EASTERN AND SOUTHERN AFRICA REGION FOREST INVESTMENT FORUM

Investment Opportunities: Constraints to Investment and Potential Solutions

Pietermaritzburg, South Africa
June 13–16, 2006

The World Bank
Washington, D.C.

Publication prepared by:
PROFOR at the World Bank
1818 H Street NW
Washington DC, 20433
United States
E-mail: profor@worldbank.org
website: http://www.profor.info

Published November 2006. PROFOR book number 6.
Printed on 80% post consumer fiber paper.
Cover photos by Leila Mead. Images are from an excursion during the Forum to see community-company partnerships between Zulu rural communities and SAPPI (South African Pulp and Paper Industry).

Contents

Foreword

The first chapter of this report is an objective summary of the Forum discussions prepared on the basis of presentations delivered and discussions held at the workshop.

The second chapter provides further details of emerging investment opportunities in the region and possible approaches to overcoming constraints to community participation and private sector investment. The proposed strategies for overcoming constraints to investments put forward are based on a synthesis developed by the Forum Secretariat which combines (a) suggestions made by participants during the course of the Forum panel; (b) a synthesis of written submissions from many policy researchers who contributed background materials; and (c) comments by representatives of industrial companies, governments, local communities, conservation agencies, and financial institutions consulted in the course of developing the Forum agenda. For further details, please see Appendix 2 of this report, which lists the Forum background reading material, available on the companion CD to this report.

Executive Summary

This Eastern and Southern Africa Investment Forum was a continuation of a series of investment forums supported by the World Bank and the International Finance Corporation (IFC), along with the Bank's partnership programs with the Program on Forests (PROFOR), the World Bank/WWF Alliance, Forest Trends, and the International Tropical Timber Organization (ITTO). Two earlier Forums in this series were hosted by the World Bank and IFC in Washington, D.C., in October 2003 and in Nairobi, Kenya, in April 2005.A third International Investment Forum was hosted by ITTO, Forest Trends, and CONAFOR in Cancún, Mexico, in May 2006. These investment forums are intended to create opportunities for representatives of governments, local communities, forest industrial companies, conservation agencies, financial institutions, and private investors to identify emerging forest and forest industry investment opportunities, constraints to such investment, and measures to overcome identified constraints. The purpose is to agree on actions to be taken to create an enabling environment for community involvement and for socially, environmentally, and economically sustainable private sector investment.

This Eastern and Southern Africa Forum was cohosted by South Africa's Ministry of Water Affairs and Forests (DWAF), Forestry South Africa (a forest industry association that supports corporate community partnerships), and the International Tropical Timber Organization (ITTO). The Forum focused on Kenya, Madagascar, Malawi, Mozambique, South Africa, Swaziland, Tanzania, Uganda, Zambia, and Zimbabwe, drawing 120 delegates primarily from the region. Participants represented a reasonably balanced spectrum of government, local community, private forest industry, conservation agency, and financial institution interests.

Over the course of the three-day Forum, discussions focused on identifying (a) the most promising forest and forest industry investment opportunities in the region; (b) how forest-based partnerships between communities, smallholders and companies, and state forest administrations can help to alleviate poverty and create sustainable livelihoods; and (c) the actions that governments, financial institutions, and donor agencies should be taking to overcome constraints to private sector engagement and create an enabling investment environment.

Throughout the region, there is potential for investment in both large- and small-scale plantation-based forest industries. Rising rural population pressure on indigenous forests suggests that future forest industry development will depend to a significant degree on planted forests. The key issues will be the following: (a) how to develop socially and financially equitable partnership arrangements between forest industrial companies, local communities, and smallholders who could supply an increasing proportion of the industrial roundwood requirements of the region; (b) the ability of governments to create an enabling political and economic environment for private sector investment; and (c) the willingness of both domestic and overseas forest industrial companies and financial institutions to invest in the region.

The region has a comparative advantage for developing short rotation fast-growing plantations and on farm trees. In all 10 countries, there are rapidly expanding domestic markets for fuelwood, building poles, and fruits and for construction-grade timber, paper and paper board, and wood-based panel products. This Forum focused in particular on the potential of fast-growing tree species to supply industrial roundwood needs in ways that will benefit low-income communities. Studies in South Africa suggest that possibilities for communities to engage in tree farming will be enhanced if opportunities can be created for them to participate in downstream processing.

The Forum identified specific opportunities for investments that would support the expansion, modernization, and improved efficiency and profitability of both large- and small-scale timber, wood-based panel, and pulp and paper industries. It gave special emphasis to the potential of small and medium forest-based enterprises (SMFEs) to create off-farm employment opportunities and to contribute to poverty alleviation and sustainable livelihoods. It noted that Mozambique, South Africa, and Tanzania are well placed to take advantage of export opportunities, especially for production of wood-based pulp and paper to the Middle East and to the South Asia region, within which China is emerging as a major market.

The Forum discussed possible markets and payment mechanisms for forest-related environmental services such as protection of water resources, carbon sequestration, and biodiversity. It discussed environmental concerns about plantation forestry and forest industrial development. It noted progress being made by financial institutions toward adoption of safeguard policies that will help to ensure that their forest investments are socially and environmentally acceptable.

The main constraints to community/smallholder involvement and private sector investment discussed were the following:

- How to improve access to land for tree planting by both local communities and forest companies, given the constraints of increasing population pressure and the priority that has to be given to food production
- Insecurity of raw material supply for forest-based industries—a problem that is exacerbated by unclear and nontransparent forest concession allocation policies
- Low levels of technology, wasteful conversion, and weak business management skills
- Difficulties faced by small- and medium-scale forest-based industries in accessing capital
- The negative impact on the forest income of dependent local communities and forest company employees of a trend by larger forest companies toward the subcontracting of forest harvesting and management operations
- The weak bargaining position of local communities, smallholders, and SMFEs when it comes to negotiating contracts with larger-scale forest companies and achieving fair prices for community- and farm-grown timber
- Environmental concerns about the impact of plantations on water resources and on the biodiversity of natural forest resources
- The impact of illegal logging on the ability of more responsible forest companies to access markets and to obtain fair selling prices for manufactured forest products
- Inadequate road, rail, and port infrastructure; the high cost of transporting forest products; and delays experienced in obtaining permits for export of forest products
- High transaction costs that act as a deterrent to investment in SMFEs by both commercial and development financing institutions

This report summarizes the many useful suggestions made by Forum participants for overcoming such constraints (further details of which are contained in part 2 and in the background documents listed in part 3 of this report).

The Forum deliberations leaned heavily on, and benefited from, the experiences of South Africa, which for the past 10 years has been going through a process of privatization of state-owned forests and fostering company/community partnerships for securing industrial wood supply. Such developments have assumed increasing importance since the government of South Africa declared targets for acceleration of Black Empowerment. Many of the policy measures that are being introduced to achieve that objective are of great relevance to other countries in the region.

Forum discussions also benefited from material provided by The Forests Dialogue (TFD), which was created in 1999 as an outgrowth of dialogues and activities that began separately under the auspices of the World Business Council for Sustainable Development (WBCSD), the World Bank, the International Institute for Environment and Development (IIED), and the World Resources Institute (WRI). TFD's mission is to bring together key leaders to build relationships and to generate substantive discussion on issues relating to achievement of sustainable forest management.

Of special relevance to this Forum were papers prepared for a TFD meeting in Richard's Bay, South Africa, that was held during the week following this Investment Forum. The purpose of that TFD meeting was to identify key areas for potential collaboration among stakeholders and to catalyze progress toward improving commercial forestry's contribution to poverty reduction. (Part 2 of this report summarizes emerging TFD conclusions on that topic.)

The most important outcome of this Investment Forum will be the extent to which concrete investment deals and programs of technical assistance can rapidly be concluded between some of the financial and development institutions that participated and the many forest agencies and forest industrial companies in the region that are proactively seeking financial support. At the time of drafting this report, several such potential deals and technical assistance projects are under active discussion.

Acronyms and Abbreviations

AFLEG	Africa Forest Law Enforcement and Governance
BCF	BioCarbon Fund (World Bank)
BEE	Black Economic Empowerment
CDM	Clean Development Mechanism (of the Kyoto Protocol)
CER	certified emission reduction
CIFOR	Center for International Forestry Research
DIDC	Department for International Development Cooperation (Finland)
DFID	Department for International Development (U.K.)
DINATEF	National Directorate of Land and Forest (Mozambique)
DPE	Department of Public Enterprises (South Africa)
DWAF	(Ministry of) Water Affairs and Forests (South Africa)
EAC	East African Community
ESSD	Environmentally and Socially Sustainable Development
FAO	Food and Agriculture Organization (of the United Nations)
FCAG	Forest Certification Assessment Guide
FGLG	Forest Governance Learning Group (Ghana)
Finnfund	Finnish Fund for Industrial Cooperation Ltd.
FINNIDA	Finnish International Development Agency
FLEG	Forest Law Enforcement and Governance
FORDA	Forestry Research and Development Agency
FSA	Forestry South Africa
FSC	Forest Stewardship Council
IBRD	International Bank for Reconstruction and Development
IDC	Industrial Development Corporation
IFC	International Finance Corporation
IIED	International Institute for Environment and Development
ITTO	International Tropical Timber Organization
JFM	joint forest management
MOU	memorandum of understanding
NFP	National Forest Program
NGO	nongovernmental organization
NTFP	nontimber forest product
ODA	official development assistance
OSB	oriented strand board
PDI	previously disadvantaged individual

PEP	Private Enterprise Partnership
PROFOR	Program on Forests
PSI	private sector involvement
SADC	Southern African Development Community
SASA	South African Sugar Association
SBU	strategic business unit
SME	small and medium enterprise
SMFE	small and medium forest-based enterprise
SPGS	Sawlog Production Grant Scheme (Uganda)
TFD	The Forests Dialogue
TIMO	timber investment management organization
UNEP	United Nations Environment Programme
UNFCCC	United Nations Framework Convention on Climate Change
USAID	U.S. Agency for International Development
WB	World Bank
WBCSD	World Business Council for Sustainable Development
WRI	World Resources Institute
WWF	World Wide Fund for Nature (formerly called the World Wildlife Fund)

CHAPTER ONE

Summary of Forum Discussions

Laura Ivers, PROFOR and
Leila Mead, World Bank Consultant

The following summary was prepared on the basis of presentations delivered and discussions held at the workshop. It is not comprehensive, but rather a synthesis of and overview of the contents of the forum.

OPENING SESSION

Gerhard Dieterle, Forestry Advisor, World Bank (WB, or the Bank), welcomed participants, hoping for fruitful and forward-looking discussions. He emphasized the importance of forest conservation to deliver local and global forest environmental values, noting that sustainable forest management outside of protected areas is critical to achieving this goal. Moreover, he noted the need for clear management concepts for forests outside of protected areas to meet the livelihood needs of the rural poor, harness forests' potential to contribute to economic development, and reverse deforestation trends by making forests competitive against other land uses over the long term. He called for improved forest sector governance, remarking that widespread illegal logging and corruption weaken the rule of law and undermine forest markets.

Dieterle stated that the Forum's purpose was to identify emerging investment project opportunities and to agree on actions that could be taken by Forum participants to create an enabling environment for socially, environmentally, and economically responsible investments. In closing, he raised several questions for consideration at the Forum, including whether partnerships between companies and communities can improve livelihoods, whether newly emerging markets for environmental services can contribute to livelihoods, and whether public land can be managed in a more transparent way for sustainable growth.

Linda Mossop-Rousseau, Chief Director of Forestry, Ministry of Water Affairs and Forestry (DWAF), opened the Investment Forum, stating that she hoped the Forum would provide a good opportunity for networking and that participants would have "*ubuntu,*" a Zulu concept of a community spirit and collaboration that is mutually constructive. She said that South Africa's forestry is at a crossroads, with a process of privatizing state plantations under way, managed by the Department of Public Enterprises (DPE). Larger-scale commercial plantations (category A) are being handed over to the private sector, and the smaller plantations (categories B and C) are to be transferred to communities.

Mossop-Rousseau explained that South Africa is trying to identify the right mix of ownership/management to deliver long-term sustainable management of the plantations, and poverty alleviation benefits from forestry to the rural poor. In the

BOX 1

Broad-Based Black Economic Empowerment

Since 1994, the South African government has been implementing a comprehensive program to undo the economic damage of apartheid and create equitable opportunities for black South Africans. New laws have restored rights to land and tenure, proscribed unfair discrimination, and introduced specific active measures to overcome the distortions in the labor market and to provide new economic opportunities to historically disadvantaged persons. The Broad-Based Black Economic Empowerment Act of 2003 covers the economic empowerment of all black people (including women, workers, youth, people with disabilities, and people living in rural areas) through diverse but integrated socioeconomic strategies designed to (among other things)

- increase the number of black people who manage, own, and control enterprises and productive assets;
- facilitate ownership and management of enterprises and productive assets by communities, workers, cooperatives, and other collective enterprises;
- develop human resources and skills; and
- promote investment in enterprises that are owned or managed by black people.

In 2005, a participatory process for developing a Forest Sector Broad-Based Black Economic Empowerment Charter was launched, with stakeholder consultations held throughout the country. The process identified the need to establish dedicated funding instruments for funding BEE transactions, develop a Code of Good Conduct for contracting work, and improve organization within the sawmilling and contracting subsectors.

Sources: http://bee.sabinet.co.za/bee_overview.html and http://www.info.gov.za/.

future, South Africa envisions local government as the driver of economic development, with the national government supporting this by creating an enabling environment for sustainable development. She said that the South African Department of Water and Forestry (DWAF) is engaged in implementing the Broad-Based Black Economic Empowerment (BEE) Charter for the forest sector (see box 1), and she hoped that the Forum would contribute to this mandate by helping to identify financing and extension services to ensure successful results from the BEE in forestry.

Ole Sand, Head, Forest Products Group, International Finance Corporation (IFC) explained that the IFC is the arm of the World Bank Group that focuses on private sector investments, with investments of about US$2.5 billion in the forestry sector, ranging from plantations to processing to creating furniture and paper products. At present, China, India, and the Russian Federation are dominant countries for such investments, but IFC is interested in targeting forestry investments in Africa. Sand attributed the IFC's limited engagement in Africa to the World Bank's ban throughout the 1990s on investment in commercial forestry in tropical forests. He explained that the World Bank's revised 2002 forest policy allows for such investments if they meet specific conditions, including requirements for forest certification for any project involving industrial forests. This change in strategy, combined with the Bank's emphasis on Africa, presents an opportunity for IFC to invest in Africa.

Mike Edwards, Executive Director, Forestry South Africa (FSA), explained that FSA, established in 2002, is a registered nonprofit organization with membership comprising 20,000 timber growers. The objectives of FSA are to promote the interests of all growers of all trees for commercial purposes, promote growth of members, promote policies for innovation, provide training and technology transfer, gather and disseminate information on forest industry, and represent the views of members to ensure that the industry can grow and prosper. Moreover, FSA promotes the forestry industry within the broader context of national economic development. FSA's small-business development is focused on implementation on the ground—encouraging growth in emerging sectors and facilitating sustainable enterprise growth. Edwards said that a goal of the BEE Forestry Charter is the establishment of 100,000 hectares in the next 10 years for smallholders. He emphasized that there are many investment opportunities, but that investment and funding are prerequisites to make aspirations a reality and that FSA needs support and partnership from the World Bank and IFC. In closing, he said that there are investment opportunities in South Africa that can make a huge difference to livelihoods, and that there is a need to find mechanisms to turn opportunities into reality.

Paul Vantomme, Assistant Director, Forest Industries, International Tropical Timber Organization (ITTO), said that the core business of ITTO is to promote sustainable development and contribute to livelihoods through the conservation and sustainable management of forests. ITTO has 58 member countries, representing 97 percent of trade in tropical forests and 80 percent of the total tropical forest area. It funds projects for forest management and conservation projects, as well as for improved use, processing, and marketing of timber and nontimber forest products. Vantomme said that forest enterprises depend on the sustainable supply of raw materials and that proceeds from such enterprises should thus be invested in forest resource management.

Although investments often focus on large-scale plantations and wood crops, Vantomme emphasized the importance of investment in small- and medium-size enterprises and forest activities within natural forests to build up rural economies for local populations and to sustain livelihoods. ITTO is working to address obstacles to investment in this area (for example, the recent ITTO Investment Forum in Cancún focused largely on investments in natural forests). Vantomme noted that preparations are under way for additional investment forums in partnership with organizers of this Forum in Latin America, Central and West Africa, and Tropical Southeast Asia.

Harrison Ochieng Kojwang, Southern Africa Program Office, Zimbabwe, WWF, said that WWF's mission, relevant to this meeting, was to promote conservation of biodiversity and the use of renewable resources in a sustainable way and to reduce the release or unwise use of toxics. He said that when investing in woodlands, financing must be sustainable, with equitable distribution of resources, noting that, for the most part, the public was excluded from the benefits of commercial exploitation of dry woodlands. More products must be brought to the market, particularly if poverty is to be reduced through forestry activities.

Kojwang commented that the few valuable species are overexploited and that there is a need to look at the value of other species. He said that new technologies are needed for reconstituted wood products and that WWF and the World Bank together could promote technology transfer and use a greater number of species. From a conservation point of view, he said that forest conservation must be done in the broader context of landscape management, with landscape systems and ecological principles respected and multiple production systems encouraged. Noting challenges for forestry in South Africa, he said that poverty reduction must be focused on, through socially equitable production and a legitimate role for the poor to contribute to the economy.

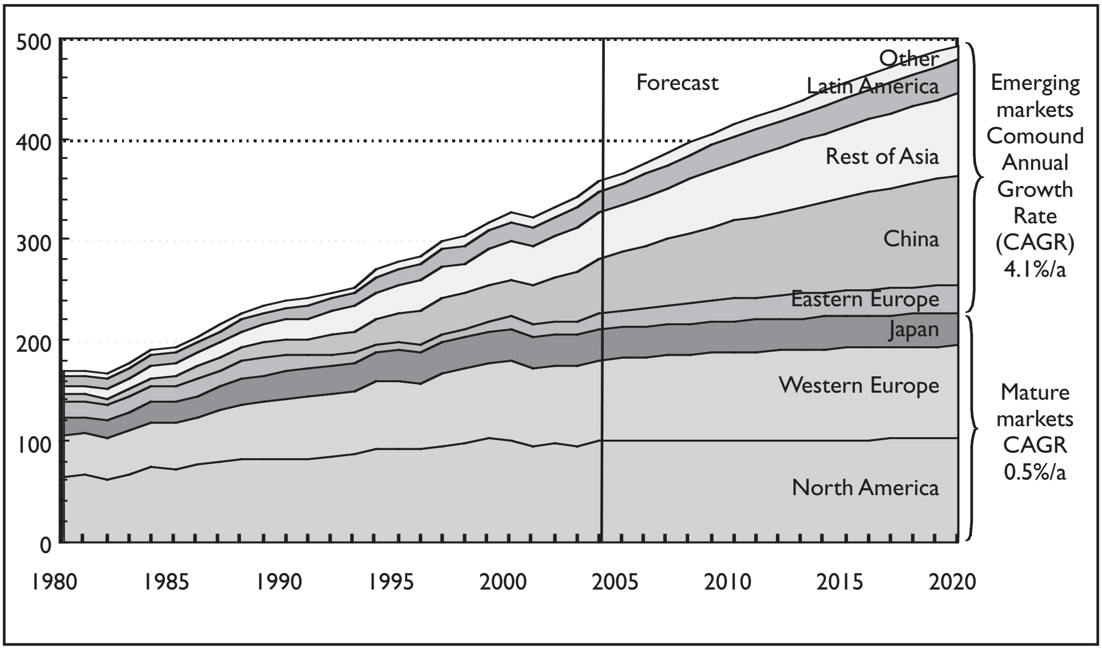
KEYNOTE ADDRESSES

Keynote addresses were delivered on global trends in the forest sector, building corporate-smallholder partnerships, and incorporating social and environmental safeguards into lending policies of financial institutions.

Global Trends in the Forest Industry

Rainer Haggblom, Chairman, Jaakko Pöyry Consulting, said that paper consumption was growing faster then ever, despite slow growth in Europe, Japan, and North America (see figure 1). Fast-growing plantations represent a major trend in the paper industry, and consumption of wood is expected to increase. Recycled fiber and fast-growing plantations (that is, eucalyptus, acacia, and fast-growing pine) represent this growth, and the shift from natural forest to plantations was a result of competitiveness, environmental factors, and availability of wood. With regard to meeting the growing demand for papermaking fiber, he said that recov-

FIGURE 1
Wood Demand for Paper and Paperboard, 1980–2020



Source: Rainer Haggblom, presentation at Eastern and Southern Africa Region Investment Forum

ered paper will continue to be used, along with increases in the use of bleached hardwood kraft (see figure 2). Instead of using recovered paper, which is more expensive, more bulk wood resources are needed.

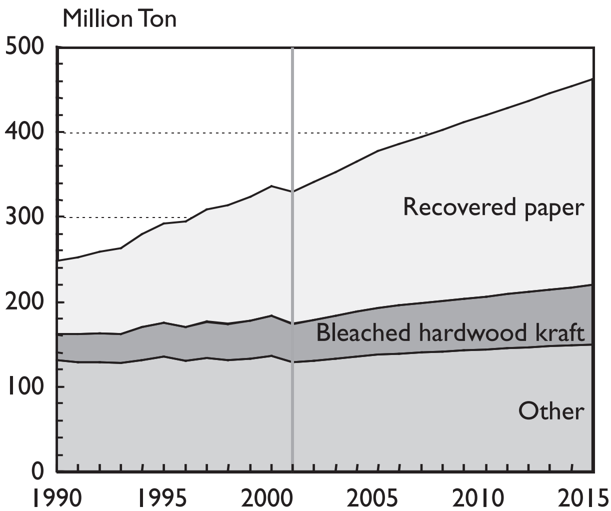
Haggblom noted particular growth in paper consumption in Asia, specifically the result of increased outsourcing of industry to Asia, which requires more packaging, more documentation, and so forth. Chinese paper consumption is growing so fast that to supply projected demand through 2015, an additional 3 million tons of hardwood kraft are still needed, which would require three or four mills to process. He said that industry is moving south because it is more cost-effective and efficient with regard to mills and plantation growth (an estimate of annual wood growth in the north is 4 cubic meters per hectare, while in some areas of the south it can reach 50 cubic meters per hectare or more).

Haggblom commented that pulp mills are costly ventures, costing US$1 billion per mill to produce approximately 1.3 million tons of pulp, and that creating conditions to encourage investment of this scale is challenging. He said that pulp mills should not be 100 percent self-sufficient for wood supply and that opportunities for local growers to make money must be created. In closing, he noted the importance of recognizing the benefits of sustainable plantation forestry to help develop economies and industry and of making rural people part of industrial development.

Building Better Corporate-Smallholder Partnerships: Sharing Lessons across Southern African Countries

Dale Doré, University of Alberta/Center for International Forestry Research (CIFOR), discussed a three-year project under way within CIFOR's Livelihoods and Forests Program, in partnership with the University of Alberta. In broad terms, the project is addressing public sector reform and regulatory frameworks, incentives for the private sector to develop pro-poor partnerships, the involvement of civil society, giving smallholders a stronger voice and more choice, and the role of

FIGURE 2
Forecast for Papermaking Fiber Demand



Source: Haggblom, presentation

international organizations in promoting good governance. Study objectives are to enhance livelihood through participation and better access to land and through increasing smallholder and subcontracting bargaining power.

Dore noted the importance of returning benefits to households, including poor and vulnerable households; employing subcontractors from poor communities, including a high proportion of women in projects; and a clear understanding of roles and responsibilities among stakeholders. He said that South Africa's experiences demonstrate that the private sector can play a key role in poverty alleviation. He also said that other lessons learned include how to lower transaction costs by developing systematic and operational procedures with smallholders and by overcoming opportunity costs and high discount rates through capital accumulation (stock of trees) and improved cash flows (periodic payments). He said that future challenges include transforming the traditional system of governance and land tenure, ensuring greater participation and representation of smallholders and contractors, and investigating alternative models for pro-poor forestry. In closing, Dore said that models elsewhere in Africa should be reviewed to share lessons learned across the region.

Incorporating Social and Environmental Safeguards into the Lending Policies of Financial Institutions

Christina Wood, Sustainable Finance Limited, remarked that growing awareness of social and environmental risks in lending and investment has been made clear through the United Nations Environment Programme (UNEP) Finance Initiative, the King Report on Corporate Governance in South Africa (see box 2), and the adoption of the Equator Principles[1] by more than 40 banks. Several banks have adopted or are developing their own forestry policies, with measures to avoid investment in illegal logging and "risky" countries. Wood said that risk management is the

1. The Equator Principles are a voluntary industry framework for addressing environmental and social risks in project finance. They aim to ensure that projects are developed in a socially responsible manner and according to sound environmental management practices.

BOX 2

King Report on Corporate Governance in South Africa

Corporate governance in South Africa was institutionalized by the publication of the "King Report on Corporate Governance" (King Report 1994) in November 1994. The King Committee on Corporate Governance was formed in 1992 to consider corporate governance in the context of South Africa. This coincided with profound social and political transformation in South Africa. The purpose of the King Report was, and remains, to promote the highest standards of corporate governance in South Africa. Unlike its counterparts in other countries at the time, the King Report 1994 went beyond the financial and regulatory aspects of corporate governance in advocating an integrated approach to good governance in the interests of a wide range of stakeholders, having regard for the fundamental principles of good financial, social, ethical, and environmental practice. In adopting a participative corporate governance system of enterprise with integrity, the King Committee in 1994 successfully formalized the need for companies to recognize that they can no longer act independently from the societies and the environment in which they operate.

Source: Executive Summary of the King Report on Corporate Governance 2002.

primary driver for banks to adopt such policies and noted that nongovernmental organization (NGO) campaigns targeting banks for irresponsible forest sector investments have caused some banks to turn away from forest investments. Certification is a good means to reassure banks; however, the flood of certification schemes (more than 50) makes it difficult for banks to determine effectiveness.

Wood indicated that a number of Equator banks are operating in Africa and that the top five South African banks—as well as some Nigerian banks—are developing environmental and social policies. She identified several challenges related to applying environmental and social safeguards for forest sector finance:

- The limited relevance of the Equator Principles to small-scale forest investments, given that they focus on projects larger than US$50 million
- The possible backlash from identifying some countries as "high risk," because this may send a chilling effect to sound projects in those countries
- The increasing influence of finance from China in Africa and elsewhere, with little commitment to integrating social and environmental safeguards
- The large market that China represents for timber sourced from Africa, without any certification and sustainability requirements
- Confusion in the market over the more than 50 certification schemes
- Uncertainty within the financial community about when and how to apply forest lending conditions (for example, whether they should be based on geographic location or investment scale)

Wood suggested that agreement on simple and achievable requirements by all banks (that is, legal timber, plus some elements of sustainability) would be helpful. In closing, Wood said that markets will drive investments—meaning that if illegal timber markets are thriving, then the safeguards are not going to stop investments (finance from less restrictive institutions will be sought instead).

PANEL 1: FINANCING SUSTAINABLE FOREST MANAGEMENT: INVESTMENT OPPORTUNITIES AND CONSTRAINTS

This panel session addressed three basic questions: Where are the investment opportunities? How do we ensure that low-income families benefit from forests? What are the potential sources of investment? Olli Haltia, Managing Director, Savcor Indufor Oy, chaired the panel session. In his overview of the session, he noted an increasing demand for fiber in China and India and said that

Africa is now in a position to supply part of this demand. Few locations exist globally where fast-growing plantations can be established—Southern and Eastern Africa provide a unique opportunity for these plantations. When discussing new large-scale industrial plantations to meet Asia's demand, he said that more attention must be paid to quality, including through certification schemes.

Looking toward the future, he stressed more encouragement of private sector investment in Africa and said that a road map for investors should be created to attract more foreign capital. He said that partnerships with smallholders and communities were critical and relevant and that plantations should be developed consistent with requirements of the modern pulp industry, taking into account such potential future investments. In the short term, however, it would be important to support SMFEs, which can generate immediate value added and employment.

Discussing the Kenyan forestry sector, David Mbugwa, Chief Conservator of Forests, Kenya, said that the sector was vibrant 15–20 years ago and had started declining in the mid-1990s, partly because of inflexible legislation and policy. Subsequently, a new forest law and draft forest development policy were developed that emphasize partnerships, bringing in the private sector in managing plantations, and community participation in forest management. He said that the new law, passed in October 2005, includes rules and regulations and will guide new institutions. By January 2006, the new law should be operational, and there will be in-depth consultations to develop the system for such partnerships with the private sector. In Kenya, communities own the land and thus need to be partners and part owners in any reforestation project. Some communities have reservations about the private sector taking over the forests; however, planned government pilot scale outreach programs will help to inform communities about potential opportunities for collaboration.

During the discussion, the process of acquiring land as an obstacle to investment was raised. One participant urged the Bank, the UN's Food and Agriculture Organization (FAO), and others to create an enabling investment climate by establishing land banks and investment centers and supporting land tenure reform to reduce transaction costs for investors. Uganda was identified as a role model in this regard because it has overcome some obstacles to acquiring access to government owned land. Olav Bjella, National Forest Authority, Uganda, said that firm policies must be in place to create an enabling environment and to deal with disputed land encroachment. He said that Uganda has a predictable legal framework for licensing and a timber-monitoring system.

Other issues raised included grant funding to make tree growing more attractive, improving the bottom line for communities, and the potential for forestry to do more for local communities and to lift people out of poverty. Expressing uncertainty as to whether South African industry is fully prepared to deal with potential impacts from land redistribution and restitution, a participant noted the challenge of keeping new farm owners producing to ensure a steady timber supply. Another participant drew attention to the need to engage private investors to help smallholders have options beyond producing timber.

Steven Ngubane, Forestry South Africa (FSA), explained that FSA's membership spans from smallholders (up to 100 hectares) to medium growers (up to 1,000 hectares) and to big corporations. He suggested that there are opportunities in industrial plantations and from forest industry subsectors; however, financing institutions see risks that must be managed. Good governance is important to minimize perceived risks, including with licensing systems. Market access is important for developing a processing industry, making forest plantations far from markets not financially viable. Reducing the cost of investments in such locales, possibly through grants, is one option that could be considered.

Humphrey Ngibueni, TreeFarms, Tanzania, highlighted work in Tanzania and Uganda. In Tanzania, land is acquired through negotiation with communities, often for benefits such as a road network, schools, and water distribution. This can be a long process, and obtaining a title for the land can take months or years. The Tanzanian government is becoming cautious about risks from big investors taking land from communities and is thus promoting land use plans for grazing, timber, and other land uses. After 10 years of activity and investment, the standard of living is improving as a result of income from plantations. Initiatives are under way to encourage farmers to plant trees for woodlots on their land and to develop avoided-deforestation schemes.

Monika Branks shared experiences from the Malonda Foundation (funded by Mozambique and Sweden) in the Niassa province of Mozambique. The Foundation's primary roles are establishing key legal, business, and information services; fostering relationships between different decision makers to mobilize private investments; and providing risk capital. The Foundation decided that to eventually develop SMFEs, there was a need to create a critical mass for plantations and the necessary associated infrastructure, such as roads, railways, and general services. In light of this, the Foundation is initially working with ethical and profitable larger players to reach this goal; it will give special emphasis to working with smallholders subsequently. The Foundation requires Forest Stewardship Council (FSC) certification and has guidelines for investors. It expects to create 4,000 jobs in the next five to seven years. In closing, Branks said that making forestry economically viable takes time and that in Mozambique, there is the political will to do so, but limited resources for investments to this end.

Ole Sand, IFC, said that if investors see successful examples, they will follow. The lack of big processing companies in countries in the region—other than South Africa—is part of the problem. The processing creates demand for the plantations that provide jobs and poverty reduction. Sand said that there is a need for fiber and that Africa has the benefit of good growing conditions to take advantage of meeting that demand.

Anna Chilesh Masinja, Forestry Department, Zambia, said that the private sector and civil society are encouraged to participate in the forest sector. Half of the forest lands are indigenous forest reserves managed by local populations. The New Forest Act currently under consideration by the cabinet would establish a semiautonomous body to manage production forests. Promoting joint forest management (JFM) to benefit local people and investments in plantations are also needed. There is growing demand for timber for construction, as well as opportunities to develop the pulp and paper and panel industries. She called Zambia an "investment destination" and explained that investments must be approved through the ministries of justice, tourism, environment, and natural resources to ensure that they benefit the people of Zambia.

Portia Molefe, Department of Public Enterprises (DPE), South Africa, explained how some forests have been privatized through packages that include transfer of 10 percent of equity to local communities. She raised the question of how to ensure that communities receive benefits from the equity, given that in some cases no dividend has been distributed.

Andrew Tillery, Actis Africa/Agribusiness Fund, a US$100 million investment fund based in Kenya, explained that the Fund's equity investment criteria are growth potential, security of land tenure, quality of management, and quick liquidity (returns). He said that associations of local communities or smallholders help to secure land tenure and that outreach and extension programs in investment areas help to ensure assure establishment of quality plantations.

Olli Haltia summarized that the region offers good investment opportunities, but that the investment climate should be further improved to attract capital equal to the region's full potential. There is progress from new laws and rules that will improve the investment environment and attract new sources for investment such as private equity investment in tree growing. Partnership models applied between various stakeholders, including smallholders, companies, state forestry agencies, and governments, vary greatly between the countries. Most likely, a single optimal model does not exist, but the fact is that some models work better than others. Going forward, the evolution of partnership models and their effectiveness should be monitored with a view to sharing experience across the region.

In addition, although public sector financing will remain important to contributing toward forest sector infrastructure and to supporting major industrial ventures, private financing will play an increasing role in the development of the sector. The goal of private and public financing could be to create success stories that would trigger further market-driven finance in the sector.

PANEL 2: FINANCING FOREST INDUSTRIES AND DEVELOPMENT: INVESTMENT OPPORTUNITIES AND CONSTRAINTS

This panel on forest industries identified investment opportunities and constraints and discussed how to encourage investment in small and medium enterprises (SMEs).

TABLE 1
Medium- and Large-Size Forest Industrial Enterprises in Forum Countries

	Sawmills	Panels	Furniture	Pulp
South Africa	108	5	100*	9
Zimbabwe	41	3	*	2
Kenya	20	5	8	1
Tanzania	3	2	*	2
Uganda	11	2	-	
Malawi	7	2	5	
Madagascar	5	2	3	
Zambia	15	17		
Swaziland	2	2		
Mozambique	4	2	3	-

Sources: FAOSTAT and regional information.
* = subject to verification

Charles Bengough chaired the panel and delivered an overview presentation on the status of forest-based industries in the Forum countries.

Bengough provided information on the number of medium- and large-size forest industrial enterprises in the region (see table 1), with South Africa having the largest number of sawmills and furniture enterprises. With regard to the pulp and paper industry, South Africa is clearly the regional leader.

In his presentation, Bengough identified general constraints in the region: inadequate legal and meaningful forest concession legislation, lack of reliable sources of raw material, inadequate market intelligence to develop investment strategies, poor infrastructure and government support for development, and inadequate revision of forest policy (bills/acts) and restructuring of departments/services. Outdated technology and lack of skilled workers also result in inefficient operations and poor products.

Bengough also identified a number of country-specific investment opportunities, such as rehabilitation of Kenya's timber sector with introduction of a new forest concessioning system; development of Mozambique's indigenous timber resource, plus plantation-based pulp and timber industries; and assistance to Zimbabwe's and Zambia's softwood processing, aimed at increased exports to South Africa.

James Mayers, IIED, highlighted work on company-community partnerships and on SMFEs, particularly associations that show the way forward.

Eric Obese-Jecty, IFC, Operations Officer, Entrepreneurship and SME Development, Private Enterprise Partnership (PEP) for Africa, described PEP's programs to support SME enterprises throughout sub-Saharan Africa (see box 3).

Regarding main investment opportunities, Michael Peter, Director of Forestry Technical and Information Services, South Africa, stated that growing trees is high-risk and low-return and that processing is the profitable part of forestry. He suggested that communities should have equity in the processing or value adding chain, in addition to tree growing.

Ole Sand, IFC, said that where the profit is depends on the market chain concentration. He noted the experience of the pulp and paper industry in North America with selling off its timberland to timber investment management organizations (TIMOs). Over time, the TIMOs became more profitable.

A participant from a wood-processing firm in Ghana highlighted the ongoing competition for land use between agriculture (primarily for cocoa) and forestry. When the whole value chain is considered, forestry is more competitive than cocoa; however, cocoa can guarantee farmers a better price for their crop and so farms often choose to plant cocoa despite programs to encourage investment in forests. James Mayers, IIED, commented that the flood of illegal timber supply on the domestic market in Ghana is an obstacle that

BOX 3

IFC Private Enterprise Partnership for Africa

In April 2005, the International Finance Corporation (IFC) teamed up with donor partners to launch a far-reaching new initiative: the Private Enterprise Partnership for Africa (PEP-Africa). The objective is to help Africa meet its need for a stronger private sector that can raise local incomes and hold its own in the global marketplace. Based in Johannesburg, PEP-Africa is replacing and expanding on the work of the Africa Project Development Facility, IFC's initial program for developing small and medium enterprises (SMEs). Under PEP-Africa, work has begun on:

- **Entrepreneurship:** With approximately US$1.4 million in support from the Netherlands, a new SME Entrepreneurship Development Initiative is under way. This will continue and expand on the key projects of the existing facility, which has strengthened Africa's small and midsize businesses and their support institutions for more than 15 years.
- **Leasing:** A grant of more than US$900,000 from Switzerland is helping IFC adapt its successful efforts in other regions to expand Tanzania's access to leasing, an effective financing option for smaller businesses that can neither afford to purchase needed new equipment outright nor qualify for bank loans to finance them. A similar Swiss-funded IFC project in Uzbekistan has helped the country's number of leases increase dramatically in the past year, and there are indications that similar results can be achieved in Tanzania and other East African countries.

In addition to the focus on smaller businesses, PEP-Africa expects to be active in investment climate reform, infrastructure, gender equality, and other areas. It thus joins a family of regional technical assistance facilities managed by IFC that together have more than 600 full-time staff in the field. PEP-Africa is also a key part of IFC's new strategy in Africa: other initiatives include the US$225 million, 10-country, IDA-IFC Africa Micro, Small, and Medium Enterprise initiative with the World Bank, as well as the creation of integrated SME Solution Centers in Madagascar and Kenya.

Source: http://www.ifc.org.

needs to be addressed to improve the market value of timber.

Responding to a reported regional trend toward increasing dependence on fast-growing Eucalypts, John Spears asked about possibilities in Uganda (for example) to switch to short-rotation eucalyptus cultivation in place of long-rotation pine. In response, Paul Jacovelli, EU Forestry Program in Uganda, remarked that the focus on pines in Uganda is in part for silvicultural reasons and that Uganda does not have adequate access to hybrid, high-yield eucalyptus plants. He further suggested that growing eucalyptus should be encouraged to avoid the expected shortfall in timber supply in 10 years. He described the EU's program that helps smallholders establish plantations by covering approximately 50 percent of the cost. Contracts are established with smallholders with 25–500 hectares. Participants in the program must adhere to advice on species and plantation management to receive payments.

During the discussion, Ole Sand, IFC, noted that the IFC's emphasis on big projects is the result of the transaction costs associated with smaller projects. He said that the IFC's involvement in, and endorsement of, forest sector investments might open up other opportunities, such as adding a sawmill to a plantation.

Rentia van Tonder, Industrial Development Corporation (IDC), South Africa, said that IDC has aligned itself with the South African government goal of a 6 percent growth rate and the creation of 500,000 jobs. For the forest sector, IDC is making significant investments in SMFE development and job creation. IDC's aim is to support industry and government, while ensuring that communities benefit. She highlighted a program with 2.5 percent financing for up to 25 years, supporting communities and development in rural areas, but acknowledged that getting that return rate is not easy. She identified the 25-year time frame as a constraint from the financiers' side.

During the debate, George Wamukoya, WWF, said that follow-up discussions around species were needed to encourage (for example) eucalyptus in Uganda and Kenya. Policy direction is required to ensure that communication is not confusing. He suggested discussing these issues in the regional commissions, such as within the Southern African Development Community (SADC) and the East African Community (EAC), to reach a common understanding.

Humphrey Ngibueni, TreeFarms, discussed the importance of ensuring energy supply for forest industries, noting that inadequate supplies inhibit production. He suggested (a) converting forest waste into energy to run sawmills and (b) investing in improving the efficiency of charcoal kilns to get better recovery as a means to improve the energy supply. He identified the high cost of doing business as an obstacle to industry development, pointing to bureaucratic and constantly shifting regulations and lengthy procedures for export.

Panel Chair Charles Bengough said that South Africa has been a big investor in Kenya, Tanzania, Uganda, and Zambia in other sectors and suggested that there are opportunities in the forest sector. One participant, in discussing South African investment in other countries in the region, expressed concern over investment in other countries, suggesting that this should occur only when potential in South Africa in exhausted, not because investments are easier elsewhere. Regarding the transparent and well-enforced regulation in South Africa, another participant said that South Africa is "too squeaky clean," making it impossible to do the job.

Another constraint identified in the discussion related to the inadequacy of research and information on new species, coupled with poor dissemination of what is known. Mixed messages on some issues such as the appropriate locations for growing eucalyptus and impacts on soil quality and water supply further exacerbate the problem.

In conclusion, John Spears noted the encouraging potential for substantial investments in this region. He referred to the potential role of IFC's Private Enterprise Partnership for Africa and also to IFC's Social Responsibility Forum, (formerly the Corporate Citizenship Facility), which helps communities enter new businesses if investment is tied to the Social Responsibility Forum and if benefits go to local communities. He commented on the usefulness of IIED's detailed studies of SMEs in South Africa and Uganda and suggested that Forum follow-up activities might explore the possibility for undertaking similar studies in Zambia and other countries of the region.

PANEL 3: SOCIAL AND ENVIRONMENTAL SAFEGUARD POLIICIES: KEY ISSUES

This session examined key issues related to social and environmental safeguard policies, with a focus on how to deliver forest environmental services—specifically, water resource management, carbon sequestration, and biodiversity conservation. Hege Salvesen, Forest Trends, chaired the session and introduced the topic, emphasizing the importance of long-term financial viability and how to turn environmental and social issues from costs into revenue-generating opportunities. One example that she highlighted is using waste from timber to generate income. Up to 75 percent of the log is lost in processing, and the waste left on the forest floor is equal to the resource extracted (for every cubic meter removed, a cubic meter is left behind). Waste can be used to generate renewable energy, providing electricity that can be put into the electrical grid or used to supply energy to a village off the grid. Charcoal, pellet production, and extraction of oils for botanical use are other possible uses for waste.

Salvensen said that there is a lot of potential to increase recovery rates for value added processing, and she cited the example of Orsa Florestal in Brazil entering into a joint venture with a furniture company that is using processing waste, with a recovery rate up to 80 percent. She encouraged participants to "think outside the log" to get a fresh perspective.

Collin King, Standard Bank, commenting on carbon financing and obstacles to complying with the requirements of the Clean Development Mechanism (CDM) of the Kyoto Protocol, said that the key to success lies in packaging projects correctly. He said that carbon finance can be a good option when struggling to get financing because the carbon credits can be sold up front to provide revenue streams and additional collateral. Carbon finance can tip the balance in making a project profitable. Salvensen remarked that there are also voluntary carbon markets for individual actors that want to offset their carbon footprint.

Gerhard Dieterle, World Bank, highlighted BioCarbon Fund (BCF) projects in Africa, commenting that such finance is especially interesting for afforestation projects, where the rate of return is low and the carbon finance makes the difference of making the project financially viable. The European Union Greenhouse Gas Emission Trading Scheme does not allow trading of certified emission reductions (CERs) that are from forests and indicated that the World Bank is lobbying to change this. A participant raised concerns about obstacles to accessing forest finance in countries where there is no designated national authority or in countries that have not ratified the Kyoto Protocol. Olman Serrano, FAO, said that this is not the problem as much as the issue that countries need to know what to do to comply with the CDM requirements. FAO is working to develop capacity for CDM projects, as well as for adaptation to climate change. On avoided deforestation, Serrano encouraged countries to engage in negotiations on the topic.

Harrison Ochieng Kojwang, WWF, said that information on carbon sequestered by drylands is often underestimated and that correct information should be provided to take advantage of benefits from avoided deforestation. Gerhard Dieterle underscored the importance of coordinating positions on avoided deforestation and highlighted work by the World Bank Program on Forests (PROFOR) to coordinate positions as input to the process under way within the United Nations Framework Convention on Climate Change (UNFCCC) to develop a proposal on how avoided deforestation will work. He said that the issue of confusion over multiple certification schemes needs to be addressed, noting that WWF supports the Forest Stewardship Council (FSC). With the support of the World Bank/WWF Alliance, Kenya and Mozambique are developing national certification standards through a process with broad stakeholder involvement.

Shaun McCartney, FSC, said that certification is making a difference toward creating a social and environmentally sustainable investment climate. He said that the FSC represents a premium certification scheme; is credible and inclusive; has robust principles and criteria; and includes mutual recognition, third-party verification, and an extensive and growing network. Noting that most products are consumed locally, he stressed creating local demand for certified products, along with appropriate local standards and procurement policies. To date, 53 southern and 26 northern countries are FSC-certified. He said that umbrella schemes illustrate another approach for lowering costs for certification.

Mike Howard, Fractal Forests, South Africa, discussed development of criteria and indicators, as well as developing a national certification initiative. He noted the FSC's opposition to GMOs and said that more than 80 percent of South African plantations are certified. On natural forests, South Africa is one of the forerunners.

James Mayers, IIED, raised the issue of watershed maintenance being perceived as the "new silver bullet" for protecting forests in watershed areas. He said that the evidence base for a particular land use actually delivering watershed services is often weak, with an unreliable connection between cause and effect. However, this issue has been seized upon by conservationists, in part, as a "great new hope." The assumption is that there are lots of buyers ready to buy watershed maintenance services in countries, but the reality is that such buyers are scarce and in need of persuading. Deals tend to get made only when a crisis point is reached, and equity issues in the distribution of benefits are often overlooked.

Gerhard Dieterle, World Bank, stressed certification as one of the core aspects of the Bank's work, and he noted the forthcoming World Bank/WWF Alliance Forest Certification Assessment Guide (FCAG), designed to help verify the rigor of any scheme. Certification should be looked at as a market-based mechanism and should be used more, especially in countries with weak government structures, because it could be used by such governments to outsource monitoring obligations while promoting an incentive system for those who are certified. He underscored the importance of addressing illegal logging, corruption, and associated crimes because it undermines the sector and results in annual losses of billions of dollars. Using the Congo Basin as an example, he noted disincentives for those who play by the rules and rewards for those who do not. He said that the devolution of state land to local or communal ownership should be carefully managed and accompanied by land use planning and zoning to ensure successful outcomes.

Olman Serrano, FAO, called attention to the FAO code for planted forests and an advisory committee on paper and wood products. He said that the draft is still under discussion and that many issues discussed at this Forum are covered by this code, which includes strategies for protection of water resources, carbon potential, and biodiversity.

Christina Wood, Sustainable Finance Limited, said that although no African banks have yet adopted social and environmental policies, some are in the process of developing them. Certification becomes a good proxy for risk avoidance, and the challenge is to get the bankers to move beyond compliance and to look at new opportunities, including within carbon finance. Another participant suggested reducing the financing premium for certified investments as an incentive for getting certified.

One participant said that if there is real concern about governance, new inventories should be undertaken and published. In response, another participant estimated the cost of an inventory as US$90 per hectare, stating that inventories are expensive to undertake and demand hard work.

WORKING GROUPS

On the third day of the Forum, participants met in working groups on the topics of the panel discussions held in Plenary on the first day to deepen the discussions.

Financing Sustainable Forest Management

One working group focused on financing sustainable forest management. Participants in that group described opportunities for forest sector investment in their countries:

Kenya: There are plantation rehabilitation opportunities, as well as opportunities in plantation development, inventory, and protection. Kenya's recently approved Forest Act provides for communities to manage natural and plantation forests and for industry to manage part of the forest estate.

Malawi: One million hectares of natural forest are set aside in parks, the forest department holds 800,000 hectares, and the rest is customary land. The plantation forest estate is 120,000 hectares. The plantations near high-demand areas are degraded. Malawi would benefit from the development of more processing facilities to make use of mature resources available. There are community management opportunities for growing seedlings and selling from woodlots. Without woodlots, there is dependence on natural forests. The opportunities in Malawi are plantation rehabilitation, plantation establishment on public land, development of the furniture industry, and use of processing waste to make furniture.

Mozambique: Government investments in forest sector development have helped to create an enabling environment for investment. The government is trying to promote plantations and estimates that up to 7 million hectares could be established. At present, there are 24,000 hectares of primarily pine and eucalyptus plantations. With regard to natural forests, Mozambique has some 62 million hectares of forests, of which 19 million hectares are viable for timber production. Harvesting in natural forests can take place with a license (good for one to six years) or with a long-term concession. Law enforcement is also a constraint that needs a solution. Mozambique's geographic location facilitates export to Asia.

South Africa: Forest concessions for periods of 70 years are allocated, with the title retained by the state. Reform under way will transfer forest titles to beneficiaries with a minimum of 20 percent, or the profits will go to Black Economic Empowerment (BEE), and 6 percent of the shares are retained by the state for use by communities. For example, Mondi has been required to bring in BEE Partners, and the lease it holds requires community involvement. Evaluation of the bids for the leases has been based not only on price but also on meeting development needs. South Africa provides a market for other countries' timber.

Tanzania: Reforms are under way in Tanzania to privatize all forest-based industry, and a semiautonomous forest management agency is being established. The Tanzania Investment Center is the gateway into the country. Teak mosaic plantations offer an example of a good practice because there is community engagement in certification. The National Forest Program (NFP) Facility is supporting a participatory process to establish plantations and woodlots. Extensive community ownership of land is a constraint to forest sector investment in Tanzania, meaning that to gain access to forest concessions in Tanzania, interested parties must first negotiate with local communities, and then the government can allocate long-term (99-year) leases. Ninety percent of energy in Tanzania comes from wood, especially charcoal, and lots of wattle is grown for industrial fuel. Tanzania presents opportunities insofar as land is available, loans are amiable for leaseholders, it is a stable country, and there are economic growth and associated increases in demand for product.

Uganda: Opportunities exist for new plantations; however, there are few skilled foresters to manage such plantations, no modern nurseries, and limited availability of high-quality seeds. The shortage of energy supply in Uganda is an opportunity for wood bioenergy. Seventy percent of Uganda's forests are privately owned, and 30 percent are protected. The privately owned forests are being converted to corn and tobacco cultivation. There is no system in place to support community forestry. The European Union is supporting grant schemes to fund the establishment of smallholder plantations.

Zambia: The government offers five-year concessions in indigenous forests. There are seven JFM areas. Illegal logging is a problem, with illegally sourced timber consumed domestically for building materials and charcoal and exported to neighboring countries. Most of the timber in Zambia is sourced from natural forests, and the government is in the process of certifying 40,000 hectares. The beekeeping industry is a lucrative one and an important nontimber forest product (NTFP). Opportunities in Zambia include improving natural forest management, making the charcoal industry sustainable, and establishing plantations. The Forest Industry Credit Facility in Zambia, targeted at the Zambian poor, provides US$500,000 each year for plantations. Most concessionaires in Zambia are from South Africa.

Zimbabwe: Zimbabwe has a good infrastructure and technical capacity for forestry. Investment opportunities include biofuel, rehabilitation of sawmills and harvesting equipment, use of oversupply of small roundwood, and development of smallholder enterprises in natural forests. The government owns the land, and private companies are given long (99-year) concessions. The Forest Company of Zimbabwe manages forests. Some plantations in Zimbabwe are certified and benefit from access to niche markets in the United States. Illegal logging, including of teak, is an issue that needs to be addressed. Zimbabwe placed an export ban on unprocessed timber as a step toward putting an effective legal system in place.

Constraints to Private Sector Investment in Forestry Industry

Participants in another working group on constraints to financing the forestry industry and actions to overcome obstacles discussed the effectiveness of various concession systems. Most felt that legal and transparent forest concession legislation was inadequate. A Tanzanian participant said that longer-term concessions should be issued and a resource base for concession expansions secured. Participants said that short-term concessions lacked the incentive to invest and resulted in overharvesting and that longer-term concessions encouraged "playing by the rules." A participant from Malawi advocated subsidiary legislation pertaining to concessions and negotiating concession extensions. A Ugandan representative said that the issue often becomes politicized, particularly during election periods.

It was noted that the idea of concessions has changed over time and that the notion of ongoing partnerships with other stakeholders needs to be taken on board. The idea of organizing into timber associations to better lobby governments and promote common goals was suggested. It was pointed out that Uganda is using an auction system that could be a good model. One participant suggested that a set of guiding principles—rather then an overriding model—be established, because each country has differing conditions regarding land tenure systems. A participant from Finland emphasized concessions based on sustainable forest management.

Discussion also addressed constraints and difficulties in securing raw materials for industry. A South African government representative said that demand is higher than supply and that South Africa is pushing for 6 percent economic growth. He pointed to investment opportunities in importing raw materials from other countries that can be utilized and processed in South Africa, especially if that can support SMFE development. A Zambian representative said that the government should develop guidelines on how the private sector can tap into resources from rural and industrial government plantations.

Lack of information provided by governments was identified as a problem, with some suggesting that governments do not invest in inventories because they are expensive to carry out and others suggesting that inventories could be done inexpensively. One representative said that the lack of will to do inventories stemmed from the fact that they would help to address illegal logging and that some government officials have a vested interest in the status quo.

The IFC said that through its Private Enterprise Partnership for Africa, it could provide technical assistance and capacity building. It was stressed that financial capacity is also needed, such as banking skills. One participant proposed a forest enterprise facility that would act as a broker, linking investors with opportunities and connecting the information with those who need it. This would be combined with a multiinstitutional push toward encouraging the right forest enterprise in Africa and getting big development partners to kick-start a facility with a range of investors.

In discussing bamboo, one participant proposed developing a new SME processing industry in countries in East Africa with significant bamboo—Kenya, Madagascar, Malawi, Mozambique, Tanzania, Uganda, and Zambia—that would integrate outgrowers, farmers, and the local community in the cultivation, harvesting, and primary processing of bamboo fiber. Secondary processing would produce high-quality bamboo plywood, moldings, flooring, and components for both the domestic and export markets.

CLOSING PANEL

Gorlum Kampingo Inkosi Sibande, a Traditional Chief from Malawi, said that his role as a traditional leader is to act as a bridge between local communities and government and donors. He said that "whenever you deal with forests, you deal with the earth and the people who live from it." Investors should make improvements for local people and care for the resources for future generations to use, and decisions should be taken seriously. Emphasizing the importance of good partnership between local people and investors, he said that if the relationship is good, then the investment will be secure.

Pippin Permadi, Indonesian Forestry Research and Development Agency, said that Indonesia plans to accelerate the development of plantations, with a goal of cultivating 5 million hectares by 2010. Permadi said that Indonesia also has partnership programs between companies and communities and aims to increase community ownership of plantations to 50 percent. He said that land tenure reform is a critical issue in forest management in Indonesia.

Nic Olivier, Director and Professor, SADC Center for Land-Related Regional and Development Laws and Policy, University of Pretoria, South Africa, said that a crosscutting theme at the Forum was the lack of clarity within the rural development framework, the policy framework, and the implementation framework. He said that clarity is key to a successful forest utilization system and that the roles of government, community, and the private sector need to be clearly identified as a first step in creating an enabling environment.

Paul Vantomme, Assistant Director, Forest Industries, ITTO, commenting on the trend of large-scale companies outsourcing to SMFEs, said that the Forest Enterprise Development of South Africa and the EU grant scheme in Uganda are interesting initiatives that could have relevance and lessons for other regional forest investment forums. On the topic of improving safeguards for forest sector investments, he suggested the need to establish minimum global safeguard standards.

George Wamukoya, WWF, Eastern Africa Regional Program Office, said that he was happy that the Forum had brought together the private sector, civil society, and government to think about progressive approaches to sustainable forest management and local people. He further remarked that such discussions help bring to the surface questions of equity, justice, and environmental sustainability. Remarking that in recent years, plantations have attracted negative publicity from civil society, he said that open discussion on the topic in such a Forum increases transparency on the benefits and risks surrounding the issue, helping to improve the image of plantations and reduce negative publicity.

He applauded companies such as Sappi and Mondi, which have put community partnership schemes in place. He urged private sector investments in indigenous forests to help reduce poverty and suggested that forests should be addressed through regional and subregional initiatives, especially to coordinate monitoring transboundary trade.

Linda Mossop-Rousseau, DWAF, South Africa, suggested having a national-level forum for South Africa to deepen the discussions with banks and other investors. She commented that SADC does have a forestry protocol, but that it has not yet been ratified. With regard to the cost of doing business in South Africa, she said that if it is too high, action needs to be taken to improve the business environment. In closing the meeting, she thanked the World Bank, other partner organizations, and the Forum staff for their work in making it a success.

CHAPTER TWO

Regional Investment Opportunities, Constraints to Investment, and Potential Solutions

John Spears, World Bank

FOREST RESOURCE INVESTMENT OPPORTUNITIES

The total forest area within the 10 countries of the region comprises about 140 million hectares, of which plantations cover about 2.6 million hectares.

The following sections of this report give special emphasis to emerging investment opportunities for establishment of new fast-growing plantation resources and for improved management of existing state-owned plantations.

South Africa

Total annual timber requirements in South Africa are in the region of 24 million tons, while the forest base is only capable of sustaining an annual cut of 19 million tons. The 5 million ton shortfall is provided from imports and from overcutting.

The South African government's Black Economic Empowerment (BEE) scheme aims to create opportunities for local communities and smallholders to play a much greater role in supplying the industrial wood requirements of this very substantial forest industry. Forest concession reforms allow for 20 percent of industrial profits to be made available for BEE projects and for 6 percent to be retained by the state for use by local communities.

Opportunities have been identified for investment in establishment of about 100,000 hectares of new plantations in KwaZulu-Natal and the Eastern Cape. Much of this could come from the local community and privately owned smallholdings. Companies such as Sappi, Mondi, Global Forest Products, and the NCT Forestry Cooperative are proactively working to develop partnerships with outgrowers.

TABLE 2
Forest Land

No.	Country	Total Forest (1,000 ha)	Total Plantations (1,000 ha)
1	Kenya	3,522	120
2	Uganda	3,627	36
3	Tanzania	35,257	150
4	Zambia	42,451	75
5	Malawi	3,402	204
6	Mozambique	19,262	38
7	Madagascar	12,838	293
8	Zimbabwe	17,540	154
9	Swaziland	541	114
10	South Africa	9,203	1,426
	Total	147,643	2,610

Source: FAOSTAT 2004.
ha = hectares

Kenya

A recently approved Forest Act has opened the door for engagement of local communities and private sector forestry industrial companies in the management of government-owned plantation forests. Investment opportunities have been identified that could create opportunities for several of Kenya's larger sawmilling, wood-based panel companies and for Pan African Paper Mills (the country's largest forest industry) to develop contractual agreements with several thousand smallholders and also with some larger-scale farmers and agribusiness companies. A PROFOR/Bank/IFC/WWF-hosted Forest Investment Forum held in Nairobi in April 2005 identified several such investment opportunities. The government's restructured Forest Service is in the process of developing a series of pilot schemes that will test alternative approaches for engaging the private sector in these partnership-based forest projects.

Mozambique

The government is actively promoting private sector investment in establishing and managing forest resources. Its preliminary studies suggested a long-term potential to develop a very large plantation estate . At present, there are 24,000 hectares of primarily pine and eucalyptus plantations. Studies by Savcor Indufor Oy associates have screened the most promising areas for new plantation development. The Malonda Foundation (Church of Sweden, plus private investors) has initiated plantation developments in northern Mozambique, where forest plantations are being integrated into more broadly based agriculture and rural development programs. Jaakko Pöyry consultants have identified possibilities for development of a plantation-based pulp industry.

Mozambique also has some 62 million hectares of natural forests, of which 19 million hectares have been zoned for sustainable timber production. The country is geographically well placed to take advantage of emerging export markets. Illegal logging is a difficult problem, and the government is taking active steps to tighten up its concession management arrangements and to strengthen forest governance.

Uganda

Uganda has successfully initiated a program for encouraging investment by local communities and smallholders in pine and eucalyptus plantations that are intended to supply the country's very rapidly rising domestic demand for construction-grade timber and wood-based panel products. The European Union is financing a Sawlog Production Grant Scheme to support the establishment of such plantations. This program helps smallholders by covering approximately 50 percent of the cost of plantation establishment. Contracts are being developed with smallholders and larger-scale communities for establishment of plantations ranging from 25 to 500 or more hectares.

A Norwegian afforestation group, a subsidiary of TreeFarms A/S (based in Tanzania), has invested in plantations in the Busoga District. A British-financed private sector group (the New Forest Company) has recently been awarded a 50-year license to grow trees on 6,000 hectares of the Namwasa Forest Reserve in Kasanda subcounty in Mubende district.

Zambia

Zambia's natural forests, covering about 35 million hectares, play a key role in supplying the subsistence needs of its rural population. Only one-half of the gross annual timber yield is utilized; therefore, government policy is giving strong emphasis to sustainable management of indigenous forests, especially for increased production of NTFPs such as honey. Zambia also has about 75,000 hectares of plantations (mainly pine and eucalyptus), with a total standing volume in excess of 8 million cubic meters. The government is seeking private sector investment for developing an expanded plantation-based timber industry, with promising opportunities for increasing timber exports to South Africa. A Forest Industry Credit Facility targeted at the Zambian poor provides US$500,000 each year for plantations.

Zimbabwe

Zimbabwe has about 154,000 hectares of industrial plantation forests, which produce about 95 percent of the country's industrial wood requirements. The major forest plantation species grown in Zimbabwe are *Pinus patula, P. elliottii, P. taeda, Eucalyptus grandis, E. cloeziana,* and *Acacia mearnsii.* The pines are used mainly for structural timber production and for pulp and paper, eucalyptus is used for poles and for pulp and paper, and the black wattle (*A. mearnsii*) is used for the production of tannin. Most of the industrial plantations are managed by the Zimbabwe Forestry Commission. Investment possibilities lie mainly in the area of improved plantation management and reforestation of logged-over plantation forests. Niche markets in the United States and Europe are being explored. To discourage illegal logging, the government has introduced an export ban on unprocessed timber.

Malawi

Forests and woodlands cover about 34 million hectares. Most of this forest area is noncommercial from a timber point of view, but extremely important for environmental protection of river headwaters and the steeper mountainous areas. The total area of industrial plantations (pines and eucalypts) is about 120,000 hectares, of which about 75,000 hectares were originally planted for production of pulpwood; however, a Viphya Pulp and Paper Corporation, which was being proposed in the 1970s, never came to fruition.

These plantation resources, which for many years were unpruned and underthinned, are now being used for production of sawnwood and plywood. The main plantation softwood species are *Pinus patula and P. kesiya,* and the hardwood plantations are mainly *Eucalyptus camuldulensis* and *E. grandis.* Local communities in the region around Blantyre have been given responsibility for management of government-owned plantations, with encouraging results. The main private sector investment opportunities lie in plantation rehabilitation and establishing new plantations, on both farmlands and public lands. Investment opportunities have been identified in the furniture industry.

Tanzania

About half of Tanzania's land is forested (mainly open woodlands, covering about 44 million hectares). This vast area of natural woodland is under pressure from expanding agriculture, resulting in conflicts in land use. There are about 80,000 hectares of state-owned plantations and another 70,000 hectares of private plantations. One Forum participant suggested that Tanzania has the potential to create a plantation-based forestry sector similar to that of Chile, New Zealand, or South Africa. Much of this could come from company/community-based partnership schemes. Tanzania has good growing conditions for all of the world's major plantation species (for example, acacia, eucalyptus, pine, and teak), in addition to a number of interesting indigenous hardwoods. The plantation-based sector has the potential to generate export revenues that could equal in value the country's entire current exports. Possibilities for export of wood poles to Kenya are favorable. An NFP Facility is supporting a participatory process to establish plantations and woodlots. Participatory forest management is facilitating community forest management.

Madagascar

Being geographically isolated, Madagascar has unique forest ecosystems covering about 70 million hectares, of which upper mountain forests cover 23 million hectares, lowland evergreen forests 25 million hectares, and deciduous broadleaf forests about 14 million hectares. About 80,000 hectares of pine and eucalyptus industrial plantations are located on the Mangoro Plateau midway between Tananarive (the capital) and Tamatave (the main northeast coast port). Growing conditions in that region are highly favorable for fast-growing species. Several overseas forest industrial companies and private sector investors have been proactively exploring possibilities of establishing additional industrial plantation resources, including the potential for export of woodchips.

Swaziland

Swaziland has about 540,000 hectares of forest, covering some 31 percent of the land area. Degradation of the indigenous forest as a result of shifting agriculture and exploitation is a problem. Industrial plantations account for about 114,000 hectares (7 percent of the total land area); most of them are privately owned (70 percent are owned by two large companies, Usutu Pulp Company and Peak Timbers). A majority of the industrial plantations are conifers and are grown for sawlogs and pulpwood (mainly

Pinus patula, P. elliottii, and P. taeda). The remaining area is established with hardwood plantations and is planted with eucalypts for sawlogs and fuel.

The forest industry is of major significance for this small country. Pulp and paper are of major importance, although with South Africa as a neighbor, exports of solid wood products are also of economic importance. There is potential not only to improve the state and increase the size of this plantation-based industry but also to increase added value manufacturing of wood products for South Africa.

INVESTMENT OPPORTUNITIES IN FOREST-BASED INDUSTRIES

Much potential exists for investments aimed at improving the efficiency and profitability of the timber industry in Eastern and Southern Africa. With the notable exception of South Africa and one larger-scale sawmill operating in Tanzania, prevailing levels of efficiency, recovery, and technology are low, and there is much room for new investment to take advantage of the economic potential of forest-based industries in the region to contribute to poverty alleviation, increased trade, and sustainable economic growth.

Table 3 summarizes the current status of the forest industrial output in the region.

The Pulp and Paper Industry

In addition to existing pulp mills in Kenya, South Africa, Swaziland, and Tanzania, one Forum submission suggested a possibility that within 10 to 15 years, it is conceivable that two (or even three) new world-scale hardwood pulp mills could be built in the region. Mozambique, South Africa, and Tanzania would be the most obvious target countries. The pulp and paper industry has the potential to make a significant contribution to generation of increased rural incomes. Pulpwood rotations for fast-growing pulpwood crops such as *Eucalyptus grandis* and *Acacia mearnsii* are on the order of five to eight years. A combination of fast growth rates, short rotations, the ability of pulpwood crops to coppice, the relatively low labor input requirement compared with many agricultural crops, and reasonable rates of financial return make them an attractive investment crop for smallholders.

The existing pulp and paper companies in Kenya, South Africa, and Tanzania are all supporting outgrower schemes that are creating opportunities for many thousands of smallholders to benefit. Given the high rural population densities through-

TABLE 3
Production of Forest Industrial Products

No.	Country	Sawnwood *Cubic meters (1,000)*	Wood-based panels *Cubic meters (1,000)*	Wood pulp *Metric tons (1,000)*	Paper & paper products *Metric tons (1,000)*	Other paper products *Metric tons (1,000)*
1	Kenya	78	82	66	80	120
2	Uganda	264	5	—	3	—
3	Tanzania	24	4	54	25	—
4	Zambia	157	18	—	4	—
5	Malawi	45	18	—	n.a.	—
6	Mozambique	28	3	—	n.a.	—
7	Madagascar	95	5	—	3	—
8	Zimbabwe	397	77	44	80	—
9	Swaziland	102	8	191	n.a.	—
10	South Africa	1,498	476	2,174	2,336	601

Source: FAOSTAT 2004.
n.a. = not applicable
— = not available

out the region, it is certain that an increasing proportion of the pulp and paper industry's raw material needs will have to come from smallholder or community-managed plantations and woodlots and from areas of government forest land being leased under partnership arrangements between companies and local communities.

There is well-documented evidence to confirm that even in densely populated regions such as Uganda and western Kenya, small farmers will respond very rapidly to the dual incentives of a guaranteed market and a fair price for short-rotation farm-grown pulpwood and timber. Contrary to conventional wisdom, forest inventory, aerial photography, and satellite studies carried out over the past 30 years in such regions concluded that the denser the population, the more trees in the landscape.[2]

Building and Transmission Poles

There is a strong demand in the region for building poles and for posts and poles for power transmission and telecommunications. Much of the transmission pole requirement is being supplied from treated eucalyptus plantations and on farm woodlots. In Kenya, for example, there are about six major pole treatment plants that are capable of producing most of Kenya's future requirements. Treated poles are currently imported from South Africa and Tanzania.

Lumber and Wood-Based Panels

In the traditional solid forest products industries (sawmilling, joinery, furniture manufacture, and wood-based panels), continuing strong growth of the region's construction sector is creating significant investment opportunities in several areas. Throughout the region, there are numerous investment opportunities linked to improved utilization of wood waste. From two-thirds to three-quarters of the wood currently harvested in East Africa (for example) is wasted. There are attractive opportunities for replacing imported fuel oil with locally grown fuelwood, as is already being done by the tea and pulp and paper industries in Kenya.

There is a large potential for value added mechanical wood processing. There is potential to increase door production, utilizing short and small-dimension pine (typically a waste product). Pine-based pallet production is replacing hardwood with softwood in some pallet markets such as Tanzania. A substantial East African market exists for a timber-based prefabricated housing industry, with good export prospects to southern Sudan. There is an interesting and underexploited export market for value added mechanical wood products like glue-laminated sheets and components and graded structural timber. These markets exist in South Africa, Europe, and probably also Asia, but new investment is needed properly to service them.

Although there are some well-run and efficient sawmills in South Africa and Tanzania, many of the sawmills in the region are operating at well below capacity. Wood recovery in most of these mills varies from 25 to 35 percent, compared with a potential 45 percent. Much of the equipment depends on manual feed/product flow, with resulting low productivity. Accuracy and cutting tolerance are also low, and only a small proportion of sawmill timber output is graded. Most timber is sold "green" and untreated.

Most of the wood-based panel mills in the region have been more recently installed. Plywood mills are conventional peeling operations, with some slicing of veneers. There is potential for investment in additional fiberboard capacity and in upgrading the quality of existing particleboard (chipboard) and blockboard manufacture. Current reliance on low-grade adhesives makes panels suitable mainly for domestic end use, with some minor trading between neighbors. There is an opportunity for investment in an oriented strand board (OSB) industry.

Furniture and Joinery

This subsector is well represented in the region for two basic reasons: first, it is one of the easier and lower investment areas of manufacturing to enter into, and second, the risks and value added returns often appear to be more attractive. The range of manufacturing of furniture and joinery varies from the very small "one-off" workshops to more sophisticated mass-production factories. In between are a wide range of reasonably well-equipped specialized units producing standard ranges of furniture, doors, windows, built-in units, flooring, moldings, and paneling.

While the other forest subsectors tend to be based

2. See studies by Peter Holmberg et al. (FAO, 1994).

on plantation softwoods, much of the joinery/furniture industry is based on hardwoods and imported wood-based panels. An emerging trend that has positive implications for smallholders interested in short-rotation tree farming is improved technology for converting eucalypts into reasonable-quality timber and furniture. Such technologies—adoption of which is well advanced in South Africa—are now being tested and developed in Uganda. The greatest investment opportunities lie in upgrading the quality and value of furniture and joinery output.

Bamboo-Based Forest Industries

A "Bamboo Belt" that runs through seven of the countries in the region (Kenya, Madagascar, Malawi, Mozambique, Tanzania, Uganda, and Zambia) presents significant investment opportunities for private sector investment. Proposals have been developed for installation of a bamboo-based SMFE processing industry in each country that would integrate outgrowers, farmers, and the local communities in the cultivation, harvesting, and primary processing of bamboo fiber. Secondary processing will produce high-quality bamboo plywood, moldings, flooring, and components for both the domestic and export markets. Stakeholders in each country could include growers, primary processors, private individuals, and private industry. A community-based bamboo enterprise has already been successfully "project tested" in Ghana.

CONSTRAINTS TO INVESTMENT AND POSSIBLE SOLUTIONS

The Forum identified the following as major constraints to community/smallholder involvement and private sector investment:

- Access by both local communities and forest companies to land for tree planting, especially given the constraints of increasing population pressure and the priority that has to be given to food production
- Insecurity of raw material supply, aggravated by unclear and nontransparent government forest concession allocation policies
- Low levels of technology, the high proportion of waste, and weak business management skills
- Difficulties faced by small- and medium-scale forest-based industries in accessing capital
- The negative impact on forest income-dependent local communities and forest company employees of a trend by larger forest companies toward subcontracting of forest harvesting and management operations
- The weak bargaining position of local communities, smallholders, and SMFEs when it comes to negotiating contracts with larger-scale forest companies and achieving fair prices for community- and farm-grown timber
- Environmental concerns about the impact of plantations on water resources and biodiversity of natural forest resources
- The impact of illegal logging on the ability of more responsible forest companies to ensure access to markets and to obtain attractive selling prices for manufactured forest products
- Inadequate road, rail, and port infrastructure; the high cost of transporting forest products; and delays experienced in obtaining permits for export of forest products
- High transaction costs that act as a deterrent to investment in SMFEs by both commercial and development financing institutions

The following sections of this report which discusses possible ways to overcome these constraints, are based on a combination of suggestions made by participants during the course of the Forum panel discussions, plus a synthesis of written submissions from the many representatives of industrial companies, governments, local communities, conservation agencies, and financial institutions who were consulted in the course of developing the Forum agenda (see appendix 1 and appendix 3).

ACCESS TO LAND

The issue of how to secure the land required for new plantation development surfaced repeatedly throughout the course of the Forum. Given the rising rural population pressures in most of the region, there are very limited possibilities for forest companies (and especially overseas companies) to purchase outright large areas of land for plantation establishment.

Access to State Forest Lands

Throughout the region, many state plantations could be transferred to adjoining communities. With appropriate support, they would offer these communities an attractive stake in a forestry enterprise. This strategy requires affirmative action by both governments and companies. This has been recognized in the forest policies of countries such as Kenya, South Africa, Tanzania, and Uganda: all of these governments have committed to devolution of responsibility for management of existing state-owned plantations to local communities and to the private sector.

Difficult issues that are still in the course of being resolved include the need for independent, transparent inventory and valuation of plantation resources; mobilization of the finance needed to support such forest land transfers; and institutional arrangements for addressing the politically sensitive issue of land tenure rights.

South Africa has now had almost a decade of well-documented experience in dealing with such issues.[3] Partly to relieve political pressure on the government's Forest Department, it shifted the responsibility for overseeing and monitoring state forest land sales to an independent Department of Public Enterprises. Privatization packages require transfer of 10 percent of the equity to local communities. Problems remain as to how to ensure that local communities receive regular and equitable dividend payments.

Access to Large-Scale Privately Owned and Agribusiness Lands

Transfer of larger-scale privately owned commercial farmlands and estates to local communities and smallholders is still an option in some countries of the region. The South African Sugar Association (SASA), for example, has set up the Inkezo Land Company with the specific objective of fast-tracking the transfer of larger-scale privately owned lands to previously disadvantaged individual (PDI) growers. Funding for the initiative has come from both the private sector and government. The Inkezo initiative potentially offers a model that could be followed by the forestry sector to improve the access to agribusiness land by local communities committed to tree farming. Key issues that must be addressed include the process for transparent independent identification and selection of willing buyers and sellers of forestry land,[4] mobilization of finance, facilitation of the sales transactions, and the post sale support for growers.

Access to Private Company-Owned Forest Lands

In response to government directives aimed at accelerated Black Economic Empowerment, initiatives have been taken by larger forest companies such as Sappi and Mondi in South Africa to accelerate transfer of substantial areas of company-owned plantation lands to low-income families.

Sappi, for example, which is South Africa's largest plantation-based forest industrial company, manages about 360,000 hectares of plantations. An opportunity has been recently identified to partner with an empowerment consortium for mutual benefit. Sappi will sell a 25 percent undivided ownership to the Lereko Property Consortium (PTY), in which will be included meaningful participation of Sappi employees and (through a Workers' Trust) the Malibongwe Women's Development Movement.

Similarly, Mondi has established a SiyaQhubeka black empowerment consortium known as Imbokodvo Lemabalabala Holdings, covering an area of 22,000 hectares. A noteworthy feature of this transaction was an agreement in advance to set aside an adjacent 9,000 hectare area as an addition to a World Heritage site.

Mainly for political reasons as an alternative to outright privatization and sale of state forest lands,

3. See Dlomo and Pitcher, *Juggling Social and Economic Goals in South Africa* (document 5 in panel 1 of the Forum Briefing Material.)

4. See proposals contained in the Kenya PROFOR-financed partnership study by James Mayers (IIED), which sets out guidelines for a democratic and transparent process for selection of participating outgrowers (Forum panel 1, document 11).

most governments in the region have opted for using long-term concessions over areas of state-owned forest lands. Issues raised during the Forum relating to such concession polices are further discussed below.

SECURITY OF RAW MATERIAL SUPPLY: CONCESSION POLICIES

Participants in a Forum working group on constraints to financing the forestry industry and actions to overcome obstacles began with a discussion of concession policies and what many participants consider to be inadequacies in prevailing legal and transparent forest concession legislation.

The working group discussed these three main themes:

- The need for transparent long-term concession allocation agreements and equitable revenue sharing as essential prerequisites for assuring investors in larger-scale forest industrial operations guaranteed security of raw material supply
- The need for government timber allocation and concession policies to maintain the flexibility needed to ensure access by small-scale forest-based industries to government-owned forest resources (preferably through some type of auctioning system)
- The potential of partnership-based concession policies to create possibilities for involvement of local communities and smallholders in ways that will maximize the contribution of forest-based industries to poverty alleviation and to protection of forest-related environmental services

Shortcomings in earlier government policies in Tanzania were cited as an example of a situation in which a past lack of transparency and disagreement over critical issues such as valuation of state-owned government assets have created problems for both government and private company investors. On the credit side, at least one Tanzanian company has made substantial progress in developing a dialogue with village communities and reaching agreement in principle on possibilities for future partnership-based long-term concession allocations in which provision is being made to protect the villagers' rights of access to essential fuelwood and grazing lands.

Malawi has entered into a long-term concession agreement with a Kenyan-owned wood-based panel company under terms that are reportedly supported by local tribal communities. In Uganda, a combination of long-term concessions and an auctioning system are attracting overseas private investment in plantation establishment, retaining possibilities for small-scale forest industries to access government-owned plantation resources and ensuring maximization of government forest-based revenues.

In Kenya, a similar government concession strategy currently in the course of development is seeking to balance the needs of both large- and small-scale forest industries. In response to the new Forest Act, several sawmilling companies and the country's only pulp and paper company have indicated their willingness to enter into partnership arrangements with local communities and smallholders and to assume financial and management responsibility for specific plantation areas. The government is also exploring how to ensure that under some sort of auctioning system, it will be possible to assure log supplies for smaller-scale operators.

A concern is the need for a royalty system that will ensure government a reasonable financial return on its past very substantial investment in a large plantation resource. The government's Forest Department is in the process of developing a series of pilot schemes for engaging both industry and local communities in partnership-based approaches to concession allocation. IFC's Private Enterprise Partnership (PEP) for Africa and its Social Responsibility Forum (formerly, its Corporate Citizenship Facility) has expressed interest (in principle) in supporting such schemes.

A Zimbabwe participant advocated strengthening regulatory functions of governments regarding functioning of the private sector and said that legislation and monitoring are lacking.

Several of the private sector financial institutions participating in the Forum stressed the importance of clear concession policies and land tenure arrangements as a prerequisite for private sector investment. A World Bank and PROFOR studies included in the Forum Briefing Material provide a global overview of concession polices.[5]

5. See John Gray, "Forest Concession Policies and Revenue Systems," World Bank Technical Paper 522; also "Institutional Changes in Forest Management" (World Bank/PROFOR, 2003).

ACCESSING CAPITAL

Forum discussions of this topic focused on these issues:

- The difficulties faced by small- and medium-scale forest-based industries in accessing capital, especially problems related to the ability of outgrowers and SMFEs to provide the collateral required by commercial banks
- Most commercial banks lack the in-house social and environmental expertise required to assess the technical and financial viability of project proposals
- The problem of the long gestation period and relatively low financial returns from some plantation-based investment projects
- A lack of insurance facilities and limitations of prevailing social and environmental safeguard policies for forest investment schemes
- The high transaction costs of processing small loans, which bias lending by development financing such as the IFC toward larger-scale projects

Collateral

Under current circumstances, it is difficult for small-scale forest-based industries and for both local communities and outgrowers to attract investment capital from commercial banks. A fundamental issue is how to provide the collateral required by such banks. One possible solution proposed for Forum consideration by Fractal Forest Africa (a South Africa Consulting Group) is the possibility of developing a system wherein the trees of existing growers (and possibly the use rights to the land, pending clarification of long-term tenure and ownership rights) could be used as collateral. This might be achieved by requiring independent certification of the grower's plantation assets by an accredited body acceptable to the lending institution.

Under such a scheme, the grower would be given a certificate that could be used as a form of collateral to secure loan funding. The system could be underwritten by government to increase the system's credibility, and growers could leverage further development off their "track records." Cooperation of the forestry industry and forest product buyers could help by offering firm market contracts for the output of such schemes.

Independent certification schemes, such as that of the Forest Stewardship Council (FSC), and national certification schemes, such as those being developed with World Bank/WWF Alliance funding in Kenya[6] and Mozambique and by WWF's Global Forestry and Trade Network,[7] could be used as a testing ground for monitoring performance. For example, the World Bank and IFC both require independent certification as a precondition for forest-related financing. Independent certification has been successfully used as one of the criteria for meeting World Bank Group Board requirements.[8]

Lack of Commercial Bank "In-House" Forest Expertise

Most commercial banks lack the in-house social and environmental expertise required to assess the technical viability and financial soundness of forestry schemes. Many emergent forestry-based enterprises are having difficulty in interacting with the formal banking sector mainly because of the vast difference in perspectives between the average small-scale grower or forestry contractor and the bank managers or other customer liaison staff. Many commercial banks operate in a technologically advanced mode, while the growers have rural, agrarian-based backgrounds.

Governments can play a useful role in triggering initiatives for addressing this issue by supporting workshops that bring together potential investors and commercial banks and by supporting training of bank staff and potential borrowers, both aimed at improved awareness of approaches to project financial appraisal in the forest sector.

---

6. See report by George Wamukoya, WWF, on progress being made in Kenya toward introduction of a national certification scheme (panel 3, document 6).
7. See paper by Steve Gretzinger, WWF LAC Region, which suggests—as promising initiatives on which to build—ongoing partnerships that have been established by IFC's Regional Development Facilities in Latin America and Indonesia under memorandums of understanding (MOUs) with WWF's Global Forest and Trade Network. Under these MOUs, substantial progress has been made toward improving market access for small-scale forest industry companies in Bolivia, Indonesia, and Nicaragua and mobilizing finance for expansion of those operations.
8. World Bank and IFC certification requirements are detailed on World Bank Operational Policy 4.36.

In South Africa, the government has endorsed a Financial Sector Charter as a binding contract on the financial services sector and as a structured plan to provide greater opportunities to low-income and disadvantaged families to participate in the sector. More importantly for forestry, by year 2008, the financial services sector must provide access to banking facilities within a maximum distance of 20 kilometers from where people need them.

Improving Financial Returns from Plantation Investments

In South Africa, as is likely to be the case in many other countries where investment is being made in longer-rotation construction-grade tree species (such as pines), the absolute contribution in cash terms that forestry makes to the average small-grower household has been insufficient to lift the growers out of poverty. These are some possible strategies for addressing this issue:

- Maximize opportunities for local communities and smallholders to earn the typically quite high rates of return that can be obtained by investment in fast-growing short-rotation pulpwood, building and transmission poles, and energy substitution fuelwood crops.[9]
- Introduce financial subsidy schemes to kick-start community and smallholder investment in longer-rotation construction timbers and more valuable hardwood species.[10]
- Exploit the potential to support community involvement by taking advantage of emerging schemes to pay for forest-related environmental services such as water resources, carbon sequestration, and biodiversity.
- Give growers a share in the profits associated with the downstream processing of their timber. This strategy would take advantage of the fact that value addition and associated profits along the forests' product value chain are heavily skewed toward downstream processing activities.

Subsidy and Incentive Schemes

One possible strategy for improving financial returns to communities and outgrowers is through financial subsidies. Although these can have the effect of skewing investment, in South Africa (for example) their introduction has been justified as part of the government's goal for accelerating Black Economic Empowerment. It has been argued that subsidies are needed, first, to encourage these initiatives and, second, to facilitate the extension of these initiatives to areas where these schemes would be most appropriate.[11] The subsidies would be for a limited period, and the requirements to qualify for subsidization very specific and focused on the objective of attracting more low-income families into the forest industry, particularly those living in rural areas.

Payments for Forest-Related Environmental Services

Innovative payments schemes for carbon or other environmental services are a potentially important source of funding for rural communities and forest operators.[12] Developing countries could have significant development benefits from a broader recognition of CDM/Kyoto Protocol activities in emission trading schemes. There are opportunities for both governments and local communities to benefit financially by becoming actively involved in the ongoing discussion process on "avoided deforestation" under UNFCCC. Carbon financing can be a valuable additional financing source to improve the financial viability of afforestation projects. Examples were cited of ongoing carbon schemes in the Congo Basin, Kenya, South Africa, and Uganda.

Timber Investment Management Organizations

While the need to raise short- to medium-term financial returns from forest investment is a constraint for many SMFEs and smallholders, the

9. TreeFarms A/S in Tanzania, Pan African Paper Mills in Kenya, and South Africa's pulp mills are all pursuing that strategy.
10. See publications of Forest Trends (www.forest-trends.org and Uganda's Sawlog Grant Scheme (summarized in document 9 of panel 1).

11. Document 20 of panel 1 provides a summary by LTS consultants of the subsidy financial incentive and tax breaks that are being used around the world for stimulating forest investment.
12. See PowerPoint presentation by Hege Salvesen of Forest Trends, prepared as an introductory overview for the panel 3 sessions.

Forum took note of the growing interest of global private sector financial institutions, pension funds, and timber investment management organizations (TIMOs) in longer-term forest-land-related investment opportunities in the region.

As pointed out by Clark Binkley, a keynote speaker who addressed the Word Bank/IFC-hosted Forest Investment Forum in October 2003, referred to several institutional investment funds around the world that are proactively seeking opportunities to invest in long-term assets. These funds hold trillions of dollars of capital for investment and typically represent the broad public. Timberlands are attractive to such institutional investors because they have strong, sustainable cash yields, are of low to moderate risk, provide portfolio diversity, and preserve capital. The average annual return for U.S. timberland investments in the period 1960–2002 (for example) was 12 per cent. In the United States as of early 2006, more than 5 million hectares of forest land had been purchased by TIMOs.

Non-U.S. investments with a higher-risk profile generally require a higher return. In this context, it was recommended that the World Bank should help to reduce risks of timberland investments in client countries by (a) improving policies, institutions, and legal frameworks; (b) supporting technical assistance; (c) helping to privatize forest lands; and (d) working to create markets for environmental services.

Representatives of several such funds from Europe, North America, and Kenya represented at the Forum have already invested in such schemes in (for example) Mozambique, South Africa, Tanzania, and Uganda. They indicate the potential to mobilize significant private sector funding for investment in the region.[13]

Access to Insurance

It has been difficult for a small-scale grower to insure his or her trees. There was reportedly only a single company in South Africa that offered plantation insurance (namely, the Safire Insurance Company), and it had been very reluctant to offer emerging growers or communities plantation fire insurance. There are two issues:

- Most commercial banks will not provide a loan based on collateral that is not insured.
- Fire insurance has not been of practical importance to many small-scale growers who individually manage a small woodlot of trees. Fuel loads are very low under fast-growing eucalypts, especially where the sticks have been collected for fuelwood; people are vigilant and respond quickly to the threat of fire.

However, this is not the case where communities have established large tracts of land as contiguous blocks of a plantation, very similar to the commercial forestry companies. Communities have also planted pines, which, when grown on a pulpwood regime, have a very high fire hazard compared with that of wattle or (to a lesser extent) eucalyptus. In short, there is an urgent need to insure the investment that communities have made in longer-rotation forest plantations. The Forum recommended that government and industry should lobby the insurance industry to get involved in financing the forest sector. Private investment will likely be more readily forthcoming in situations where arrangements are in place so that outgrowers can be paid an advance to prepare firebreaks and take other fire protection measures.

RAISING TECHNICAL EFFICIENCY AND BUSINESS MANAGEMENT SKILLS

Training facilities throughout the region are very basic, and there are opportunities to strengthen training, especially in the areas of wood-processing technology; mass production systems; saw doctoring and tooling, machine setup and maintenance; and wood products costing, marketing, and sales. The training facilities that do exist tend to be underfunded and have rather out-of-date syllabi, and the level of staffing is also inadequate. Opportunities for women to be employed in the sector are way behind those of many other industries. IFC, through its Private Enterprise Partnership for Africa Facility, is well placed to provide grant-aid-supported technical

13. For example, the Actis Africa/Agribusiness Fund (a US$100-million investment fund based in Kenya), which has identified potential forest investment opportunities within the region with a value of US$68 million. The fund's equity investment criteria are (a) growth potential, (b) security of land tenure, (c) quality of management, and (d) attractive returns.

assistance and capacity building, including training in business management and accounting skills. The area of information technology is underdeveloped. Most of the more progressive firms make some use of computer technology for their accounting and general office functions, but very few have fully integrated management information systems. This is an area of investment opportunity that would yield impressive results.

SUBCONTRACTING OF FOREST OPERATIONS

A study by Jeanette Clarke and Moenieba Isaacs, "Forestry Contractors in South Africa: What Role in Reducing Poverty?"[14] highlights the negative impact of an ongoing trend by larger companies toward subcontracting on the incomes and welfare of rural communities and individuals engaged in harvesting and plantation management.

The study points up several difficult issues, including subcontractors' lack of financial and management expertise, their weak bargaining power, low wages, and reduced access to financial and health support services. It also suggests a number of government- and company-initiated actions that could be taken to cushion the potentially negative impacts of subcontracting: for example, improved enforcement of existing legislation; especially, respect by companies for minimum wage provisions; and support from governments for strengthened rural social services, mitigation of health and safety risks facing workers, and the potential for contract workers to strengthen their bargaining position through collective action.

STRENGTHENING GROWER ASSOCIATIONS

Although excellent progress has been made in the development of grower associations by Forestry South Africa, the bargaining power of growers could be substantially enhanced by more widespread collective action. Surety of supply, especially in times of shortage, has particular value to the capital-intensive timber processors; thus, they are prepared to pay more for an assured and regular supply than they are for ad hoc lots. By pooling resources, small-scale growers could offer larger lots and a regular and assured supply of timber, with a concomitant increase in the price that could be paid for the timber.

The need has been suggested for increased support by government—from all levels of government—and by Forestry South Africa for organization of small-scale individual and community growers to facilitate their representation. Grower associations could play a more meaningful role in the representation of individual farmers and provide them with a means of communication that is not restricted only to forestry matters but could address many other development issues. These organizations are encouraging growers to share their knowledge and experience with others. There is potential to extend this to include research and development information from the forest industry.

IIED is supporting an ongoing Forest Governance Learning Group project in Africa and other regions that (among other things) aims to strengthen the bargaining power of local communities.

ENVIRONMENTAL CONCERNS

Throughout the region, there have been disagreements between companies, governments, environmental agencies, and NGOs about the alleged social and ecologically negative impact of fast-growing plantation species such as eucalypts. This same issue has surfaced during earlier investment forums sponsored by the Bank/IFC and WWF. NGO concerns have included the following:

- The impact on community land rights in situations where lands are being allocated for commercial-scale planting
- The negative impact of plantations on water resources (especially in South Africa)
- The risk of former lands and grasslands being ecologically downgraded through the spread of invasive species
- The negative impact of monocultures on the biodiversity of indigenous forests that are scheduled for conversion to plantations

As a steo towards consensus on such issues, the Center for International Forestry Research, (CIFOR)

14. See panel 2, document 5.

published its findings on the topic in *Fast-Wood Forestry: Myths and Realities,* written by Christian Cossalter and Charlie Pye-Smith (Jakarta, Indonesia: CIFOR, 2003). The FAO did earlier studies on the comparative levels of water consumption of eucalyptus and other species, plus it plans to issue a forthcoming *Planted Forest Code,* which will include guidelines for achieving socially and environmentally sound plantation investments.

Studies in South Africa have identified those areas where plantations pose a threat to water resources and where they do not. A recent study by Genesis Analytica consultants[15] (a summary of which is contained in the Forum background reading material) has quantified the impact on water flow of plantations established in upland water catchments. Several recent studies have assessed the potential of fast-growing plantations to sequester carbon. The recent emergence of carbon credit schemes and their future potential was discussed at some length by Forum Panel 3.

At the risk of oversimplification, there is recognition that plantations in the wrong place can have serious negative social and ecological impacts; however, there is solid social and scientific evidence to confirm that plantations established in the right place—with built-in, transparent, and readily monitorable social and environmental safeguards—can play a major role in contributing to poverty alleviation; economic growth; and protection of carbon, water resources, and biodiversity.

As pointed out in a keynote speech by Rainer Haggblom of Jaakko Pöyry Consulting, fast-growing plantations represent a major trend in the paper industry, and reliance on plantation wood will increase. He postulated that an ongoing worldwide shift from natural forest to plantations was a result of competitiveness, environmental factors, and availability of wood. He noted a particular growth in paper consumption in Asia. Partly because of increased outsourcing of industry there and the need for more packaging and more documentation, the paper industry is increasing its use of bleached hardwood kraft, which creates opportunities for development of new eucalyptus-based pulp capacity. He said that Chinese paper consumption was growing so fast then when looked at in the context of global fiber balance, through 2015, an additional 3 million tons of hardwood kraft pulp will be needed, which will require three or four very large-size mills. He noted an imbalance in terms of the global fiber balance. Asking where mills should be placed, he said that the industry was moving south because of its cost competitiveness.

These observations reaffirm evidence submitted to earlier World Bank–supported forest investment forums that fast-growing plantations will account for an increasing proportion of world industrial wood requirements. In 1990, plantation wood accounted for less than 5 per cent of industrial wood needs. Today, that has increased to 30 per cent and by 2030 will exceed 60 per cent. Since much of that increase will require short-fibered species such as eucalyptus, this will create increasing opportunities for low-income communities and smallholders to benefit from cash-crop tree farming.

SOCIAL AND ENVIRONMENTAL SAFEGUARD POLICIES

A Forum keynote paper[16] provided an overview of the current status of incorporation of social and environmental safeguards into the lending policies of both commercial banks and private sector financial institutions. Publication of the Equator Principles, developed jointly by IFC and 16 commercial banks about three years ago, has triggered their wider adoption: today, about 40 banks have committed to them. Within Africa, several Equator banks have emerged. In South Africa, the top five commercial banks have adopted these principles. Their adoption in other parts of Africa (for example, Nigeria) is ongoing.

These safeguards are making it easier for financing agencies to reassure their shareholders and the public at large that the projects they are supporting are socially and environmentally sustainable. However, several issues have not yet been resolved:

- The Equator Principles apply to projects in excess of US$40 million, whereas many of the

15. Mike Edwards, "Contribution, Costs, and Development Opportunities of the Forestry, Timber, Pulp, and Paper Industries in South Africa" (Forestry South Africa, 2005); see panel 2, document 3.

16. See PowerPoint presentation prepared by Christina Wood of Sustainable Finance Ltd.

wood-based enterprises in the region that are seeking to access capital fall within the US$5 million to US$20 million range.

- A substantial volume of new investment in Africa is emanating from China or other Asia regional financial institutions that so far have not adopted such safeguard policies.
- The multiplicity of certification schemes now being tested (more than 50) creates confusion in the minds of both bankers and potential clients. Urgent action is needed to achieve mutually acceptable certification processes.[17]

ILLEGAL LOGGING

The impact of illegal logging on both indigenous forest resources and the possibilities for more responsible companies to secure a fair price for their products was cited as a serious issue by Forum participants from Kenya, Madagascar, and Zambia.

Widespread failure of forest governance—characterized by illegal logging, associated illegal trade, and corruption—directly undermines any nation's attempt to achieve sustainable economic growth, societal equity, and environmental conservation. This situation puts at risk poor and forest-dependent populations who rely on timber and nontimber forest products, undermines responsible forest enterprises by distorting timber markets, and results in a loss of revenue that could be invested in sustainable forest management or economic development. The World Bank estimates the market value of global annual losses from illegal cutting of forests at more than US$10 billion—more than eight times the total official development assistance (ODA) that flows to the sustainable management of forests.

Increased awareness and acknowledgment of the social and economic costs of illegal logging, associated illegal trade, and corruption in the forest sector have catalyzed action by a range of actors, from governments to NGOs to the private sector, at both the international and national levels. Governments have taken steps to introduce new legislative frameworks, develop log-tracking programs, and reform concession allocation processes. Recognition of the responsibility of "consumer nations" has led to the adoption of the G-8 Forest Action Program (with a key focus on illegal logging), the European Union's Forest Law Enforcement, the Governance and Trade Action Plan, and the U.S. President's Initiative on Illegal Logging.

International organizations such as the World Bank and the United Nations have also put forest governance and illegal logging high on their agendas. In its 2002 Forest Strategy, the World Bank committed to collaborating with borrower countries and partners to reduce by half the estimated annual financial losses from illegal logging of US$5 billion by 2013. The World Bank has also actively supported regional initiatives on forest governance and hosts the Forest Law Enforcement and Governance (FLEG) partnership program, funded by the European Union, the United Kingdom, the U.S. Agency for International Development (USAID), the U.K. Department for International Development (DFID), the Finnish Department for International Development Cooperation (DIDC), and other donor agencies.

Since September 2001, three regional FLEG ministerial processes have taken place in East Asia (2001), Africa (2003), and Europe and North Asia (2005). These processes were cohosted by both "producer" and "consumer" governments and the World Bank. The aim of these ministerial-level political processes is to mobilize international commitment from producer, consumer, and donor governments—in collaboration with other stakeholders—to increase efforts to combat illegal logging, as well as the associated trade and corruption in the forest sector. They create the political "space" at national and regional levels to address these complex and politically sensitive issues more concertedly and in partnership with major stakeholders from civil society and the private sector.

In Africa, initial estimates for annual revenue losses resulting from illegal logging and ineffective forest taxation systems in seven African countries (Benin, Cameroon, the Central African Republic, the Democratic Republic of Congo, Gabon, Ghana, and the Republic of Congo) total US$63 million—equivalent to 4 percent of ODA to these countries. An Africa Forest Law Enforcement and

17 .The World Bank had developed a Questionnaire for Assessing the Comprehensiveness of (Forest) Certification Schemes/Schemes (QACC)—now called the Forest Certification Assessment Guide.

Governance (AFLEG) Ministerial Conference, which took place October 13–16, 2003, in Yaoundé, Cameroon, resulted in an AFLEG Declaration and Action Plan. In the Declaration, governments expressed their intention to (among other things) mobilize financial resources for FLEG; promote cooperation between law enforcement agencies within and among countries; involve stakeholders in decision making; and explore means of demonstrating the legality and sustainability of forest products. An AFLEG Support Group of active producer, consumer, and donor governments was established in May 2004, with the purpose of maintaining momentum for action to implement the declaration.

INFRASTRUCTURE

Investment in transport and other infrastructure is essential for enabling the forest industries of the region to expand and to contribute to sustainable economic growth. Main constraints are costs associated with the regulatory structure (such as harbor or licensing costs); inadequate road, rail, and port infrastructure; lack of feeder roads in rural areas; the high cost of transporting forest products; and delays experienced in obtaining permits for export of forest products. They are all adversely affecting the efficiency and profitability of forest industrial enterprises throughout the region.

Notwithstanding the promising investment opportunities identified (for example) for development of a very substantial pulp industry in Mozambique and Tanzania for example, these are unlikely to progress unless the government is committed to financing of the internal road, rail, and port infrastructure needed to sustain what has the potential to emerge into a several-billion-dollar-oriented forest industry.

REDUCING TRANSACTION COSTS

A major constraint to investment is the very high transaction costs that banks and private sector investment institutions face in developing loan proposals that would respond to the needs of the literally hundreds of small- and medium-scale forest and wood-based enterprises that account for the bulk of forest sector–related employment in the region.

As a first step, the Forum recommended that high priority should be given to raising technical assistance funding that would allow for more in-depth country-by-country analysis of the technical, financial, and management needs of SMFEs, along the lines of the already-completed IIED-supported studies in South Africa and Uganda.[18]

Second, there would be advantages in engaging with specialized development finance institutions such as South Africa's Industrial Development Corporation and IFC's Private Enterprise Partnership (PEP) for Africa facility. They have had many years of experience in financing SMFEs in other sectors and have access to technical assistance grant funding that can help to cover the costs of the preparatory studies needed to assess the technical and financial viability of geographically widespread small-scale operations.

A representative of IDC South Africa stated during the Forum that the IDC has allocated 1 billion rand (about US$150 million) for SMFEs and job creation and that IDC had aligned itself with the South African government to achieve a 6 percent growth rate and 500,000 jobs. So far, it has contributed to establishing 26,000 jobs. For forestry, IDC has set aside 600 million rand (about US$90 million) for small scale enterprise development and job creation. IDC highlighted a program of 2.5 percent financing up to 25 years for supporting forest and forest industry-based community development in rural areas. The 25-year time frame is a constraint for commercial banks. The need was stressed for additional donor funding. IDC has partnered with Sappi and other companies. Ensuring that communities obtain a stake in value added processing is a high priority.

IFC's PEP for Africa has also had many years of experience in providing a combination of investment and technical assistance to other sector small scale enterprises in Africa. A key issue for further exploration is how to package loan requests to keep down transaction costs and to identify commercial banks interested in acting as financial intermediaries for IFC funding and technical assistance support. IFC is already experimenting with such

18. See ahttp://www.iied.org/pubs/search.php?k=uganda&p=1

approaches in Indonesia and Nicaragua in partnership with WWF's Global Forest and Trade Network.

An ongoing project being supported by the Nordic Development Fund in Mozambique, which was brought to the attention of the Forum, would appear to have promising potential for minimizing transaction costs for larger financial institutions and for wider replication.

POSSIBILITIES FOR FINANCING SMALL SCALE FOREST-BASED ENTERPRISES (SMFES) IN MOZAMBIQUE

Savcor Indufor Oy of Finland, a specialized forest and forest industry consulting company with Nordic Development Fund support, has for the past two years been undertaking an in-depth analysis of possibilities for SMFEs in Mozambique to access capital from a combination of commercial and regional development bank sources.

This undertaking has three main objectives:

- To work with local commercial and development banks and other financial institutions in documenting the technical and other factors that inhibit SMFE growth
- To stratify types of SMFE activity that could qualify for financial credit
- To explore issues of interest rates, types of funding, bank collateral and guarantee requirements, and repayment obligations

The main *technical* constraints to improving profitability and expansion were identified as obsolete equipment and machinery, the high cost of acquiring machinery and spare parts, the limited capacity to absorb modern and appropriate technologies, the lack of technical skills, occupational safety, and low-quality production.

The main *financial* constraints include lack of funds to finance short-term operations such as purchase of logs; transportation; marketing of products; lack of financial resources such as equity to obtain new technologies, expand operations, and improve the quality of the products; rather low financial capacity to invest in new plants, equipment, spare parts, and other accessories; difficulties in accessing credit; and the high cost of such credit.

The main *management* constraints include lack of skilled manpower, lack of accounting and marketing skills, inadequate knowledge of export opportunities and of public and private procurement tender procedures, difficulties in accessing market information, and the high cost of management plans prepared by consultants.

The main *infrastructure* constraints include weak public infrastructure such as the road network, erratic power and water supply, high transport costs resulting from poor road conditions, and long distances between the forest and the processing unit.

The project has defined preconditions for accessing project loan funds. It proposed concession arrangements, and it developed a community-based component for support to sustainable forest management. It identified eligible beneficiaries, legal registration requirements, and eligible project activities.

Based on these findings, it identified those SMFEs that present the most promising investment opportunities. The project initiated negotiation with six commercial banks and one development bank that have expressed serious interest in the project. On the strength of this analysis, the Nordic Development Fund signed a financial assistance agreement of 7.4 million euros. This financing will cover four main components: institution capacity building, a credit facility of 3 million euros, a community support program, and support for sustainable forest management.

The Pietermaritzburg Forum sponsors intend to explore further with IFC and other interested financial institutions the possibility of using this model as a starting point for developing a clearly defined program of investment and technical assistance for forest-related SMFE development in other parts of the Eastern and Southern Africa region.

THE FORESTS DIALOGUE

Forum discussions benefited substantially from material provided by The Forests Dialogue (TFD), which was created in 1999. TFD is an outgrowth of dialogues and activities of the World Business Council for Sustainable Development,. TFD's mission is to bring key leaders together to build relationships and to generate substantive discussion on issues relating to achievement of sustainable forest management.

TFD's 22-member Steering Committee comprises representatives of leading forest companies and industrial associations, conservation agencies, private forest owners, international policy research institutions, and development financing agencies. Its Secretariat is located at Yale University in the United States.

Of special relevance to this Forum were discusΩions of a TFD meeting in Richard's Bay, South Africa, which was held during the week following this Investment Forum. The purpose of that TFD meeting was to identify key areas for potential collaboration among stakeholders and to catalyze progress toward improving commercial forestry's contribution to poverty reduction.

Box 5 is extracted from a TFD paper that summarizes outcomes of the Richard's Bay meeting.

BOX 5

Actions Needed to Mobilize the Potential of Commercial Forestry to Contribute to Poverty Reduction

Information, awareness and monitoring

- Identify the contribution of formal forest income to poverty reduction
- Support research and advocacy on opportunities for pro-poor initiatives in forestry supply chains
- Establish baselines and indicators, and track progress

Strengthen rights, capabilities and local decision-making

- Support poor people's own decision-making power
- Secure poor people's forest rights
- Back up rights with the capability to claim them
- Cut the regulatory burden on poor people
- Support local control of enterprises

Enable market opportunities to be seized by poor people

- Remove the barriers to market entry
- Ensure that markets for environmental services benefit poor people
- Support associations and financing for local forest businesses
- Demand responsible forest enterprise and fair trade

Policies, institutions and standards

- Improve access by the poor to real decision-making
- Establish cross-agency learning coordination
- Simplify policies and laws, and implement and enforce them equitably
- Support judicious subsidies, and remove unreasonable trade barriers
- Develop clear articulation of social standards as they relate to forestry

Finance and incentives

- Establish domestic and global investment mechanisms
- Develop credit unions and better risk assessments
- Build capacity for finance administration and deals between players
- Create incentives for those that operate responsibly

Organisation and partnerships

- Foster enterprise leadership and associations, and support their specific needs
- Support unionisation and coordinated collective bargaining amongst the labour force
- Install more equitable benefit sharing from large-scale commercial forestry
- Make landowners accountable for safe work activity on their land
- Develop strategic partnerships amongst key actors e.g. large scale with small scale enterprise

Source: James Mayers, "Poverty Reduction through Commercial Forestry: What Evidence? What Prospects?" (New Haven, CT: The Forests Dialogue and Yale University, 2006), pp. 22–24.

NEXT STEPS: POSSIBILITIES FOR FOLLOW-UP INVESTMENT

The most important outcome of this Investment Forum will be the extent to which concrete investment deals and programs of technical assistance can rapidly be concluded between some of the financial and development institutions that participated and the many forest agencies and forest industrial companies in the region that are proactively seeking financial support. At the time of drafting this report, several such investment deals and technical assistance projects are under active discussion.

APPENDIX 1

Forum Agenda

SOUTH AFRICA DEPARTMENT OF WATER AND FORESTRY
SOUTHERN AND EAST AFRICA REGION • FOREST INVESTMENT FORUM
DRAFT AGENDA

Day 1: Tuesday, June 13

8:00–9:00 *Registration*

9:00–10:00 *Forum Introduction*

Gerhard Dieterle, World Bank/PROFOR

Welcoming Remarks

Linda Mossop-Rousseau, Director, Forestry South Africa
Ministry of Water Affairs and Forestry, DWAF

Ole Sand, Head, Forest Products Group, IFC

Mike Edwards, Executive Director, Forestry South Africa

Paul Vantomme, Assistant Director, Forest Industries, ITTO

Harrison Ochieng Kojwang, Coordinator, WWF, Southern Africa Program

10:00–10:45	***Keynote Speakers***	
	10:00–10:15	**Rainer Haggblom,** Chairman, Jaakko Pöyry Consulting "Global Trends in the Forest Industry"
	10:15–10:30	**Dale Doré,** University of Alberta/CIFOR "Building Better Corporate-Smallholder Partnerships; Sharing Lessons across Southern Africa Countries"
	10:30–10:45	**Christina Wood,** Sustainable Finance Limited "Incorporating Social and Environmental Safeguards into the Lending Policies of Financial Institutions"

10:45–11:00 ***Question and Answer Session***

11:00–11:30 ***Coffee Break/Press Conference***
South Africa Department of Water and Forestry

11:30–13:00 ***PANEL 1: FINANCING SUSTAINABLE FOREST MANAGEMENT: INVESTMENT OPPORTUNITIES AND CONSTRAINTS***

Introductory Overview and Panel Chair

Olli Haltia, Managing Director, Savcor Indufor Oy

Panelists
Monika Branks, Operations Manager, Malonda Foundation, Mozambique
David Mbugwa, Chief Conservator of Forests, Kenya
Rory Mack, Lima Rural Development Foundation, South Africa
Andrew Tillery, Actis Agribusiness Fund
Olav Bjella, National Forest Authority, Uganda

13:00–14:00 ***Lunch***

14:00–15:30 ***PANEL 2: FINANCING FOREST INDUSTRIAL DEVELOPMENT: INVESTMENT OPPORTUNITIES AND CONSTRAINTS***

Introductory Overview and Panel Chair

Charles Bengough, President, Bengough Haddock Associates

Panelists
Ole Sand, IFC
Russell Morkel, Mondi, South Africa
James Mayers, IIED
Mads Asprem, TreeFarms A/S, Tanzania
Rentia Van Tonder, IDC South Africa

15:30–15:45 *Coffee Break*

15:45–17:30 ***PANEL 3: CREATING A SOCIAL AND ENVIRONMENTALLY SUSTAINABLE INVESTMENT CLIMATE***

Introductory Overview and Panel Chair

Hege Salvesen, Forest Trends

Panelists
George Wamukoya, WWF, Kenya
Gerhard Dieterle, World Bank
Ole Sand, IFC
Shaun McCartney, Global Forest Products
Mike Howard, Fractal Forests, WWF, South Africa
Olman Serrano, FAO

Plenary Discussion

18:30–20:30 ***Reception***

DAY 2: WEDNESDAY, JUNE 14

FIELD VISIT TO CORPORATE/COMMUNITY FOREST OPERATIONS

Forum Field Trip Briefing

Dutliff Smith, Business Manager, Forest Resources, Sappi

DAY 3: THURSDAY, JUNE 15

09:00–10:40 ***WORKING GROUPS ON PRIORITY AREAS FOR FOLLOW-UP INVESTMENT AND TECHNICAL ASSISTANCE***

Working Group 1: Financing Sustainable Forest Management: Investment Opportunities and Constraints

Working Group Chair, **Steven Ngubane,** Forestry South Africa

Working Group 2: Financing Forest Industrial Development: Investment Opportunities and Constraints

Working Group Chair, **Mads Asprem,** TreeFarms A/S, Tanzania

Working Group 3: Creating a Social and Environmentally Sustainable Investment Climate

Working Group Chair, **Christina Wood,** Sustainable Finance Limited

10:45–11:00	***Coffee Break***
11:00–12:30	***SYNTHESIS OF WORKING GROUP RECOMMENDATIONS***
	Chair, **John Spears,** World Bank
12:30–14:00	***Lunch***
14:00–15:00	***FORUM CONCLUSIONS AND RECOMMENDATIONS FOR FOLLOW-UP ACTION***

APPENDIX 2

Forum Participants Contacts List

DENMARK

Droege, Kelly M.
Investment Development Forester
International Woodland Company (IWC)
1875 Frederiksberg C
Amalievej 20, Denmark
Telephone: +45 332 44266
Direct Line: +45 337 85245
Fax: +45 332 40242
Mobile: +45 244 84427
kmd@iwc.dk

FINLAND

Haggblom, Rainer
Chairman
Jaakko Pöyry Consulting
Finland
Telephone: +358 9 8947 2610
Mobile: +358 40 555 9567
Fax: +358 9 878 1829
rainer.haggblom@poyry.com

Haltia, Olli
Managing Director
Savcor Indufor Oy
Töölönkatu 11 A
FIN-00100 Helsinki, Finland
Telephone: +358 9 6840 1140
Fax: +358 9 135 2552
Mobile: +358 40 901 0338
olli.haltia@savcor.com

Lehtonen, Petri
Head of Natural Resource Management
Savcor Indufor Oy
Senior Forestry Consultant
Töölönkatu 11 A
FIN-00100 Helsinki, Finland
Telephone: +35896840111
Fax: +358 91352552
Mobile: +358 40 900 1697
petri.lehtonen@savcor.com

Myllymäki, Tarja
Senior Investment Manager
Finnish Fund for Industrial Cooperation Ltd. (Finnfund)
P.O. Box 391
FIN-00121 Helsinki, Finland
Telephone: +358 9 3484 3326
Fax: +358 9 3484 3347
Mobile: +358 5 0353 3477
tarja.myllymaki@finnfund.fi

GHANA

Samuel, Dartey Afari
Samartex Timber & Plywood Company
P.O. Box 1
Samreboi, Ghana
Telephone: +00233277100135
Samuel@samartex.com

INDONESIA

Jurgens, Emile A.
Consultant
Bank Dunia (The World Bank)
Jakarta Stock Exchange Building
Tower 2, 12th Floor
Jalan Jenderal Sudirman Kav. 52–53
Jakarta 12190, Indonesia
Telephone: +62 21 5299 3000
Fax: +62 21 5299 3111
Mobile: +62 81 3829 08836
emile@aya.yale.edu

Permadi, Pipin
Head of Program Development Subdivision
Forestry Research and Development Agency (FORDA)
Gedung Manggala Wanabhakti
Block I, Lantai 11
Jl. Gatot Subroto
Jakarta 10270, Indonesia
Telephone: +62 21 572 0189
Fax: +62 21 572 0189
Permadi@indo.net.id

Sarsito, Agus
Secretary
Forestry Research and Development Agency (FORDA)
Ministry of Forestry
Gedung Manggala Wanabhakti
Block I, Lantai 11
Jl. Gatot Subroto
Jakarta 10270, Indonesia
Telephone: +021 573 4333
Fax: +032 512 0189
agussar@forda.org
agussar@yahoo.com

KENYA

Diro, Phillip
Deputy Director, Forestry Planning
Pan African Paper Mills (E.A.) Ltd.
P.O. Box 535
Webuye, Kenya
Telephone: +254 55 41 329
Telephone: +254 55 41 342
Mobile: +073 369 9600
padiro@panpaperkenya.com

Mbugwa, David
Chief Conservator of Forests
Forest Department
Ministry of Environment and Natural Resources
P.O. Box 30513-00100
Nairobi, Kenya
Telephone: +254 020 3763669 or +254 020 3764753
ccf@wananchi.com

Rai, Jaswant S
Managing Director
Rai Plywoods (Kenya) Limited
Lunga Lunga Road
P.O. Box 18730-00500
Nairobi, Kenya
Telephone: +020 65 2240/50
Fax: +020 652 2651
nairobi@raiply.com

Tillery, Andrew
Investment Principal
Actis Africa Agribusiness Fund
P. O. Box 43233-0100
Nairobi, Kenya
Telephone: +254 20 219952
Fax: +254 20 219744
Mobile: +254 734 600560
atillery@act.is

Wamukoya, George
Head of Development and External Relations
Eastern Africa Regional Program Office
WWF
5th Floor
ACS Plaza
Lenana Road
P.O. Box 62440-00200
Nairobi, Kenya
Telephone: +254 20 387 7355
Fax: +254 20 387 7389
GWamukoya@wwfearpo.org

MADAGASCAR

Keck, Andrew
Project Manager
International Resources Group
Madagascar
Mobile: +261 3302 00404
Telephone: +261 20 22 592 82/2259273
Fax: +261 20 22 592 70
akeck@irgltd.mg

Mamitiana, Andriamanjato
Department of Water and Forests
Ministry of Environment, Water, and Forests
Madagascar
Telephone: + 261 20 22 41155/22 411 49
Mobile: + 261 32 40 596 95
dgforests@wanadoo.mg

Rambeloarisoa, Gerhard
Forest Program Officer
Madagascar and West Indian Ocean Program
WWF
P.O. Box 738
Antananarivo 101, Madagascar
Telephone: + 261 20 22 304 20
Telephone: + 261 20 22 348 85
Mobile: + 261 33 12 804 06
Fax: + 261 20 22 348 88
grambeloarisoa@wwf.mg

Rakotondralambo, Mamy
Conseiller en Promotion du Secteur Prive
Jariala Project
Ericeinte DGEF Nanisamo
Antananarivo, Madagascar
Telephone: +26 1 0202259272
Fax: +26 1 0202259270
Mobile: +26 1 0330240045
mrakotondralambo@irgltd.mg

Raharindranto, Johnny Jean-Georges
Economist Senior Consultant
Jariala Project
Enceinte Direction Generale des Eaux et Forets
Nanisana, BP 406
Antananarivo, Madagascar
Telephone: +261 20 22 592 72
Mobile: +261 33 12 613 90
Mobile: +261 32 02 351 78
Fax: +261 20 22 592 70
jgn-rahari@simicro.mg

Ramilison, Claude
Technical Manager
Societe TIB MORAMANGA
Mobile: +261 331 190 126
tib.mora@wanadoo.mg

MALAWI

Kumwembe, Bright B.
Deputy Principal Secretary
Ministry of Mines, Natural Resources, and Environment
Private Bag 350
Capital City, Lilongwe 3, Malawi
Telephone: +265 01789488/134
Fax: +265 01788689
Mobile: +265 09957600
kumwembeb@malawi.gov.mw

Mwale, Paulos
Chief Conservator of Forests
Department of Forestry
P.O. Box 30048
Lilongwe 3, Malawi
Telephone: +265 1340226 or +265 8 359 404
fordept@sdnp.org.mw
paulosmwale@yahoo.com

Ngalande, John
Chief Conservator of Forests
Department of Forestry
P.O. Box 30048
Lilongwe 3, Malawi
Telephone: +265 1 770 734/771 000
Telephone: +265 9 510 743
fordept@sdnp.org.mw
mfssp@malawi.net

Sibande, Gorlum Kampingo Inkosi
Traditional Chief
Vipya District
Malawi
Mobile: +08368569

MOZAMBIQUE

Branks, Monika
Operations Manager
Malonda Foundation, Niassa Resource Center
Avenida Kim Il Sung 1156
Maputo, Mozambique
Telephone: +258 21 48 76 71
Telephone: +258 82 30 06 930
Fax: +258 21 48 76 70
moyamoya@tvcabo.co.mz

Brodbeck, Frank
GTZ/SADC Forestry Program
Deutsche Gesellschaft für Technische
Zusammenarbeit (GTZ) GmbH
(German Technical Cooperation)
C.P. 2766
Maputo, Mozambique
Telephone: +258-82-32 28 430
Fax: +258-21-492 323
Frank.Brodbeck@gtz.de

Cuco, Arlito
Director
National Directorate of Land and Forest
(DINATEF)
Ministry of Agriculture
Cx. Postal 1406
Maputo, Mozambique
Telephone: + 258 21 460096
Acuco@map.gov.mz

Foloma, Marcelino
National Community Forestry Project Coordinator
National Directorate of Forest and Wildlife
Ministry of Agriculture
P.O. Box 1406
Praça dos Herois Moçambicanos 2o Andar
Maputo, Mozambique
Telephone: +258 1 460036
Fax: +258 1 460060
Mobile: +258 82 8302160
mfoloma@map.gov.mz
mfoloma@hotmail.com

Issufo, Alima Abdul Kadir
National Directorate of Land and Forest
(DINATEF)
Ministry of Agriculture
Cx. Postal 1406
Maputo, Mozambique
Telephone: + 258 (01) 460036/96
Fax: +258 (01) 460060
aissufo@map.gov.mz

Mabunda, Rito
Forest Program Coordinator
WWF
Rua Dom João IV, No. 213, Sommershield
P.O. Box 4560
Maputo, Mozambique
Telephone: +258-21-483121
Fax: +258-21-490970
ritomabunda@wwf.org.mz

Taquidir, Muino
Forest Research Department Chief
Agrarian Research Institute
Ministry of Agriculture
Praça dos Herois Moçambicanos
C.P. 1406
Maputo, Mozambique
Telephone: +258 (21) 460036/96
Telephone: +258 825 804 280
Fax: +258 (21) 460060
muinotaq@yahoo.com

NEW ZEALAND

Neilson, Dennis
Director
International Forest Industry Advisors
P.O. Box 392
Rotorua 3201, New Zealand
Telephone: +64 7 349 2764
Fax: +64 7 349 2763
Mobile: +031 976 598
dana@dana.co.nz

SOUTH AFRICA

Burger, Nerina
Senior Account Manager
Wood, Paper, and Other Industries Strategic Business Unit (SBU)
Industrial Development Corporation
19 Fredman Drive
Sandown 2196, South Africa
P.O. Box 784055
Sandton 2146, South Africa
Telephone: +27 11 269 3031
Telephone: +27 11 269 3000
Fax: +27 11 269 3152
nerinab@idc.co.za

Cantrill, John
Senior Advisor
Department of Public Enterprises
Private Bag X15, Hatfield 0028
Pretoria, South Africa
Suite 401, Infotech Building
1090 Arcadia Street, Hatfield 0028
Pretoria, South Africa
Telephone: +27 (0) 12 431 1002
Mobile: +27 (0) 72 365 1909
john.cantrill@dpe.gov.za

Carrihill, Gordon
Independent Financial Consultant (Carrihill & Associates)
Global Emerging Markets, Forestry Fund (Washington, DC)
47 Congo Road
Emmarentia 2195
Johannesburg, South Africa
Telephone: +27 11 486 2080
Fax: +27 86 689 0944
Mobile: +27 83 255 8169
carrihill@tiscali.co.za

Clarke, Jeanette
Independent Consultant
P.O. Box 311
Muizenburg 7950
Cape Town, South Africa
Telephone/Fax: +27 21 7885098
Mobile: +27 82 4539800
jclarke@gem.co.za

Chendauka, Bwalya
Business Manager, Resources
Sappi Forests
P.O. Box 13124
Cascades 3202, South Africa
Telephone: +27 333 474 76710
Fax: +27 333 476792
bwalya.chendauka@sappi.com

Dobson, Dave
Director, Safire House
Fibregro Products (Pty) Ltd.
Redlands Estate
George McFarlane Lane
Pietermaritzburg 3201, South Africa
P.O. Box 11176
Dorpspruit 3206, South Africa
Telephone: +27 33 392 4800
Fax: +27 33 342 2310
Direct Line (telefax): +27 33 343 4523
Mobile: +082 807 6356
ddobson@mweb.co.za

Dladla, Vusi
Manager, Development Services
NCT Forestry Cooperative Ltd.
346 Burger Street
Pietermaritzburg 3201, South Africa
P.O. Box 1445
Pietermaritzburg 3200, South Africa
Telephone: +27(0) 33 8978500
Mobile: +27 82 802 8950
Fax: +27(0) 33 8978501

Edwards, Mike
Executive Director
Forestry South Africa
P.O. Box 1553
Rivonia 2128, South Africa
Telephone: +082 600 7627
mike@forestrysouthafrica.co.za

Feely, John
NTE Cooperative
P.O. Box 11176
Dorpspruit 3206, South Africa
Telephone: +033 3924808
Fax: +033 3422310
Mobile: +076 5042955
jfeely@nte.co.za

Harrison, Graeme
Manager, Forestry Development
Department of Water Affairs and Forestry
Private Bag X7485
King William's Town 5600, South Africa
Telephone: +27 43 6045400/5523
Fax: +27 43 6045587
Mobile: +082 809 5242
harrisong@dwaf.gov.za

Howard, Mike
Fractal Forest Africa
P.O. Box 759
Umhlali 4390, South Africa
Telephone: +27 (0)32 525 6931
Fax: +27(0)866 723 888
Mobile: +27 (0)82 920 1297
mdhoward@iafrica.com

Jecty, Eric Obese
Operations Officer
IFC/Private Enterprise Partnership for Africa
P.O. Box 41283, Craighall 2024
Johannesburg, South Africa
Telephone: +27 11 731 3000
Fax: +27 11 268 0030/74
Mobile: +27 83 272 4581
eobesejecty@ifc.org

Kanyi, Daniel
Sector Operations Manager
IFC/Private Enterprise Partnership for Africa
Johannesburg, South Africa
Mobile: +083 272 4576
dkanyi@ifc.org

Kenny, Anthony
Manager
Land Reform
Restitution Programs
Mondi Business Paper
South Africa
Ant.kenny@mondibp.com

Keyworth, Peter
General Manager, Special Projects
NCT Forestry Cooperative Ltd.
346 Burger Street
Pietermaritzburg 3201, South Africa
P.O. Box 1445
Pietermaritzburg 3200, South Africa
Telephone: +27(0) 33 8978500
Mobile: +27 82 802 8950
Fax: +27(0) 33 8978501
Peter@Nctforest.Com

King, Colin
Manager, Transformational Infrastructure and Carbon Credits
Standard Bank Corporate and Investment Banking
Standard Bank Center
3 Simmonds Street
Johannesburg 2001, South Africa
P.O. Box 61297
Marshalltown 2107, South Africa
Telephone: +27 11 636 4255
Fax: +27 116360240
Mobile: +27833076563
Colin.King@standardbank.co.za

Mack, Rory
General Manager
Lima Rural Development Foundation
Program Manager
Agriculture and Forestry for Teba Development
South Africa
Telephone: +27 33 3429043
Fax: +27 33 3942691
Mobile: +27 82 7829224
rory@lima.org.za

McCartney, Shaun
Environmental Manager
Global Forest Products
Private Bag X518
Sabie 1260, South Africa
Telephone: +013 764 9200
Mobile: +083 627 4188
smccartney@gfp.co.za

Malloch-Brown, David
Global Forest Products (Pty) Ltd.
Tree Breeding Center
Private Bag Z518
Sabie1 260, South Africa
Telephone: +27 13 764 9223
Fax: +27 13 764 1027
Mobile: +27 82 805 6966
dmallochbrown@gfp.co.za

Memani, Mzi
Memani Consulting
P.O. Box 1208
Buccleuch 2066, South Africa
Telephone: +27 11 958 2523
Mobile: +27 84 555 7383
mzi@ubsmart.co.za

Morkell, Russell
Director
Mondi
South Africa
Russel.Morkel@mondibp.com

Mossop-Rousseau, Linda
Chief Director of Forestry
Ministry of Water Affairs and Forestry
Private Bag X313
Pretoria 0001, South Africa
Telephone: +27 12 336 7212
Fax: +27 12 336 7240
Mobile: + 27 82 801 2310
mossoprousseaul@dwaf.gov.za

Molefe, Portia
Director General
Department of Public Enterprises
Private Bag X15
Hatfield 0028
Pretoria, South Africa

Robyn Martin
(Executive Assistant to the Director General)
Telephone: +27 12 431 1121
Fax: +27 12 342 8431
robyn.martin@dpe.gov.za

Malango, Atupele
International Finance Corporation
14 Fricker Road
Illovo 2196
Johannesburg, South Africa
P.O. Box 41283
Craighall 2024
Johannesburg, South Africa
Telephone: +27 11 731 3000
Fax: +27 11 268 0060/74

Ngassa Batonga, Bernard

International Finance Corporation
14 Fricker Road
Illovo 2196
Johannesburg, South Africa
P.O. Box 41283
Craighall 2024
Johannesburg, South Africa
Telephone: +27 11 731 3000
Fax: +27 11 268 0060/74

Nicholson, Chris

Wood, Paper, and Other Industries Strategic Business Unit
Industrial Development Corporation
19 Fredman Drive
Sandown 2196, South Africa
P.O. Box 784055
Sandton 2146, South Africa
Telephone: +27 11 269 3475/3573
Fax: +27 11 269 3152
chrisni@idc.co.za

Ngubane, Steven Zama
Small Business Development Manager
Forestry South Africa
P.O. Box 13735
Cascades 3202, South Africa
Telephone: +2733 345 1366
Fax: +2733 342 1076
Mobile: +2782 880 7165
steven@forestrysouthafrica.co.za

Nixon, Peter
Breezy Brae Farm
P.O. Box 386
Creighton 3263, South Africa
Telephone: +270 398 339015
rfm@futurenet.co.za

Ndaba, Phumla
Department of Public Enterprises
Suite 401, Infotech Building
1090 Arcadia Street
Hatfield 0028
Pretoria, South Africa
Telephone: +27 (0) 12 431 1041
Fax: +27 (0) 12 342 1446
phumla.ndaba@dpe.gov.za

Nsuntsha, Aubrey
Amahlati Emerging Entrepreneurs Forum
P.O. Box 2705
Pietermaritzburg 3200, South Africa
Telephone: +27 072 0578332
musansuntsha@yahoo.co.uk

Olivier, Nic
Director and Professor
SADC Center for Land-Related Regional and Development Laws and Policy
University of Pretoria
Pretoria 0002, South Africa
Telephone: +27 12 420 5044
Fax: +27 12 420 5249
nic.Olivier@up.ac.za

Peter, Michael
Director
Forestry Technical and Information Services
Department of Water Affairs and Forestry
Private Bag X313
Pretoria 0001, South Africa
Telephone: +27 (12) 336 8782
Fax: +27 (12) 336 8847
Mobile: +27 82 808 0425
peterm@dwaf.gov.za

Rencken, Hilmar
Senior Account Manager
Wood, Paper, and Other Industries SBU
Industrial Development Corporation
19 Fredman Drive
Sandown 2196, South Africa
P.O. Box 784055
Sandton 2146, South Africa
Telephone: +27 11 269 3242
Telephone: +27112693000
Fax: +27 112693152
hilmarr@idc.co.za

Salvesen, Hege
Consultant
Business Development Facility
Forest Trends
Cape Town, South Africa
UK Mobile: +44 788 770 3969
SA Mobile: +27 761 343 667
hsalvesen@forest-trends.org

Smit, Winston
Director
Forestry Development
Department of Water Affairs and Forestry
Private Bag X93
Pretoria 0001, South Africa
Telephone: +27 12 336 7718
Fax: +27 12 336 8847
Mobile: +27 82 808 1446
smitw@dwaf.gov.za

Smith, Dutliff
Business Manager
Sappi Forests
P. O. Box 13124
Cascades 3202, South Africa
Telephone: +27 (0)33 3476710
Fax: +27 (0)33 3476792
Mobile: +27 (0)83 661 7038
Dutliff.Smith@Sappi.Com

Thompson, Trevor
Global Forest Products (Pty) Ltd.
Tree Breeding Center
Private Bag X518
Sabie 1260, South Africa
Telephone: +27 13 764 9250
Fax: +27 13 764 1027
tthompson@gfp.co.za

Underwood, Mike
Program Coordinator
Community Forestry
University of KwaZulu-Natal
Private Bag X01
Scottsville 3209, South Africa
Telephone: +27332606088
Fax: +27332606005
Mobile: +27833252884
underwoodm@kzn.ac.za

Van Loggerenberg, Carl
Area Projects Manager
Sappi Forest Products
P.O. Box 7
Kwambonambi 3915, South Africa
Telephone: +035 5801211
Fax: +035 5801698
Mobile: +082 329 7115
Project Grow
Sappi
South Africa
Telephone: +082 329 7115
Carl.Van.Loggerenberg@ZA.Sappi.Com

Verschuur, Jack
African Operations
Earth Consultancy BV
48 Hilltop Road
Hillcrest 3610, South Africa
Phone: +27 (0)31 7651926
Mobile: +27 (0)82 6540586
jack@earth-consultancy.com

Van Tonder, Rentia
Head of Wood, Paper, and Other Industries SBU
International Development Corporation
South Africa
Telephone: +27 11 269 3441
Mobile: +27 82 806 4774
rentiat@idc.co.za

Wood, Christina

Associate
Sustainable Finance Limited
3 Glamorgan Road
Parkwood 2193
Johannesburg, South Africa
Telephone: +083 718 2473
Christina@sflnet.com

Zimela, Masizakhe

Chief Director
Resource-Based Industries
Department of Trade and Industry
Enterprise and Industry Development Division
Private Bag X84
Pretoria 0001, South Africa
DTI Campus
77 Meintjies Street
Sunnyside 0002, South Africa
Telephone: +27 12 394 2395
Fax: +27 12 394 2395
Mobile: +27 83 6525191
mzimela@thedti.gov.za

SWEDEN

Jonsson, Tomas
Program Manager
Ramboll Natura AB
Kapellgrand 7
P.O. Box 4205
SE-102 65 Stockholm, Sweden
Telephone: +46 8 615 60 00
Fax: +46 8 702 1914
Direct Telephone: +4686156578
Mobile: +46702861650
tomas.jonsson@ramboll.se

TANZANIA

Akitanda, Patrick
Agricultural Assistant Director, Forest Development
Ministry of Natural Resources and Tourism
Ivory Room, Nyerere Road
P.O. Box 426
Dar es Salaam, Tanzania
Mobile: +255 745 162832
chitanda2003@yahoo.com

Asprem, Mads
Chairman
TreeFarms A/S
Tanzania
Telephone: +44 7887 628 631
mads@asprem.com

Choudary, Y. V.
General Manager
Mufindi Paper Mill Ltd.
Mill Site
P.O. Box 1
Mgololo, Tanzania
Telephone: +255 262 700325
Fax: +255 262 700372
Mobile: +074 568 3125
yvc@mufindipaper.co.tz

Kamwenda, Gerald Jones
Component Leader
Private Sector Involvement (PSI) in Plantation Forests Management
Tanzania Forest Conservation and Management Project
P.O. Box 11979
Dar es Salaam, Tanzania
kamwendabros@yahoo.com

Ngibuini, Mwaniki
Managing Director, East Africa
TreeFarms A/S
P.O. Box 55
Mafinga, Tanzania
P.O. Box 4730
Dar es Salaam, Tanzania
Mobile (Tanzania): +255 748 737 796
Mobile (Kenya): +254 733756738
mwaniki.ngibuini@saohill.com

UGANDA

Amumpe, Allan
Administration Manager
Sawlog Production Grant Scheme (SPGS)
P.O. Box 5244
Kampala, Uganda
Telephone: +256 782 673899
allana@nfa.org.ug
allana@sawlog.ug

Bjella, Olav
Executive Director
National Forestry Authority
P.O. Box 70863
Kampala, Uganda
Telephone: +256 31 264 035/6
Fax: +256 41 230 269
Mobile: +256 78 378 853
olavb@nfa.org.ug

Cunningham, Lee
General Manager
The New Forests Company (Uganda) Ltd.
P.O. Box 71435
Kampala, Uganda
Telephone: +256 41 268 247
Fax: +256 41 268 271
Mobile: +256 78 272 3032
lee@newforestscompany.com

Gershom, Onyango
Forestry Inspection Division
P.O. Box 7096
Kampala, Uganda
Office: +256 41 2340684
Home: +256 41 2572995
Mobile: +256 77 2491807
gonyango@yahoo.co.uk

Jacovelli, Paul
Chief Technical Advisor
EU Forestry Program (Uganda)
P.O. Box 5244
Kampala, Uganda
Telephone: +256 772 312 769
Fax: +256 41 342 607
paulj@nfa.org.ug

UNITED KINGDOM

Abbott, Patrick
Senior Consultant
LTS International
Pentlands Science Park
Bush Loan
Penicuik EH26 0PH, Scotland
United Kingdom
Telephone: +44 131 440 5500
Fax: +44 131 440 5501
Paddy-Abbot@ltsi.co.uk

Bengough, Charles
Senior Partner
Bengough Haddock International
P.O. Box 372
Stafford ST18 9HZ, England
United Kingdom
Telephone: +254 20 531050
Mobile: +254 772 523228
cbengough@yahoo.com

Cottle, Phil
Managing Director
ForestRe
AFRM Ltd.
Crosby Court
38 Bishopsgate
London EC2N 4AF, England
United Kingdom
Telephone: +44 20 7374 5655
Fax: +44 20 7374 5651
Mobile: +44 7769 895 048
Phil.cottle@forestre.com

Haddock, Peter

Senior Partner
Bengough Haddock International
Forestry and Forest Products
Manufacturing, Processing, Marketing, and Sourcing Specialist
P.O. Box 372
Stafford ST18 9HZ, England
United Kingdom
Telephone/Fax: +44 (0) 1785 780329
hadtim@aol.com
www.bengoughhaddock.com

Mayers, James
Head, Natural Resources Group
International Institute for Environment and Development
4 Hanover Street
Edinburgh EH2 2EN, Scotland
United Kingdom
Telephone: +44 131 624 7041
Fax: +44 131 624 7050
www.iied.org
james.mayers@iied.org

Ozanne, Julian
General Manager
The New Forests Company (Uganda) Ltd.
P.O. Box 71435
Kampala, Uganda
Office: +256 41 268 247
Fax: +256 41 268 271
Mobile:+256 78 272 3032
lee@newforestscompany

ZAMBIA

Aongola, Lubinda Masule
Director, Planning and Information Department
Ministry of Tourism, Environment, and Natural Resources
4th Floor
Kwacha House
Cairo Road
P.O. Box 34011
Lusaka, Zambia 10101
Telephone: +(260-1) 238772
Fax: +(260-1) 238772
aongola@zamnet.zm
laongola@mtenr.gov.zm

Masinja, Anna Chileshe
Director of Forestry
Ministry of Tourism, Environment, and Natural Resources
Forestry Department
P.O. Box 50042
Lusaka, Zambia
Telephone: +260 1 234375
Fax: +260 1 226131
Mobile: +097 772 886
anna@zamnet.zm
forestry@zamnet.zm

Mutafu, Kelvin M
Zambia Forestry and Forest Industries Corporation (ZAFFICO)
P.O. Box 71566
Ndola, Zambia
Telephone: +260 616 027
Telephone/Fax: +260 616 029–30
Mobile: +095 923 512
zafficnd@zamnet.zm

Nkhata, Davy
Foundation Advisor
Mwanka Rural Development and Environment Foundation
P.O. Box 510520
Chipata, Zambia
Telephone: +06 221 808
Mobile: +097 767 724
Makhangao4@yahoo.com

ZIMBABWE

Doré, Dale
Advisor
Shanduko Trust
Center for Agrarian and Environmental Research
195 Fife Avenue
Harare, Zimbabwe
Telephone: +(263-4) 722376
Fax: +(263-4) 733782
daledore@zol.co.zw

Duwa, Darlington
General Manager, Forestry Commission
Forestry Commission Head Office
1 Orange Grove Drive
P.O. Box HG139
Highlands, Harare, Zimbabwe
Telephone: +263 449 84336/9
Fax: +263 449 7066
Mobile: +263 116 17337
forestgm@mweb.co.zw
darlington_duwa@yahoo.co.uk

Kojwang, Harrison Ochieng
Regional Representative
Southern Africa Program Office
WWF
10 Lanark Road
Belgravia, Harare, Zimbabwe
P.O. Box CY 1409
Causeway, Harare, Zimbabwe
Telephone/Fax: +263-4-252 533 34
Mobile: +263-91-251 632
hkojwang@wwfsarpo.org

Kottulinsky, Franz
Rift Valley Holdings, Limited
Projects
Tanganyika House
23 Third Street
P.O. Box 10455
Harare, Zimbabwe
Telephone: +263 720067/8/9
Fax: +263 700580
Mobile: +263 91 219 918
franz@riftvalley.com

Lowe, Peter
Forest Conservation Officer
Food and Agriculture Organization of the United Nations
FAO Subregional Office for Southern and East Africa
Old Mutual Center, 11th Floor
Corner, Jason Moyo Avenue and 3rd Street
P.O. Box 3730
Harare, Zimbabwe
Telephone: +263 4 253655, ext. 221
Fax: +263 4 700 724
Mobile: +263 91 428 527
Peter.Lowe@fao.org

Mudekwe, John
Lecturer
National University of Science and Technology
Department of Forestry Resources and Wildlife Management
P.O. Box AC 939
Ascot, Bulawayo, Zimbabwe
Telephone: +263 9 282842/286557
Fax: +263 9 286390/286 803
Mobile: +023 836 976
jmudekwe@nust.ac.zw

Mufandaedza, Edward
Chief Conservator of Forests
Forestry Commission Building
717 Fife Street
P.O. Box 467
Bulawayo, Zimbabwe
Telephone: +(263-9) 61495/6
Mobile: +011 862 168
emufandaedza@yahoo.com

INTERNATIONAL ORGANIZATIONS

Dieterle, Gerhard
Advisor
Forestry Unit, Environmentally and Socially Sustainable Development
World Bank
1818 H Street, N.W.
Washington, DC 20433
United States
Telephone: +202 458 7334
gdieterle@worldbank.org

Ivers, Laura
Communications Officer
Program on Forests (PROFOR)
World Bank
Telephone: +202 473 23 96
Fax: +202 522 1142
laivers@worldbank.org

Mead, Leila
Communications Consultant
World Bank
leilamead@yahoo.com

O'Donnell, Dwight
Senior Industry Specialist
International Finance Corporation
Global Manufacturing Service
2121 Pennsylvania Avenue, N.W., F9K-905
Washington, DC 20433
United States
Telephone: +202 473 8428
Fax: +202 974 4394
doonnell@ifc.org

Reed, Carol
Coordinator
Eastern and Southern African Forest Investment Forum
World Bank
Creed@worldbank.org

Sand, Ole
Principal Investment Officer
International Finance Corporation
Team Leader, Forest Production Sector
2121 Pennsylvania Avenue, N.W., F9K-126
Washington, DC 20433
United States
Telephone: +202 473 9134
Fax: +202 974 4392
osand@ifc.org

Serrano, Olman
Senior Forestry Officer
Wood Industries
Forest Products Service
Forest Products and Economics Division
Forestry Department
Food and Agriculture Organization
Room D 403
Vialle delle Terme di Caracalla
00100 Rome, Italy
Telephone: +065 705 4056
Fax: +065 7055137
Olman.Serrano@fao.org

Spears, John
Forest Policy Consultant
Environmentally and Socially Sustainable Development (ESSD) Vice Presidency
The World Bank
1818 H Street, N.W.
Washington, DC 20433
United States
Telephone: +202 458 1542
Fax: +202 522 1142
jspears@worldbank.org

Vantomme, Paul
Assistant Director
Forest Industries
International Tropical Timber Organization (ITTO)
International Organizations Center - 5F
Pacifico-Yokohama 1-1-1
Minato-Mirai, Nishi-ku
Yokohama 220-0012, Japan
Telephone: +(81-45) 223-1110
Fax: +(81-45) 223-1111
vantomme@itto.or.jp

APPENDIX 3

Forum Background Reading Material

The materials listed below according to the themes of the three panels from the Forum are made available on the CD included with this book. However, materials listed under ?other publications? are not on the CD.

Panel 1: Financing Social, Environmental, and Economically Sustainable Forest Management

1. "Overview of Investment Opportunities for Forest Plantations in Southern and East Africa," Savcor Indufor Oy (PowerPoint presentation).
2. "Sappi Announces a Land-Based Empowerment Scheme" (Sappi Web site, May 5, 2006).
3. "Mondi Involvement in Community Partnerships" (note prepared for the October 2003 Forest Investment Forum).
4. "Going Forward Together" (Mondi Web site summary of the joint company/community partnerships in Siya Qhubeka forests, May 2006).
5. "Juggling Social and Economic Goals in South Africa," Maud Dlomo and Mike Pitcher (IIED, 2004).
6. "Mozambique: Investing Risk Capital in Agriculture, Tourism, and Forestry," Monika Branks, Malonda Foundation (PowerPoint presentation, 2006).
7. "A Case Study of Approaches to Planning of Plantation Investments in Mozambique," Savcor Indufor Oy (PowerPoint presentation).
8. "National Forest Authority: Timber Plantation Investment Program," NFA, Uganda (a briefing note, March 2006).
9. "Uganda Sawlog Production Grant Scheme." (NFA. 2006).
10. "The New Forests Company, Uganda" (Web site report).
11. "Partnership-Based Approaches to Management of Kenya's Forest Resources," James Mayers (PROFOR, 2005).
12. "Kenya Forestry: Economic and Financial Viability," Roger Sedjo (PROFOR, 2004).
13. "Supporting Sustainable Environment and Forest Ecosystems Management in Madagascar," International Resources Group consultants (2005); see especially sections on Reforestation Strategy (pages 20–25).
14. "The World Bank Forests Program," Gerhard Dieterle (PowerPoint presentation).
15. "Current Status of World Bank Africa Region Support for Forests." (ARD, 2006).

16. "Ongoing Projects in Kenya, the Democratic Republic of Congo, and Uganda," World Bank Carbon Finance Unit.
17. "Examples of Innovative Partnership Contracts," World Bank/IFC/IIED (2005).
18. "Fastwood Forest Plantations: Notes and Issues Arising from a WWF Study Tour to South Africa," (April 2005).
19. "Financing Sustainable Forestry in the Tropics: A Global Overview," Adrian Whiteman, FAO (PowerPoint presentation, prepared for ITTO Forest Investment Forum, May 2006).
20. "Financial Incentives for Plantation Forestry," LTS consultants (2002).

Panel 2: Financing Social, Environmental, and Economically Sustainable Forest Industrial Development

1. "Trends in the Global Forest Industry: An Overview," Rainer Haggblom (Jaakko Pöyry Consulting).
2. "Current Status of Forest-Based Industries in the Southern and East Africa Regions: Investment Opportunities and Constraints," Charles Bengough and Peter Haddock (2006).
3. Summary of the Genesis report, "Contribution, Costs, and Development Opportunities of the Forestry, Timber, Pulp, and Paper Industries in South Africa," Mike Edwards (Forestry South Africa).
4. *Small-Scale Timber Production in South Africa: What Role in Reducing Poverty?* Mike Howard, Phumzile Matikinca, Dominic Mitchell, Fiona Brown, Fonda Lewis, Isaiah Mahlangu, Andile Msimang, Peter Nixon, and Themba Radebe (London: IIED, 2005).
5. *Forestry Contractors in South Africa: What Role in Reducing Poverty?* Jeanette Clarke and Moenieba Isaacs (London: IIED, 2005).
6. "Small-Medium Forestry Enterprises: The 'Best-Bet' for Reducing Poverty and Sustaining Forests?" James Mayers (PowerPoint presentation, prepared for ITTO Cancún (Mexico) Investment Forum).
7. "Community-Based Forest Enterprises in Tropical Forest Countries: Status and Potential," Augusta Molnar, Forest Rights and Resources Group (PowerPoint summary, 2005).
8. "Building Better Corporate-Smallholder Partnerships: Sharing Lessons across Southern African Countries," Dale Doré and Alois Mandondo (University of Alberta/CIFOR, 2005).
9. "TreesFarms A/S: Tanzania" (Web site information on sawmilling and forest plantation-based industries in Sao Hill).
10. "Potential for a Plantation Wood-Based Pulp Industry in Mozambique," Jaakko Pöyry Consulting (PowerPoint presentation, March 2006).
11. "Small and Medium-Scale Forestry Enterprises in Uganda" A discussion paper Rosina Aurenard and Krystyna Krassowska (IIED, 2002).
12. "Financing Responsible Forest Management and Trade: Working Examples of Joint IFC/GFTN Activities in Latin America," Steve Gretzinger (WWF/GFTN).
13. "PENSA: Joint IFC/GFTN Activities in Indonesia: Access to Materials, Access to Markets," Moray McLeish (IFC, Indonesia).
14. "Forest Industry Investment Portfolio," IFC.
15. "Improving Lives by Creating Opportunities in Small Business" (IFC Web site: http://www.ifc.org).

Panel 3: Creating a Socially and Environmentally Sustainable Investment Climate

1. "Incorporating Social and Environmental Safeguards into the Lending Policies of Financial Institutions," Christina Wood (Sustainable Finance Limited).
2. "Revised World Bank Forest Strategy: Operational Policy 4.36."
3. "Environmental and Social Performance Standards," IFC (2006).
4. "Draft Planted Forest Code" (Rome: FAO, December 2005).
5. "Forest Law Enforcement and Governance," World Bank, FLEG Secretariat (September 2005).
6. "Report on Progress Being Made in Kenya toward Introduction of a Certification Scheme," George Wamukoya (WWF).

7. “Developing National Criteria and Indicators for Sustainable Forest Management in Mozambique,” Rito Mabundo, World Bank/WWF Alliance (concept note).
8. “Forest Trends Business Development Facility” (PowerPoint presentation to the ITTO International Tropical Investment Forum, April 2006).

OTHER PUBLICATIONS

“Forest Investment Forum: Opportunities and Constraints,” PROFOR (2003).

Plantations, Privatization, Poverty, and Power, Michael Garforth and James Mayers (London: Earthscan, 2005).

“Forest Concession Policies and Revenue Systems,” John Gray (World Bank Technical Assistance Note 522, 2002).

Company-Community Forest Partnerships, James Mayers and Sonja Vermeulen (London: IIED, 2002).

Towards Equitable Partnerships between Corporate and Smallholder Partners (Bogor, Indonesia: FAO/CIFOR, 2002).

Fast-Wood Forestry: Myths and Realities, Christian Cossalter and Charlie Pye-Smith (Jakarta, Indonesia: CIFOR, 2003).

Selling Forest Environmental Services: Market-Based Mechanisms for Conservation and Development, Stefano Pagiola, Joshua Bishop, and Natasha Landell-Mills (London and Sterling, VA: Earthscan, 2002).

Forests in Landscapes: Ecosystem Approaches to Sustainability, Jeffrey Sayer and Stewart Maginnis (London: IUCN/Earthscan, 2005).

“Poverty Reduction through Commercial Forestry: What Evidence? What Prospects?” James Mayers (New Haven, CT: The Forests Dialogue and Yale University, 2006).

Environmental Sustainability in Water Resources Management in Southern Africa” (SADV/IUCN/SARDC/IBRD, 2000).

“Allocating Water Use Licenses for Stream Flow Reduction Activities (Forestry) on Invaded Lands, Based on the Principle of Yield Enhancement,” DWAF (2005).

Tools for Civil Society Action to Reduce Forest Corruption — Drawing Lessons from Transparency International (TI). (Washington DC, PROFOR, 2005)

Reforming Forest Fiscal Systems: An Overview of Country Approaches and Experiences (Washington DC, PROFOR, 2004)

Institutional Changes in Forest Management (Washington DC, PROFOR, 2003)

Development Policy Lending and Forest Outcomes (Washington DC, World Bank, 2005)

Forestry Outlook Study for Africa (Rome, FAO, 2003).

Options for Managing Rural Transport Infratructure (Washington DC, World Bank Technical Paper 411, 1998)