

FORESTS PLANTATION INDUSTRY IN UGANDA AND THE ROLE OF SMALL GROWERS

Challenges and opportunities associated with expansion of the industry

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1. Background

From a position of being once well-endowed with rich natural forests and woodlands, Uganda is currently experiencing a net deficit of wood supply. A combination of factors has led to this worrying situation - population increase, a huge reliance on bio-energy (fuelwood and charcoal) and poor control of deforestation (both within and outside the so-called 'protected' areas, e.g. Forest Reserves). The forest cover in the country has reduced from 24% in 1990 to now 8% in 2016.

2. Plantation Forestry in Uganda

Initial forest plantations were in the 1960s. By 2000, the 15,000ha established in the 1960s had largely been harvested with less than 1,500 ha of over-mature trees remaining. It was observed that lack of additional planting would cause a major gap in the supply of forest products from plantations within a period of 10-15 years. Yet estimates showed that in order to meet the future demands for timber from domestic supply, 150,000ha of well-managed timber plantations were needed by 2025. Worse still, it was established that of all plantations, only 6,000ha were of good quality standing stock.

From 2003, there emerged great interest from the private sector, with investors (majority being Ugandans) seeing forestry as a legitimate and profitable land use option. An EU funded SPGS was developed to encourage tree planting, in 2009 SPGS attracted additional funding (from EU and Government of Norway) to expand incentive subsidy operations under a public-Private partnership arrangement. The key results of the partnership resulted in:

- (i) 40,000 ha of highly stocked commercial plantations of good quality (including large entities, medium clients and community or woodlots),
- (ii) a professional hands-on-skills development in plantation establishment for the private sector, and,
- (iii) a vibrant forest private sector organized around the Uganda Timber Growers Association.

Currently; most tree growers in Uganda are Small scale farmers. "Large commercial forest planters" in Uganda are few such as Busoga Forest Company (Green resources), New Forest Company (NFC), Global Woods (GW) and Nile Ply.

The private sector forestry in Uganda is structured around the Uganda Timber Growers Association (UTGA), an Association that brings together Commercial Tree Growers in Uganda for collective action. This Membership Association was formed in 2007 as an Independent Private Sector Association collectively for all tree growers in the country that comprise of small, medium and big planters. Tree growers have also set up a Uganda Tree Growers Cooperative and Savings Society (UTG-SACCO) as a means to mobilise internal funding among themselves and this could be used as the investment arm of UTGA as there is a great need to increase tree stock.

To date, only an estimated 70,000 ha has been established (see table 1) but recent applicants to SPGS are about 70,000 ha - an indicator that there is still enormous interest.

Table 1: Estimated sizes of commercial plantation in Uganda

No	Category of support	Hectares planted (ha)
1.	Commercial timber plantations - SPGS	42,107
2.	Woodlot support - SPGS	1,008
3.	Community support – SPGS	3,960
4.	NFA (includes community support)	12,541
5.	Others (NGOs and individuals)	10,924
	Totals	70,000

The per capita wood demand is increasing at a faster rate than supply due to recent establishment of wood factories by Chinese companies. The country needs to have at least 200,000 ha of plantation forestry to ensure a sustainable commercial forestry sector in Uganda. There is thus an urgent need to intervene in strengthening a viable Private sector possibly structured around UTGA and UTG-SACCO.

3. The Role of Small growers

Small growers play a very important role in the commercial forestry sector in Uganda. This is majorly because of land fragmentation and also the low capacity for large scale investment. In a survey of SPGS client's performance, data indicated that the small and medium growers (between 25ha -500 ha) together planted over 70% of planting (Table 2).

Table 2: SPGS clients' performance by planting scale

No	Range of area (ha)	Category	Contracted area (ha)	Area planted (ha)	Percent (%)
1	25 – 100	Small	14,206	7,650	54
2	101 – 500	Medium	19,059	13,626	72
3	501 -3,000	Large	10,901	10,901	100
4	Total		44,166	32,177	73

Source: Adjusted from SPGS 2015¹.

NFA 2015² reports that the total active tree farmers with land leases in CFRs are **2,405**, and that they have so far planted **61,344.3** ha across the country in 12 forest management areas. This is only on public leased land. SPGS, 2015³ also reported a total planting of **32,177.1** ha of which 52% was on private land making an additional 16,732.1 ha. Assuming that all active tree farmers, small and large can be taken as private sector players, this implies that the private sector has achieved at least **78,076.4** ha over the last 12 years of investment in the forest sector. Definitely there are other plantings, e.g. by communities, NGOs and other individuals or private sector entities whose plantings are not part of this figure. Small growers are thus playing a key role in plantation forestry development in the country. It is however important to note that support for scale would be important if there is an effort to encourage bigger scale tree growing. According to SPGS (2015), for the period 2009-2015, a total of 389 private sector entities were supported with subsidy grants for plantation establishment across the country grouped in 7 clusters as summarized in **Table 3**.

Table 3: Categories of private sector investors and their location

CLUSTER	Association		Community		Company		Individual		Grand Total	
	No	Area (ha)	No	Area (ha)	No	Area (ha)	No	Area (ha)	No	Area (ha)
Albertine	-		1	265	19	4,679	64	3,065	84	8,009
Central					16	1,929	52	4,044	68	5,973
Mubende					18	3,915	55	3,884	73	7,799
Northern			1	9	17	2,983	43	1,466	61	4,458
Victoria					15	1,701	41	1,624	56	3,325
Eastern					2	79	11	98	13	177

¹ Sawlog Production Grant Scheme (SPGS), 2015. Project closure report for Government of Norway. In accordance with the Financing Agreement between the Norwegian Ministry of Foreign Affairs and the Government of Uganda Signed on 13th October 2009. Kampala-Uganda

² National Forestry Authority (NFA) 2015. Tree farmers' status report- Analysis of Areas planted by Tree farmers on CFRs - 2015. NFA Land Management Unit

³ Sawlog Production Grant Scheme (SPGS) 2015. Project closure report for Government of Norway 13th October 2009 – 31st March 2015. In accordance with the Financing Agreement between the Norwegian Ministry of Foreign Affairs and the Government of Uganda

S-Western	1	320	1	201	7	641	25	1,304	34	2,465
Grand Total	1	320	3	474	84	15,927	291	15,485	389	32,177

Extracted from SPGS 2015 database

In terms of categories, most private sector entities are individuals (291 out of 389) accounting for 75% of all investors, who for the period 2009-2015 planted 15,485 ha of standard commercial plantations, while companies were only 84 or 24% but planted an area of 15,927 ha, which is higher than that planted by several individuals. It is thus important to consider support to UTGA as a cooperative to engage in larger scale tree growing rather than individualised plating. The aim for such an engagement would be rapid forest plantation establishment by private sector, including out growers schemes to reverse deforestation trends.

4. Opportunities for expansion of plantations

The country needs between 150,000 to 200,000 ha of forestry to ensure a sustainable forestry industry and the current plantations are estimated at between 70,000 to 80,000 only. There is however an enabling environment to support forestry expansion such as:

- There exists substantial qualitative skills in plantation establishment, maintenance and management albeit quantitatively still lower than the critical minimum. SPGS has been conducting training on plantation establishment and maintenance as well as training of private contractors and nursery operators; including study tours to SA. Makerere University and Nyabyeya Forestry College are also very active in capacity building.
- Uganda offers a favourable Climate that provides enhanced growth of plantations and thus offers earlier returns on investments
- There is potential demand for timber products with the increasing population and the lack of natural forests both here and in the neighboring countries.
- Timber growing is labour intensive and there is young growing population in the country that can provide such labour readily and therefore enhancing potential of forests to reduce poverty.
- High return on investment with a return on an investment of USD25, 000 yielding about 150,000 over a 12 year period⁴.

Table 4 - Summary of opportunities

Opportunity	Remarks		
	Good	Fair	
GDP growth	✓		High leading to high demand for timber and other forest products. This is an incentive and an opportunity
Free trade arrangements	✓		Forest products are traded freely on domestic market and abroad
Political stability		✓	There is some interference (due to limited awareness)
Fiscal policy	✓		Conducive for investment
Transportation		✓	Difficult in remote forest areas but trunk roads are good
Energy		✓	In remote forest areas have to depend on own generation which is feasible for the forest sector
Water		✓	The country is endowed with abundant water resources
Education	✓		Well educated people readily available but may lack practical skills in specific fields
License and permits	✓		Uganda investment Authority (UIA) facilitates
Labour	✓		Readily available at affordable costs
Laws	✓		Largely conducive to investment
Wages	✓		Affordable
Justice, law and order		✓	Courts of law are independent
Capital gain policy		✓	Free trade and no restrictions
Forest resource tenure	✓		Once acquired under the law is secure
Land market	✓		Free
Land use as collateral	✓		Easy and acceptable in all banks
Environment policies	✓		Conducive. Only EIAs
Subsidies and financial mechanism	✓		SPGS is operational supporting forestry investment subsidies
Trade restrictions on forest products	✓		Free trade like all other commodities
Markets	✓		Free and available both locally and in the region

⁴ <http://inachee.com>

Forest land	✓		Land suitable and available for forestry – Abundant
Relevant institutions	✓		Exist though need further strengthening

Source: Adapted from Forest plantations and woodlands in Uganda (AFF, 2011). Extracted from Ruhombe, 2012⁵

5. Some Challenges

There are still challenges associated with plantation forestry expansion such as:

- Gaps are in the downstream processing segment where skills and tools are lacking.
- Organizational capacities - both public and private entities need strengthening to support each other to be able to function well in commercial setting.
- Gaps exist in financing for local forestry investments. It is difficult to access private forestry investment finance in Uganda from formal financing institutions, and local insurance companies who consider forestry investment a non-insurable risky business. Commercial and development banks rarely finance forestry due to long term investment period's vis-à-vis repayment periods.
- There is a lack of a formalized market for forestry products.
- The cost of investments is still high at between USD 730-1000 per ha including seedlings, pruning, weeding and Labour.
- Liquidity of the investment – Forestry is a long term investment and income is only realized at maturity of the trees such as pine is 15-20 years.

Table 5: Summary of Challenges

Factor			Remarks
	Fair	Poor	
Exchange rate	✓		Freely responds to supply and demand
Interest rate		✓	Very prohibitive and almost inconceivable from domestic financial institutions - cited at 30%
Political stability	✓		There is some interference (mainly due to limited awareness)
Transparency		✓	This is a significant problem within the forest sector and the country
Governance		✓	Weak in the forest sector
Transportation	✓		Difficult in remote forest areas but trunk roads are good
Energy	✓		In some remote areas - have to depend on own generation
Labour qualifications	✓		Has to be on the job training mostly
Access to credit		✓	No credit for forestry in Uganda except for tree seedlings and wood processing
Forest law enforcement		✓	Very poor and a severe handicap
Agricultural policies	✓		Subsistence agriculture leading to encroachment
Forest resource		✓	Limited in terms of availability, thus opportunity for investment
Entrepreneur development	✓		Has to be addressed

Source: Adapted from Forest plantations and woodlands in Uganda (AFF, 2011). Extracted from Ruhombe, 2012⁶

4.0 Some Proposals for Possible investments to support expansion and sustainability of the industry

There is a variety of possible investment options for the Uganda forestry sector scenario through the private sector addressing a set of priorities. A possible approach would be to engage the private sector directly through the UTGA and UTG-SACCO to support the entire timber value chain.

The Timber Value chain includes: (i) *improved value addition processes* (ii) *developing Carbon stocks*, and (iii) *markets development*.

Priority 1: Support for more efficient value addition processes regarding the current plantations to encourage optimal utilization of entire trees.

There is a need to invest in value addition technologies that will ensure complete utilization of the entire tree; a technology that would afford diversification of products and thus utilization of the entire trees which then supports conservation – as efficient (optimum utilization of the timber tree) ensures less

⁵ Ruhombe Jones, 2012. Country case study on Financing for sustainable forest management in Uganda. Indufor, Finland

⁶ Ruhombe Jones, 2012. Country case study on Financing for sustainable forest management in Uganda. Indufor, Finland

waste. Here support is first to more efficient harvesting techniques, including skills development and better equipment. Timber processing units are needed under a PPP arrangement. The immediate value addition technology is such as a block/Fibre board manufacturing plant with a possibility to add a timber treatment plant.

*Priority 2: Support for development of **more carbon stocks** – establishment of a larger more viable forestry estate.*

The estimated forest plantation currently at 70,000ha is not enough to provide for the country's timber and wood fuel requirements. Support is thus needed to increase the plantation estate. Private sector needs to be supported towards a more secure input; an investment is required for a land fund.

The UTG-SACCO, that was formed by UTGA members to mobilise funds for tree growing provides a window as the investment arm of UTGA. UTG-SACCO could thus be engaged and supported to buy land and set up a more permanent forest estate. A sizeable land holding of least 100,000ha of currently degraded land would be purchased and put under forestry. 10% of the land would then be under conservation; so that indigenous trees are protected; in areas where degradation is still low.

Priority 3: Market development:

The effort is to create a formalised industry with standards and improve the timber industry in the country. Formalizing the marketing process would include establishing formal timber sale points and pricing criteria. Timber from well managed plantation stands is competing with illegal timber and this demotivates planters to follow standards. Therefore there is need to establish chain of custody.

There would also be need to engage the timber grower's SACCO into being a substantial fund to run the commercial forestry development portfolio to offer a sustainability plan for growers to replant in areas that have been harvested. Members would borrow funds in relation to the size of plantations that they would have and this would encourage sustainability especially facilitating replanting of harvested areas and increasing the scale of plantations.

Priority 4: Support to the Charcoal Value Chain to develop a sustainable charcoal production industry in Uganda

The UTGA members will be encouraged to utilize off cuts to produce charcoal to alleviate pressure from natural forests. Activities in which the private sector would offer a comparative advantage could include:

- (i) Support to establishment and use of more efficient charcoal production technologies country wide, and,
- (ii) Promote formal charcoal packaging and efficient transportation approaches that reduce waste and enhance recovery at the market.

6. Conclusion

Commercial Forestry should be promoted in the country to provide for the increasing demand for timber in order to also offer for the protection of the few remaining natural forests. **Resource mobilization around a 'mix of financing' is required** for the wood sector in Uganda. This could be prioritized as a standalone initiative that will ensure long-term sustainability beyond donor funding.