estimated that 70 000 ha of well-managed tree plantations will be needed by 2025 in order to meet Uganda's internal demand for timber product. However Uganda currently has less than 2,000 ha of mature tree plantations despite the fact that the country has excellent conditions for developing viable commercial forestry business [8]. Moreover sustainable yield of utilisable timber species in natural forests in Uganda is less than 2 m^3/ha/yr. in contrast to yields of 20-40 m^3/ha/yr. from tree plantations [6].

Previous efforts by government to encourage private sector participation in the development of commercial plantation forestry in Uganda was hampered by risk and uncertainties such as: lack of quality seeds, lack of appropriate skills, low funding and incentives, and inadequate land tenure arrangements [3,9] Attempts to manage these risks and uncertainties prompted the Uganda government to approach European Union (EU) for support which culminated in the establishment of the Uganda's Sawlog Production Grant Scheme (SPGS) [10]. SPGS was thus established to stimulate private sector participation in development of commercial forestry through the provision of a non-refundable grant to individual and corporate investors, and technical support. Basically these incentives are targeted at improving the business environment and facilitate profitability of private investors in commercial tree plantation business [2].

The SPGS scheme has so far been successful in stimulating a lot of interest from the private sector in participating in forest investment and development in Uganda [7]. SPGS supported over 110 clients in establishing a total of 11,000 ha over the period of five years (Oct. 2004 – June 2009). SPGS also supported communities (such as churches, schools) in establishing commercial plantation purely for fuelwood supply [11]. Nampindo et al. [11] estimated that private investors contributed over US$ 41 million to development of forest plantations in Uganda during the period of 2002 to 2008, which is an indication that tree growing is becoming an attractive small enterprise in Uganda. The aim of this review is therefore to evaluate the activities of SPGS scheme in Uganda so as to draw lessons and experience necessary for improving the participation of private investors in forestry development in developing countries. Specifically, the study will draw lessons crucial for managing risk and uncertainties that have hitherto hindered private

***Corresponding author:** Ofoegbu C, SAFCOL Postgraduate School of Forestry Programme, Department of Plant Production, University of Pretoria, Hatfield 082, Pretoria 001, South Africa, Tel: 3222800758; E-mail: O.Chidiebere@tuks.co.za

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investment in developing viable commercial tree plantation business especially in Africa.

Methodology

The study focused on SPGS clients in the cluster areas of Uganda. It was conducted within a period of three months from Feb. to April 2011. Uganda has four regions (Central, Western, Eastern, and Northern), which are in turn divided into 111 districts [12]. SPGS clients are situated in all the 111 districts of the country. However, in order to enhance effectiveness of administration, SPGS grouped her clients in the country into six clusters, namely; Albertine, Central, Mubende, Northern, South Western, and Victoria. The locations of these clusters are shown in Figure 1.

Information used for the study was collected through review of available literature and case studies on emerging risks and uncertainties to private investors in development of commercial forestry in Uganda. These involve a mix of field observation, structured interview with SPGS clients, that is SPGS supported commercial tree growers, and review of literatures on private investment in commercial forestry in Uganda.

Lessons from Spgs Implementation

Provision of technical support services

Skills levels in most private plantation business in Uganda are low; specifically, most employee lacked appropriate skills and experience in management practices for viable commercial plantations development [3]. Lack of appropriate skills have been identified as a major constraints to effective private sector participation in the development of commercial forestry in Uganda [8]. Kazoora [7] informed that knowledge generated from tertiary institution is not transferred to the private sector. In its bid to stimulate private sector investment in plantation forestry in Uganda; SPGS managed the risk of skill shortage through provision of a wide range of technical support services to its clients (Figure 2); such services include practical field training, study tour, client field meetings, tree planting guidelines, and newsletters. Forest field visits are used to demonstrate best practices in tree plantation operations to clients. In the same vein, study tours to South Africa and Australia where private sector participation in plantation forestry are well developed are used to expose clients to latest thinking and best practices in forestry business. Kazoora [7] also observed that provision of simple and well-illustrated guidelines to clients have played a great role in helping SPGS to respond to private sector needs in achieving viable commercial forestry business in Uganda.

Provision of financial incentives

For many small scales private investors in tree plantation, financial capital and financial management represent one of the greatest constraints to effective operations [1]. Lack of financial incentives has been a major limitation to participation of private sectors in the development of tree plantation business in Uganda [9]. Although Uganda government provided incentives to private investors under the Uganda Investment Code, this did not stimulate investment in tree plantation business due to the fact that they favoured plantation businesses that start yielding revenues in 3-5 years. This effectively rules out plantation businesses with gestation period ranging between 15-30 years [7].

SPGS financial intervention scheme is therefore aimed at filling this gap. Moreover, financial intervention is a major booster for private investors; given the fact that most tree plantation businesses require a huge investment at start-up and only starts yielding returns towards the end of rotation which could be between 18 – 25 years. SPGS manages the risk of financial constraints in private investment in plantation development in Uganda through the provision of grants

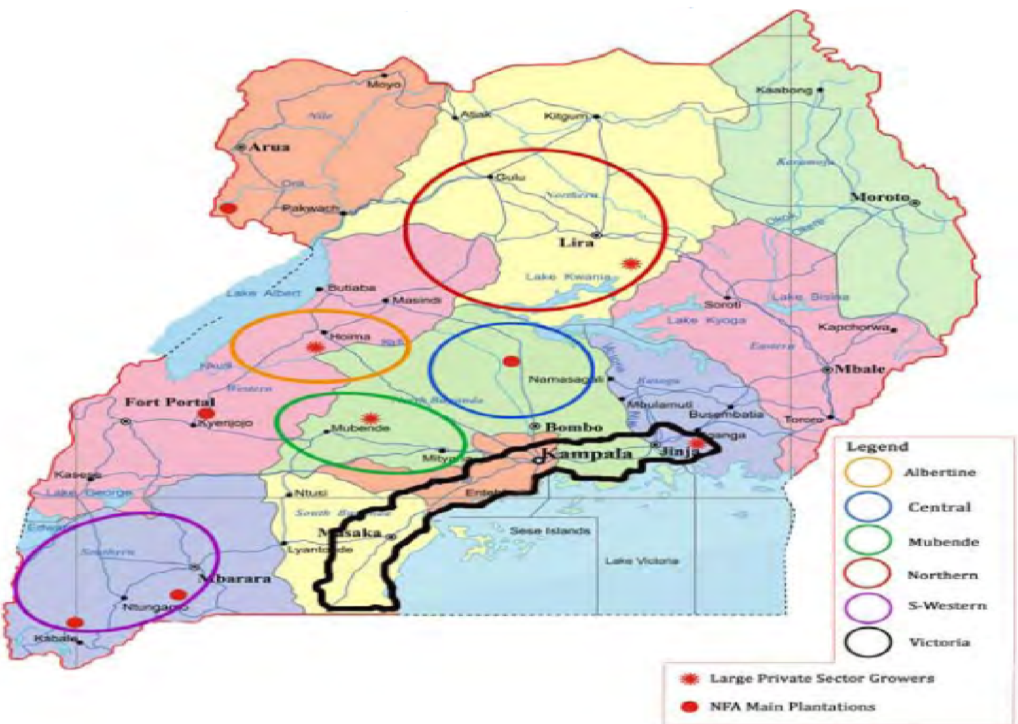

Figure 1: Locations of SPGS client clusters in Uganda (SPGS, 2011).

Figure 2: Provision of Technical assistance to SPGS' clients (Field survey).

to clients to cover 50% of the average cost of plantation establishment; usually SPGS pays a flat rate of UG Shs 600,000 per hectare throughout the country. The funds are not given in advance, but instead paid as reimbursement in 3 instalments over a two-year period after the plantations have been inspected and found to comply with set standards [7]. Plantation inspection is an important part of SPGS fund release process. Established plantations are thoroughly inspected by SPGS staffs to ensure that it complies with SPGS standards. Figure 3 shows an example of plantation inspection process.

Land availability and tenure

In an effort to provide land for commercial forestry, the Ugandan government has made available about 500,000 ha from the country's forest reserve for large-scale plantation. These provide opportunities for small and medium scale investors to apply for lease of land between 10-50 years [13]. However, Land availability either for purchase or rent remains beyond the reach of many private investors [1]. SPGS intervention in this regard therefore becomes critical as they provide grants that facilitate the ability of private investors to lease land for tree plantations establishment.

Government policy of leasing out land to private investors has been instrumental in facilitating private investors' interest in plantation forestry due to various factors. Firstly the policy provides land to investors who would not have had access to it. This particularly suits the need of foreign private investors, especially large scale investors. Secondly, the policy enables national forest management authorities to bring degraded forests into productive use, rather than allowing it to remain idle and thus vulnerable to further degradation or encroachment [8].

Provision of quality planting stock

Plantation forestry development in Uganda had been hampered by lack of access to quality planting stocks [3]. SPGS has intervened in the situation by organising supply of improved seed-orchard seed (e.g. *Pinus caribaea*) from Queensland, Australia. Having a centrally purchased supply of planting stock provides benefits of reduced cost for growers. However, this provision of planting stock is a short-term solution, Uganda will need to secure its own seed supplies for longer term supply of planting stock [8]. SPGS also implements and regulate certification programmes for all affiliated commercial nursery operators in order to ensure that seedlings are raised from quality seeds and that nursery operations comply with approved standard and regulations. In an effort to ensure that tree growers are provided with quality planting stocks; SPGS encourages its clients to buy planting stocks from certified commercial nurseries in the country. Figure 4 shows a typical example of an approved SPGS nursery.

Minimisation of Social Risks

Tree plantations are subjected to a number of social risks such as arson, and deliberate vandalism in situations where there are conflicts over land ownership and use. The minimisation of risk is a responsibility of both National Forestry Authority (NFA) and individual plantation owners. NFA has to ensure that leases are only given out in areas where there are no outstanding conflicts [8]. SPGS has also provided management control in the regulation of social risks through provision of training in the management of risks such as fire outbreak. A system of firebreaks combined with weeding of vulnerable crops before the fire season is essential. The cost has been built into the models on which the grant is based. Nevertheless, there remains some risk of loss from fire [5]. Commercial plantation fire insurance is always costly and is unavailable in Uganda. It would be possible for SPGS to provide a system of cover, but this would have to be carefully designed to avoid deliberate loss to secure payment.

Facilitation of Focused Research Program on Plantation Forestry

Commercial plantation forestry development needs to be supported by a focused research and development program. Although Forestry Research in Uganda has been the responsibility of Forestry Resources Research Institute (FORRI), which has been helpful in maintaining

Figure 3: Plantation inspection (Field survey).

Figure 4: A typical example of SPGS's certified nursery (Field survey).

transfer of information between researchers on agriculture and forestry. However in recent years, most forestry research is focused on agroforestry and farm woodlots. Commercial plantation forestry research in Uganda is stagnant. At present, silviculture is based on historical practices used in Uganda combined with more recent ideas brought from other countries, notably South Africa (Kallweit, 2005). SPGS in helping to transform this trend through sponsorship of focused plantation forestry research works. SPGS periodically sponsors plantation forestry focused researches wherein consultants are brought in to investigate specific challenges unique to business climate of plantation forestry in Uganda.

Lessons from Private sector investment in Forestry Sector in Uganda

There is no doubt that Uganda has a high potential for forestry development that has not been adequately exploited [14]. However SPGS scheme has proven that with provision of financial and technical support, private investors' interest can be stimulated in order to fulfil Uganda potentials in plantation forestry development. In addition SPGS story shows that secure land tenure are fundamental in making private investment in commercial forestry at least somewhat attractive.

While there is an increased awareness of the environmental importance of trees, there are insufficient incentives to pursue tree planting and sustainable forestry management in many African countries. Although the distinctive roles of private and public sectors in plantation development are well appreciated in most African countries, the level of success attained in involving private investors are considerably low [15]. The key issue therefore is how to motivate the private sector to take a deeper interest in investing in commercial forestry development [5]. Although incentives and technical support are proven tools for promoting private investment in commercial forestry development; it is however important for African countries embarking on plantation incentive schemes intended to support industrial development to carry out "case specific" evaluation of their situation in order to identify appropriate incentive and support for commercial forestry development. This step will be essential in guarding against undue negative effects. As observed by Williams [16] it is often difficult to design a subsidy program that creates the intended effect without undue negative impacts. As a guide, Enters et al. [17] suggest that in deciding on measures to facilitate private investors' interest in commercial forestry development, it is vital that consideration are given to factors that motivate people to invest resources in planting trees, rather than focusing on the needs and objectives of governments and their respective forest agencies. The lessons from this review therefore are that public subsidies are effective tool for reducing the costs or increasing the benefits of private investment in commercial forestry development [18]. In practice, public subsidies should be geared towards public benefits in forestry development. These may relate to encouraging forestry where it is a desirable but financially non-viable land use [19]. Williams [16] have identified pressing issues in commercial forestry development such as employment creation particularly in less rural areas, and the need to jump-start the development of national forest industries, that are common to most African countries as challenges that can be managed through the use of subsidy. Scherr and Current supports this notion by concurring that incentives are reasonable for stimulating increase in the pace of plantation development where a developing industry requires a minimum supply of raw material. In situations where a country is unable to raise adequate domestic public funds for the forest sector or where public subsidies are not desirable, alternative measure such as privatization can be explored. As observed by Keipi [20], privatization is now increasingly becoming part of development strategy for the forestry sector.

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