

Public – Private Partnerships in Commercial Forestry

By

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GLOBAL OUTLOOK

- Exports of forestry products (round wood) at over US\$10 billion in 2005, from US\$7.6 billion in 2001
- World trade on wood products will continue to grow annually at an impressive rate of 9 to 10 per cent.

THE SITUATION - UGANDA

- Vast potential for the Uganda wood industry but gains from global trade are currently low
- A well-developed forest industry in the early 1970s mainly based on harvesting in tropical high forests - Saw mill output was about 86,000 cubic meters in 1970.
- Current yearly production at 100,000 m³ of sawn timber.
- 50 percent of forests lost and the trend now at a rate of 2.2 percent per year
- Total marketable and non-marketable forest value is approximately Ushs.593 billion (USD \$ 348 million), roughly 5.2% in GDP terms

THE SITUATION – UGANDA, Cont'd

- A need for 60 -70,000 ha of plantations just to meet projected domestic timber demand by 2025
- Large-scale, commercial plantations are essential to provide the bulk of the country's wood requirements, including raw material for wood-using industries.
- Abundant potential in timber processing for export and value adding activities like manufacture of high quality furniture / wood products and various packaging materials.
- Estimated average cost of establishing commercial plantations is US \$ 750 per hectare

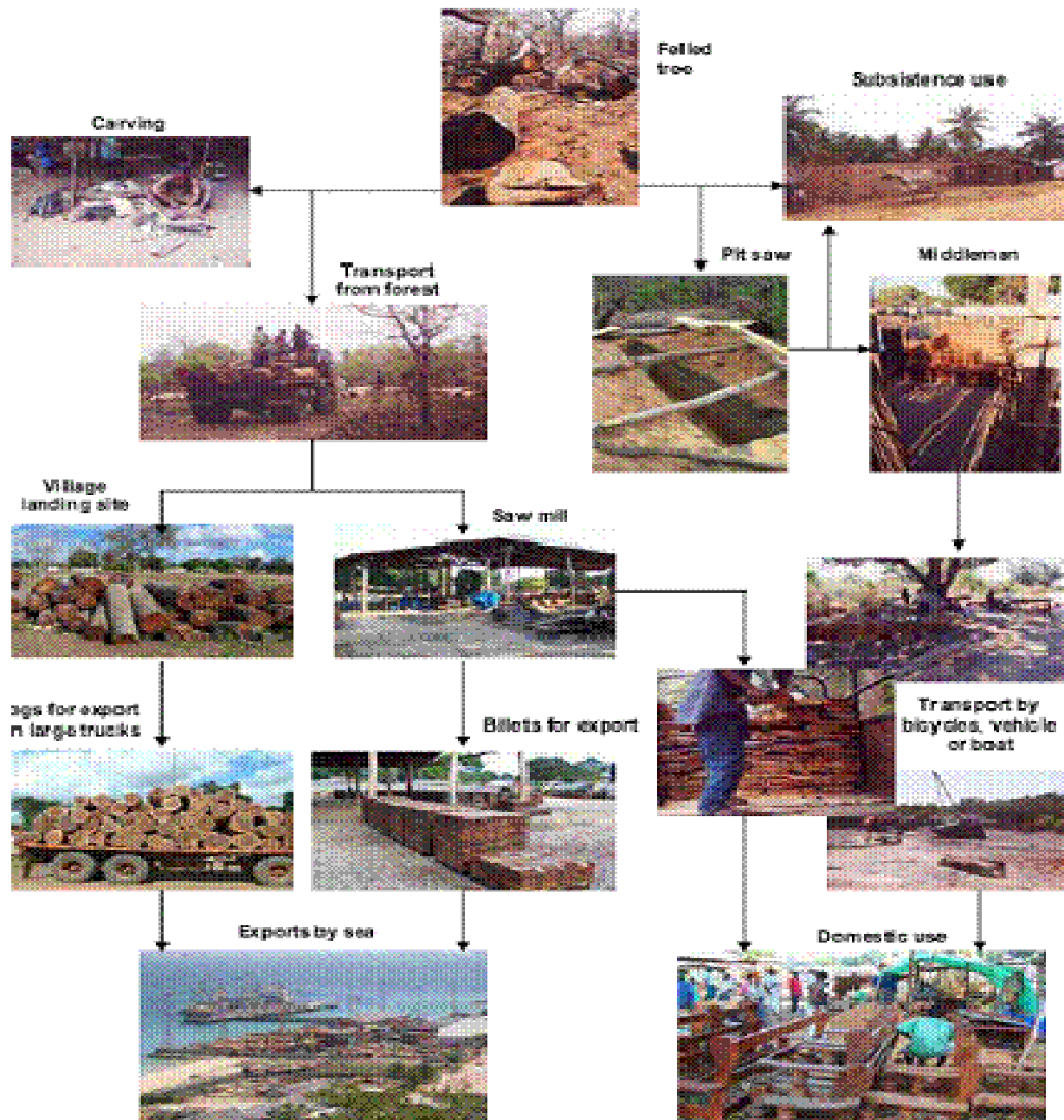
Research focus of the Commercial Forestry sector

Study of the current situation of how the commercial forestry value chain of Uganda is leveraged in the global trade and what can be done to make them more competitive with the aim of increasing their economic gains in a sustainable way and ultimately raising and distributing incomes favorably within the chains.

Expected contribution of the research

- Tropical wood producing countries are progressively venturing into downstream value-added wood products in which their exports have grown more than three-fold in the last ten years
- For developing countries with wood resources, there is a need for their role in global trade to be more significant which would then translate into economic growth.
- Therefore, there's a need for development of applicable wood industry models for developing countries by determining and documenting ideal value chain structures, favorable policy and regulatory frameworks, and mode of link relations that value chain actors and support organizations can adopt for competitiveness within global chains.
- At the very least, development of a guide to investors and policy makers on what works and is required to gain competitive advantage on a global scale.

A FOCUS ON THE VALUE CHAIN



Characteristics - VC

- The chain for Uganda is not sophisticated: support or extension services are very limited. Interaction with players external to the chain is limited to procurement of goods.
- Vertical integration is a business strategy commonly found along the chain. Most of the bigger businesses (revenue above US\$ 100 Mio and/or more than 20 employees) are vertically integrated; some encompassing all stages along the chain.
- The majority of the businesses are small, producing for the low quality segment.
- Timber extraction is carried out partly by a few large companies, such as NilePly (which is also the only plywood processor), Amaply, Budongo Saw Mills, Techna Sawmills and also by numerous independent traders and wood product manufacturers.
- Within the last five years more medium sized businesses (annual revenue above \$US 100,000) entered the furniture market including foreign companies (mainly Asian owned, e.g. Hwan Sung).

Characteristics – VC, cont'd

- Construction companies are generally bigger in size and often vertically integrated.
- In terms of timber dealers, one of the biggest players is Erimu Ltd with a traded annual volume of about 6,000m³.
- Construction companies are major players in the Ugandan market, e.g. Cementers and Roko which are subsidiaries of international companies. Saw milling was very attractive with ample resources in the natural forests but now with the limited access to resources there is increasing pressure to restructure.
- With growing importance of plantations, it is likely that sawmilling and wood trade in the future will be integrated into forestry operations.

Margins Distribution

Sector	Value / Selling Price (US \$ per cubic meter)	Margin (US \$ per cubic meter)	Margin as a % of selling price
At forestry stage (standing pine)	49	6.85	14
Sawed logs	61	12.2	20
Dealing	168.5	107.3	63.7
Retailing	232	63.9	27.5

Margins distribution, cont'd

- Margins are higher in the upper part of the chain - dealing and retailing stages.
- Whereas sawmilling and dealing do not require high investments, they also do not offer promising long term potential. The profit margin can still be attractive but with more mature markets and a shift towards higher quality, the potential seems to be limited.
- While forestry is not as profitable as upper quality furniture, the growing need for wood in the market provides an attractive opportunity.

Constraints

- Lack of information – Limited reliable information to assess the financial potential of investments in forestry is lacking
- Very low capacity and technical standards for processing saw logs (cheap saw mills, lack of skilled personnel)
- Growing wood resource shortage due to unsustainable harvesting rates leading to price increases. This has led to legal and illegal wood imports from southern Sudan and DR Congo
- Technical standards - Poor storage, lack of drying or treatment and no quality grading of the sawn wood by wood dealers and secondary processors resulting in low value products

Constraints, cont'd

- Poor state of the rural road networks – high distribution costs
- High capital costs – For Uganda, interest rates as high as 22% for long term investments and < 25% for short term
- Forestry tax anomalies – Long timescale between planting and harvesting (12-25 years or more) leads to plantation being taxed heavily more than other investments yielding similar returns
- Funding and technical assistance uncertainties

Opportunities

- Funding for large scale investors – Prospect of attracting carbon credits e.g. the World Bank’s Bio-Carbon fund.
- Funding for small scale investors by **putting in place policies** which encourage vertical and / or horizontal cluster approaches to sourcing of the funds
- Excellent growing conditions for trees and a fast growing demand (locally and regionally)
- Use of advanced technologies - Introduction of wood-gasification technologies thereby utilizing wastage like sawdust and production rejects
- Integration of forestry, sawmilling and wood dealing to control quality thus increased value and ultimately the return on investment

THE CASE FOR PUBLIC – PRIVATE PARTNERSHIPS (PPPs)

The Case for PPPs

- Ties with local communities provide social and political legitimacy that can serve as a hedge against potential threats such as resource destruction or land invasion.
- Linking with companies and organizations provides a critical source of employment and the opportunity to develop business planning and management skills.
- The linkages help to magnify the impacts of program investments and create multiple synergies.
- Ideally long-term funding commitments enable partnerships to mature and organizations to grow and expand their capabilities.
- The networks empower local communities, generate and disseminate sound resource management practices, and formulate public policies to support and encourage such practices.

However . . .

- SMEs operating in the more commercial arenas of the forestry sector and downstream processing show much less evidence of successful association.
- A few associations have been formed, but most have fallen apart largely due to the fundamental differences in the nature of the membership of each enterprise – commercial operators function in competition with each other, and have few social ties.
- Currently, forestry SMEs are characteristically formed to perform self-help functions and to access external development assistance (training, resources, financing, etc.) rather than new market opportunities.
- The huge supply of development has become a ‘surrogate’ market that drives associations, risking that in the long term such associations will collapse or become inactive with the withdrawal of support, unless they benefit from such assistance to also access new and sustainable commercial markets for their products and services.

Specific objectives – PPP concept

- Foster responsible and sustainable development through encouragement and simulation of sustainable forest management and a market oriented mechanism.
- Ensure that producers get market access for sustainably managed and produced forest products.
- Inclusion of the community in the Value Chain with an aim of poverty reduction.

How it would work

- Project donor organization(s) to formalize a sustainable arrangement for funding and provision of clear market connections for sustainably managed forest products.
- Them to work through a government office to partner with associations in terms of information dissemination, hands on training, provision and demonstration of improved technologies and methodologies for achievement of sustainable forest management practices.
- Private sector advocacy organizations, forestry regulatory authorities and government policy organizations to work closely on formulating and / or supporting the enforcement of favorable sustainable forestry growing, community inclusion for poverty reduction increase in private sector investment and export market enhancement policies.

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