

TANZANIA DEVELOPMENT PARTNERS GROUP (DPG)
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THE LARGE AND UNCAPTURED POTENTIAL OF THE FORESTRY SECTOR IN DEVELOPING TANZANIA'S ECONOMY

1 BACKGROUND

The National Forest Programme (NFP) was put in place in Tanzania in 2001 as an instrument to implement forest policy for a period of ten years (2001-10). Its ultimate objective is: *"to reduce poverty and increase economic growth by managing forests sustainably without compromising environmental and cultural values."* The primary strategies that are currently implemented for realising this objective are **clarifying land tenure and providing a transparent legal framework; establishing a reliable database on forest stocks and resource use, including a valuation of currently unaccounted forest services/externalities; promoting private sector investments and community-based forest management; facilitating the emergence of a self-financing forestry sector; and decentralizing the delivery of public services.**

The contribution of forests to Tanzania's national economy is impressive yet remains largely unacknowledged in development planning with for instance FBD being only allocated 0.1-0.2% of the total annual budget of GoT:

- Tanzania's forests **employ approximately 1 million mainly rural people** officially and about 5 to 10 times more unofficially
- Forest products contribute **10-15% to the country's registered export earnings**
- Forest provide **95% of Tanzania's energy supply** through fuel wood and charcoal with the amount of unaccounted woodfuels being estimated over 30 million m³ per year
- Approximately **75% of construction materials** used in the country come directly from forests with the construction sector having been the fastest growing one next to mining in the national economy in 2003
- Forests are key to Tanzanian livelihoods providing **100% indigenous medicinal and supplementary food products** especially to poor rural family households
- The ecosystem functions that forests provide to the national economy such as **water services, biodiversity, climate regulation, eco-tourism and cultural values remain completely unaccounted**: the impairment of the **water catchment function** alone being estimated to **cost the country 300 mill. USD per year** by 2020, when most forests are predicted to have disappeared with current high rates of deforestation (91,276 ha per year)

In July 2004, the Minister of Natural Resources & Tourism visited the harbor of Dar es Salaam to establish whether the provisions in the recently operationalized new Forestry Act No. 14 with regard to timber exporting were actually being implemented. During this mission, 187 containers were found containing logs that either had not been legally acquired or were not licensed for export and/or had species and types that were not allowed for export. Since most of the logs originated from forests from the Coastal Region, further inspections were ordered in all coastal districts. These revealed 6,898 m³ of illegally harvested logs that were valued at 382.65 million TZS, or 55,715 TZS/ m³. This so called **"logging scam"** made headlines in the national media and it was even suggested by some that this was only the tip of the iceberg visible in a sea of corruption affecting the sustainable management of all of

the natural resources in the country. This also means that Tanzanians and the national economy currently remain largely deprived of the full benefits the forestry sector can offer.

2 THE ISSUES

2.1. The current contribution of the forestry sector to national GDP, economic growth, and the creation of rural wealth remains a small fraction of its actual potential contribution because of illegal and unsustainable practices. Indeed, its present contribution is probably greatly underestimated for the same reason and, as a consequence, financial support from the GoT and DP's is decreasing.

- Official figures, which remain very unreliable, estimated that between the years 1995 to 2002 the sector contributed on average only 3.3% to the national GDP. However, recent estimates that include the current value of the illegal use of forest products such as logs and charcoal indicate that the forest sector's annual contribution to the national GDP is probably in the range of 10%-15%! The charcoal industry in 2002 alone is estimated to have utilized 21.2. mill. m³ of wood, equivalent to 624,500 ha of woodland, providing 43.7 million bags of charcoal to 6.8 mill. mostly urban consumers. The annual net value of this charcoal trade was 4.8 mill. USD! Recent price increases in Dar es Salaam to 10,000 TZS per bag of charcoal should also serve as an indicator of an unaccounted and drastically dwindling resource.
- The official trade balance for forest products in 1998 was based on exports and imports worth USD 6.5 and USD 4.2 mill., respectively. It is estimated that today the official trade balance is probably negative because of the increase in imported forest products as the result of a booming construction sector and increased national demand fuelled by relatively high economic growth rates over the past several years. The true value of the difference is somewhat uncertain, however, because the value of illegally exported and under-valued exported forest products is substantial.

2.2. There is a complete lack of a coherent national scaling-up strategy for the effective implementation of the Forestry Act and NFP that should focus on priority interventions that can impact on poverty and economic growth

- The estimated area of Tanzania's forests and woodlands is 38.8 million ha, out of which 15 million ha are reserves that could directly benefit from better and sustainable management as provided under the new Forestry Act. However, only approximately 600,000 ha were owned and managed by local governments in 2001 and only 1% of the total forest reserve area are currently under PFM (community-based or join forest management arrangements), the latter being only made possible through financial support from Development Partners. In addition, the information database of existing resources is almost non-existent while the only means of guaranteeing a sustainable level of utilization is to know the amounts and understand the dynamics of natural resources in forests and woodlands.
- PFM arrangements can provide significant benefits and create rural wealth. A recent study demonstrated that annual village income under a CBFM agreement increased by an extra USD 653, while that for a JFM increased by 189 USD. These amounts can be quite significant in rural settings, but remain restricted to a few pilots funded by DP's.

2.3. Lack of significant private investments in forest industries due to a *de facto* investor hostile environment caused by bureaucratic red tape, corruption and inadequate support services

- Forestry can play a very important role in poverty reduction only if benefit sharing is equitable. Nurturing and attracting a responsible private sector is critically important for adding-value and creating employment in the country.
- Despite the provisions in the new Forestry Act and Regulations, no concessions for currently poorly managed state-owned plantations have been granted to private investors. These plantations are estimated to cover 135,000 to 230,000 ha and have high potential for creating employment and income to rural poor especially in the remote areas where they are located.
- Royalties and other fees set by the GoT favour low recovery rates (33%) and do not reward investments into better silvicultural practices prior to harvesting or processing technologies and other innovations. Current regulations only provide one-year licenses for exploitation making private investments in forest industries prohibitive while opening, at the same time, new opportunities every year for corruption during licensing. In addition, high commercial interest rates and lack of special credit facilities do not make the inherently long-term and very risky investments in forestry a particularly viable venture in Tanzania.
- There is considerable interest by large-scale private companies to invest into plantation development for fibre production, but up to date no one can assist these investors in identifying appropriate land for placing such investments, resulting for instance recently a 1.1 bill. Euro investment venture being moved to Uruguay/Latin America instead

2.4 Lack of human resource and service delivery capacities at central, regional, district and community levels for developing the sector.

- The process that leads to the implementation of any of the forest management arrangements provided under the new Forestry Act and the actual transferring of the management of forests to communities and/or the private sector is much too long and costly, decreasing the likelihood of any meaningful scaling-up that could lead to an effective implementation of the Forestry Act. Indeed, it is currently estimated that for instance a CBFM process may typically take up to 4 years and may cost between USD 50-100 thousand or more, depending on the size and the location of the forest, before a community and/or private investors can enjoy tangible benefits from these arrangements.
- Despite steadily increasing levels of forest revenue collections, it is estimated that only 5-10% of the revenue that is actually due from forestry is currently collected because of poor management at FBD.
- While royalties from timber sales account for 83% of all revenue collected, they are fixed arbitrarily with no recognition of market values, because of lack of staff competencies in valuation and corruption. Lack of capacities especially at the district level is well recognized and documented. Valuation of exported timber in the follow-up to the recent logging-scam of 55 USD/m³ represents a small fraction of the true market value which may reach 6000 USD/m³ or more for certain species.

3 IMPACTS AND “LOST” OPPORTUNITIES

Forestry and Poverty

Assuming that every one of the approximately 10,000 villages in the country would benefit from at least one CBFM arrangement through efficient scaling-up of the implementation of the Act, and by using the case study benefits figure of USD 653 per year generated in extra village income from such sustainable forest resource use, national scaling-up of CBFM alone would have the potential to provide especially poor villages in remote parts of Tanzania an extra USD 6 million per year for community development. Regularizing the currently “illegally” operating charcoal industry and turning it into a major employment and income generating sub-sector in rural areas has also huge potential indicated by current annual incomes from charcoal amounting to 40% and more in rural households.

Forestry and Growth

Transforming the currently poorly managed 135,000-230,000 ha of state-owned plantations into efficiently run private enterprises alone has the potential to create significant economic growth in remote rural areas where these forests are located. In the absence of reliable forest inventory information, it is difficult to provide accurate overall national estimates. If we assume, however, that the current actual contribution from the forestry sector to national GDP is 13.3%, while the official average figure is 3.3%, then the total value of lost opportunities in monetary terms would be 10% of the current GDP or 1 Billion USD using conservative estimates. Large parts of this contribution would be generated by the private sector, in particular by plantation forestry and forest industries. The output from these plantations would substitute for current imports of forest products being estimated at **X USD/year** and would increase employment and economic growth by adding value to wood resources in rural areas.

Forestry and Revenue

In 2003, the sector's contribution to GDP was officially estimated to be USD 202 million, or approximately 2% of GDP. Considering the charcoal industry alone, we can estimate that the GoT is currently missing out just on collecting royalties of 600 TZS per bag, or approximately USD 23.8 million per year, this opposed to actually recorded collections in 2001/02 of a meagre 602,000 USD! Some estimates indicate that if forest resources were managed in a sustainable and efficient manner, the sector's contribution could be between USD 1.3 – 3.0 billion. This suggests that current lost opportunities in monetary terms may amount to USD one to two billion per year, not counting the significant indirect services that are provided by forests, such as water services, biodiversity, climate regulation, eco-tourism and cultural values. While forestry is a productive sector that could easily become self-financing, it remains officially considered not to be a net contributor to the treasury, this mainly because a full valuation of its combined contributions is not carried out.

4 ANALYSIS OF ROOT CAUSES AND ACTORS INVOLVED

Issue 1: The potential contribution of the forestry sector to national GDP, economic growth, and the creation of rural wealth is not realized

- Key stakeholders at the implementation level, especially district and village councils, CBO's/CSO's, and the private sector, do not have access to the provisions of the new Forestry Act and do not understand its potential in creating wealth and economic growth. The relevance of forestry to MKUKUTA is not appreciated at all levels and hence district councils only allocate negligible resources to this, as well as other, NRM sectors in their development plans. Decentralization has left forestry staff at the regional and district

levels operating in a marginalized “grey area” without minimal resources being allocated to support their genuine efforts.

- There is no current assessment of available forest resources, their productivity, monetary valuation, soil types, precipitation, and land availability for plantations, because national and district-level inventories have never been conducted. A demand-driven development of the sector is impossible because current supplies are unknown, providing one of the biggest disincentives for promoting growth in the sector. There is also no databank describing investment opportunities and providing updated statistics on the sector’s performance. Moreover, there is no sector-wide M&E system and current M&E capacities especially at the district-level are wanting.

Issue 2: Lack of a coherent national scaling-up strategy that integrates all stakeholders in a landscape and district-specific approach as part of existing district development planning

- The implementation of the Forestry Act and Regulations with respect to PFM is largely donor/project-driven with the current focus on promoting CBFM and JFM arrangements. The legal framework for implementing JFM is still questionable, though, which resulted in a recent study on cost-benefit sharing to conclude that priority should be given to scaling-up CBFM because it is the easier and less expensive arrangement. As a result of the lack of a national scaling-up strategy, such recommendations and other similar lessons learned are not being taken into account in current planning and implementation of the NFP. A related consideration is that projects continue promoting pet plans and preferred PFM arrangements although a systematic and holistic strengthening of capacities at district-levels, especially in integrated land-use planning, project and financial management, resource valuation, and surveillance, remains unattended. A sector-wide capacity building and human resource development plan is also missing.
- Decentralization has provided the PO-RALG with an important linkage between central and local governments, but capacities and resources to carry out this important function seem to be inadequate. There is, moreover, a need for clarifying communications and working modalities between the PO-RALG and both levels of government.
- The responsibility for law enforcement and surveillance of forest product harvesting, valuation and taxation is left too much to individuals and institutions that lack capacities and often have conflicts of interest. Empowerment of local communities to manage forests has also not been advanced, exposing them to corruption and illegal exploitation. There is an urgent need for clarifying conflicts in the cost-benefit sharing that is occurring at different levels and for disseminating more widely at local levels what benefits and revenues are due by law to communities. This should be the function of district extension services, but they only have rudimentary capacities and resources for involving themselves with NRM issues.

Issue 3: Lack of significant private sector investments especially in forest industries

- A forum for supporting a public and private sector dialogue is still not functioning, which explains why the private sector was largely ignored in formulating the current forest policy. Interested private investors are still considered by the public sector to be more of a nuisance than a strategic partner in developing the sector. Accordingly, private investors continue to experience considerable red tape and incur very high transaction costs before ventures materialize, if they do so at all! There is a lack of a demand-driven, independent quality service provider to the sector, with FBD current capacities being completely inadequate to meet even the timely provision of routine services such as the issuing of licenses or permits. There is probably a need for creating separate service delivery to small- and larger-scale forest industries and businesses. Service delivery to these groups also needs some decentralized representation in forest regions and areas across the country receiving reliable back-up services and communications from FBD/TFS.

- With a growing national economy, there is a need to promote value-adding industries in forest areas, which next to the removal of the above mentioned disincentives would require the provision of special investment incentives and financing facilities. The development of value adding forest industries has great potential for providing a significant, as well as rapid, impact on employment, wealth creation, and revenue collection. It is extremely important to create a forest industry of "critical mass" in order to provide better values for forest products in communities and at the level of the rural families.
- The current forest industry, which is small, fragmented, and poorly organized, makes the facilitation of a policy dialogue, as well as effective lobbying, difficult. There is a lack of consensus within the industry regarding whether to follow a code of conduct or to support a quality assurance system.
- Pricing of forest products and services, as well as the amount of royalties that are collected, must be reviewed to reflect true market values and national priorities associated with poverty reduction and economic development. The current set price for export logs of approximately USD 50/m³ does not reflect true market value as highlighted earlier. In addition, revenue collectors who often draw a monthly salary of 30,000 TZS only, have virtually no other option but to engage in corruption in order to cater for their own livelihood needs.

Issue 4: Lack of human resource and service delivery capacities at all levels

- Coordination and M&E plans and activities do not meet the needs of the sector-wide approach that is currently being implemented. At the moment, there is a leadership gap in the sector because of uncertainties created by the intended restructuring of the FBD into the TFS. The facilitation of change, taking both the necessary restructuring of the FBD and the formation of the TFS into account, is absent. Too much attention seems to be directed to the appointment of the CEO of the TFS and the building of new physical infrastructure for the organization, leaving necessary change management that addresses the development of business skills and competencies in limbo. This problem is exacerbated by the results of other similar restructuring experiences in the region that suggest that effective changes in service delivery would only begin to occur 2-3 years after the formal creation of the TFS. Furthermore, it can be anticipated that most of the current senior staff will be assigned to either of the two institutions, making better service delivery without facilitated change management and the building of competencies among staff more of a long-term vision. There is a need to plan such transition now so that the development of the sector is not further delayed and deforestation can be arrested.
- There is a huge backlog in procurements and bureaucratic delays in the implementation of agreed activities indicated by significant under-spending especially in the TFCMP but also in other line items provided in the sector's budget, showing that current support to capacity building, especially in areas of administration, financial and project management is completely inadequate. MNRT and DP's need to identify priority capacity gaps and address them jointly and in doing so counteracting the ever-deteriorating service delivery in FBD especially during this difficult on-going period of restructuring.
- Training at all levels is inadequate, especially in land use planning, management systems, business and financial management, participatory development, resource inventories, M&E, and data management. There is no sector-wide mid- and longer-term human resource and capacity development plan that involves all stakeholders and allows for mobilization of all possible resources, making current investments short-term and piecemeal.
- A considerable number of experienced government officers will be retiring in the course of the next 3-4 years, which means that there is a danger that significant amounts of corporate knowledge will be lost. This would have significant effects on planning, because this knowledge has often been all that has been available for arriving at current management decisions. There is therefore an urgent need for supporting the establishment of a sector-wide MIS and information and knowledge management system.

5 ACTION (S) ALREADY BEING TAKEN

- The lack of surveillance has been recognized and there are plans to create regional GoT surveillance teams; the feasibility of an independent surveillance system is studied.
- An independent monitoring system has been proposed.
- A consultancy to prepare a proper strategic plan for forest inventories has been proposed.
- On the basis of implementing the SWAp this year, the need for better coordination, planning, and M&E has been identified.
- The appointment of the CEO of the TFS has now been given high priority by the MNRT so that the launching of the TFS is now envisaged to happen in June/July of this year.
- A private sector forum, as well as more private sector involvement, has been proposed as part of the new operational structure for the implementation of the SWAp and the NFP.
- The overdue revision of the Forest Act and Regulations is given high priority in the FBD Work Plan for 2005/6

6 SOLUTIONS

Actions by government

- The problem: the lack of information, capacity, investments, and proper planning and implementation, as well as corruption, are symptomatic of a badly functioning public organization that lacks financial resources.
- Create an enabling environment for the private sector to contribute by implementing appropriate reforms. Remove disincentives and create incentives.
- Create an environment in which the private sector and other forest users have incentives to follow the laws.
- Direct civil servants to implement, as well as follow, reforms.
- Amend the existing Forestry Act, NFP, Act and Rules
- Develop proper planning and monitoring and evaluation systems.
- Establish an appropriate incentive scheme for employees.
- Develop an information database by conducting forest inventories and other priority studies

Role of CSOs

The active participation of CSOs is fundamental to the development of the forestry sector. They are needed both for implementing programs and for conducting monitoring & evaluation activities.

Role of the private sector

- A responsible private sector would be an important partner of the government. Indeed, cooperating with private forest industry and investors would provide one of the most effective means of adding value to unprocessed forest products. The private sector must realize, however, that a "quartile" (???) economy is not working in the forestry sector. Generating returns from the sector will take years, but sustainable utilization of forest resources is the key to sustainable business.
- Private sector operators must also realize that illegal operators are the worst enemy of legal operators. A responsible private sector should therefore support the government in its efforts to address illegal activities in the sector.

Action by DPs

Actions by DP's should support those of the GoT. They should ensure that the following reforms and policies are implemented in a transparent way:

- Assist in improving effective surveillance and law enforcement capabilities.
- Provide clearer directions to civil servants for the full implementation of the Policy/Act and for a pro-active participation of the sector's reform process.
- Increase transparency and guarantee that civil servants and stakeholders are aware of the requirements of legislation.
- Support the facilitation of change management in restructuring TFS and FBD
- Develop an information database by conducting forest inventories and other priority studies
- Develop and implement proper sector-wide planning and M&E systems.
- Support focusing on fundamentals (next milestones) and the timely implementation of agreed plans such as SWAp, the creation of TFS and increasing private sector investments.
- Support the development and implementation of a sector-wide capacity and human resource development plan

Linkages to international actions

The Environment and Development Ministers of the G8 countries, with the European Commissioners responsible for the environment and development, the EU Presidency, and senior officials from the United Nations, the World Bank and the IUCN passing the following resolutions (among others) concerning the global tackling of illegal logging during their last meeting in Derbyshire, UK (March 2005):

- Tackling illegal logging is an important step towards the sustainable management of forests and sustainable development. We recognize the impacts that illegal logging, associated trade and corruption have on environmental degradation, biodiversity loss, and deforestation and hence climate systems. Illegal logging also damages livelihoods in the poorest countries, causes loss of revenues to Governments, distorts markets and trade, and sustains conflicts.
- We agree to increase our support to producer countries in their efforts to tackle illegal logging and associated trade by: combating corruption through enhanced transparency and access to information, particularly on the allocation of forest harvesting rights and revenues; strengthening capacity to enforce forest, wildlife and other relevant laws; engaging civil society and local communities in these actions ...and helping countries meet CITES obligations.

7 RECOMMENDATIONS TO DPG

Awareness on forestry sector linkages to goals and targets of MKUKUTA

Raising awareness among policy makers that neglecting investments and support to developing the forestry sector in favour of sectors such as health, education, water and governance, where overcrowding is already putting serious strains on national absorption capacities, means that the majority of the rural population is denied large benefits for creating sustainable livelihoods, employment, incomes and wealth. These positive impacts on the rural poor can be achieved in the short-term by ensuring the full implementation of the new and progressive forestry policies in the country with its various provisions for joint management of large and untapped forest resources. In particular here, the DPG can play a facilitating role in increasing private sector investments and supporting to value-adding forest industries, which should be given the highest priority.

Linkages to governance and anti-corruption programmes

The unrealised large potential of the forest sector in contributing to growth and creating wealth is first of all a governance issue now. We recommend that the DPG should actively seek to establish direct linkages between the forestry sector and their current 17 investments in the governance sector. Alternatively, special support to a program on better governance in forestry as part of the SWAp should be considered, as this would have the effect to allow current investments in the sector to release their full impact potential on poverty, growth and sustainable environmental management.

Supporting the development and implementation of a sector-wide capacity building and human resource development plan

It is recommended that DPG together with MNRT together scrutinize current human resource bottlenecks in implementing NFP in particular in respect to current underspending in TFCMP and other development investments and the anticipated further significant delays in restructuring FBD and TFS with its repercussions on poor service delivery, lack of private sector investments and underperformance of the sector in realizing its full economic potential. This will also require streamlining the DPG's current investments into capacity building at the district and local government level in view of strengthening overall planning and management capabilities by using a more holistic cross-sector approach.

Raising issues at a high level

Forest resources should be managed to be consistent with the principles of ecological, economic, and social sustainability. No illegal practices or actions related to forest management and conservation harvesting, trade, or export and import of timber should be allowed and the DPG should give high priority in negotiations with GoT that proper action must be taken by authorities at all levels to prevent the occurrence of illegal activities. Appropriate administrative and criminal sanctions should be imposed on physical or legal persons who have violated the rules and regulations on forest conservation or forest management, harvesting, trade, and export or import of timber. It should be made clear that illegal logging and the trade in illegal forest products is the worst enemy in capturing Tanzania's large potential in the global trade in forest products. Creating an enabling environment for a responsible private sector with main emphasis being given to removing all current disincentives for investments are therefore key for allowing the sector's economic take-off.

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