



*A boundary plantation of Commiphora baluensis (itula, hagar) in Kitui district. This is a private initiative, and a splendid example of landscape beautification in drylands that should be imitated. It is relatively easy to do, using big cuttings. In a number of European countries, planting and maintenance of hedges and boundary plantations is subsidised. (Photo: BGF)*

# Exploring new frontiers

With dwindling supplies of wood from public forests, hope lies with private tree-growers

By MWANIKI NGIBUINI AND JOSHUA CHEBOIWO

**G**lobally, forest resources are increasingly under pressure from a growing demand for wood products in both developed and developing countries. The private sector and small-scale forest operators are being looked at as the next frontier in the provision of forest products to supplement dwindling supplies from public forests. The growing concern to conserve forests and woodlands has converted large tracts of forest lands from production into protection reserves, hence the need to seek alternative sources of wood products.

Recent studies show that global demand for wood products will exceed supply by 2015 and a global industrial wood deficit is expected to reach 115 million m<sup>3</sup> per annum by 2020. It is projected that global demand will increase by 44 per cent from 2007 to 2030, largely driven by population growth and bio-energy demands projection. Due to the fact that global demand will exceed supply, it is expected that the real prices of wood products will increase dramatically (see Fig 1).

At the East African level, similar scenarios are at play as most countries are forestry resources deficit. Kenya, Uganda, Rwanda and Burundi are all deficient in forestry products. Even Tanzania, currently rated as forestry resource rich with potential surplus export capacity, is predicted to fall into deficit in the next 30 years due to population growth and resource management issues.

## Participation of the private sector

Potential players in the forestry sector, including a wide range of land owners, corporate bodies, firms and investment ventures, need some incentives to change their current land uses to favour forest related activities. Incentives are necessary because of the long-term nature of the investment before any returns are realised. Again, forest related land uses are ranked lower than other land uses in terms of financial and social needs. As such, some inducement in the form of finances, structural support systems and skills are required to fill the gaps.

To design appropriate incentives, it is rational to understand why the private sector invests in commercial forestry in the first place. The private sector is not a homogeneous group of investors but is made up of a wide range of players whose decision making process is related to maximisation of their set objectives, mostly to do with family welfare or profits. **Thus, the most relevant incentives are mostly financial and fiscal policy instruments such as tax exemption or subsidies.**

Despite the need for incentives, there are factors that have attracted the private sector to invest in forestry business. These include:

- Profitability of forestry business with IRR<sup>1</sup> ranging between 16 – 24 per cent.
- High demand for wood products.
- Potential for additional revenues from the sale of carbon offsets in global markets.

<sup>1</sup> Internal Rate of Return

- There is a global trend for companies to invest in green business.
- The global concern on dwindling natural biodiversity assets has attracted the attention of the private sector.
- The private sector, as part of their corporate social responsibility (CSR) is increasingly seeking ways for communities to diversify their sources of income, including through sustainable natural resources supply, which normally goes with tree planting.

## Small-scale operators

There is a wide range of reasons that motivates small-scale farmers to plant trees. These include:

- To diversify the asset base and spread investment risks.
- To meet household needs and sell the surplus.
- To insulate households from the impacts of climate change through environment conditioning.
- To mark property boundaries to protect their land from encroachment.
- To minimise soil erosion and increase soil fertility.

## Public sector's declining capacity

The public forestry sector is facing a myriad of problems that have hindered its capacity to increase the supply of forest products from its vast estates. Some of the reasons are:

- The government places a low priority on the sector and thus allocates insufficient funds and facilities to meet personnel and operation needs.
- Incoherent policies and resource governance.
- Inefficient and incoherent forest administration.
- Revenue leakages.
- The sector is facing competition for land from other sectors such as agriculture, infrastructure, wildlife and urbanisation.

## Incentives for private forest operators

There are three categories of incentives that are likely to attract the private sector to invest in forestry, namely policies and regulations, financial mechanisms and technological resources.

### Policies

- To craft and operationalise policy and legislative frameworks that create an environment conducive to conducting profitable business in the sector.
- To develop policy and legislative structures for faster access to land by the private sector.
- Granting of forest management concessions.
- Dealing with land tenure systems for both large and small-scale planters.
- Develop non-wood income generating activities for small-scale tree planters, including bee keeping, eco-tourism and carbon offsets.
- Improved access to research information in forestry.

Fig 1: Global trends for supply and demand of forest products

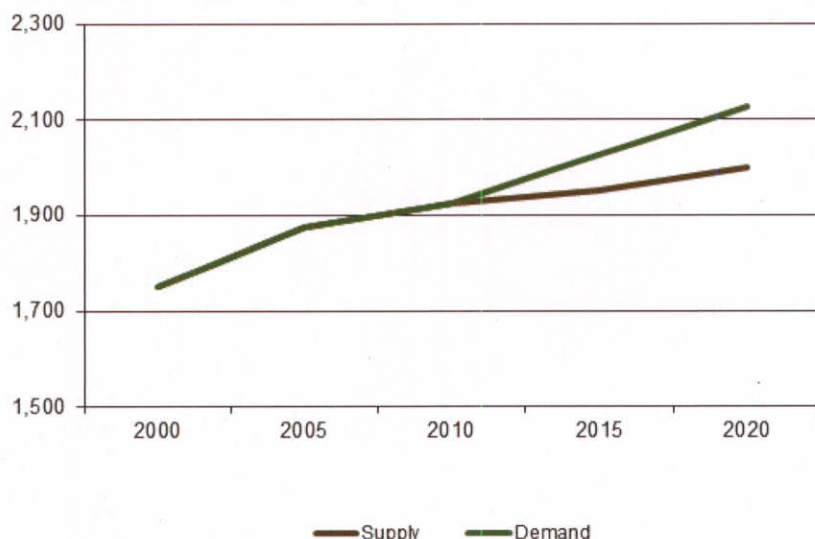


Table 1: Some incentives and relevancy to the private forestry sector

Broad types	Specific instruments
Taxation instruments	Tax credits on forest operations Tax breaks in property values, leases, capital gain tax, carbon sequestrations and incomes
Subsidies	Afforestation grants Low-interest credits Periodical stream payments for long rotations tree crops PES (Carbon credits and direct payments) Cost-sharing Certification costs
Structural instruments	Contract farming policies Infrastructure development to reduce costs Facilitate marketing and trade in forest products and services Favourable credit and payment facilities Certification support systems Concessioning and leasing instruments
Regulations	Setting aside land for forests use Restricted land use on rivers Land use guidelines Minimise control on harvesting and forest produce movement

Table 2: Some incentives for public and community

Broad types	Specific instruments
Equity contribution	Share of bio-prospecting deals Biodiversity offsets PES (Carbon credits and direct payments) Revenue sharing
Access to goods and services	Extraction of non-timber goods and services (grass, water, honey, herbs, etc)
Income generation	Ecotourism Employment opportunities Value addition on extracted products
Support services	Extension services and education
Regulations	Restrictions, bans, allocations, access rights
Structural instruments	Joint ventures Land leases

### Financing mechanisms

- Partial financing of tree planting projects - large and small growers e.g. the Sawlog Production Grant Scheme (SPGS) in Uganda.
- Tree planting grants for small-scale planting e.g. EU ACP (European Union - African, Caribbean and Pacific) grants, governments grants (Tanzania) and direct donor assistance to small growers.
- Formation of tree out-grower schemes e.g. South African Pulp and Paper Industries (SAPPI) and Mondi, also in South Africa.

### Tax incentives

- Duty and VAT exemption on imported machinery and equipment.
- Tax rebates as encouragement for conservation.
- Exemption of infrastructure development projects from tax, e.g. roads, bridges and community projects.
- Tax exemption/rebate on income from tree growing.
- Complete tax exemption on operations like tree felling and forest produce transport.

### Technological Support

- Availability of high quality seed and seedlings.
- Current sources of seed are inadequate and of low quality. This hampers expansion of tree growing by small-scale planters. Mechanisms should be put in place to import high quality seeds.
- Development of seed stands and capacity building on collection and grading of seeds.

### Facilitation for formation of tree growers associations (TGAs)

Creation of governance structures for TGAs.

- Registration of TGAs with the relevant government authorities.
- Making TGAs a platform for training, capacity building and marketing.
- Provision of market information and linkages.
- Promote quality products to meet market expectations.
- Promote value addition.
- Agree on price mechanisms with buyers.

### Linking small growers to the carbon market

- Promoting tree management practices that are compatible with carbon trade.
- Through the TGAs, create a system for assessing carbon stocks.
- Assist TGAs to carry out necessary documentation for carbon sale.
- Link TGAs to carbon markets.

### Challenges for the private sector in the forestry world

- Land policies do not adequately cater for the needs of large- and small-scale planters.
- Sourcing of funds difficult due to global economic situation.
- Research information not readily accessible.
- Inadequate information on carbon trade.
- Lack of policy and regulatory framework for carbon trade.
- Few experts on CDM – (Clean Development Mechanism) and REDD projects.
- Lack of technical staff with practical orientation.
- Operations located in remote areas and difficult to attract high calibre staff.
- Expensive carbon trade process.
- Poor infrastructure.
- Rising cost of operations - fuel, spares, equipment, wages.
- Forest fires.
- Pests and diseases.

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