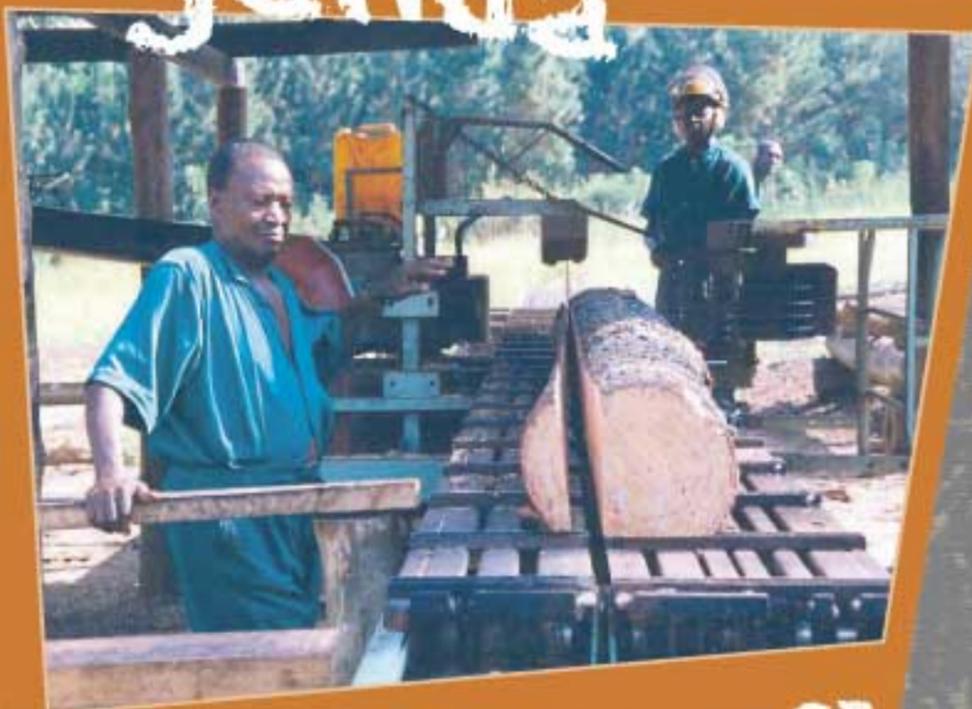


Small and medium forest enterprise

Uganda



A discussion paper

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Discussion paper

Small and Medium Forest Enterprise in Uganda

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Small-medium forestry enterprises for poverty reduction and sustainability

This study is part of a cross-country initiative coordinated by the International Institute for Environment and Development (IIED) with the above title.

Most international attention in forestry has been given to improving the conditions for large-scale or micro-scale forestry, and much less to the 'messy middle' - which produces a high proportion of forest product and involves huge numbers of people. Ways need to be found by which small and medium-scale forestry enterprises can better contribute to reducing poverty and improving the prospects for sustainability.

IIED, with partners in Uganda, South Africa, India, Brazil, Guyana and China have been investigating these issues. Country diagnostics show that the small and medium forestry enterprise "sector" is of major significance for livelihoods in these countries – the net effect of myriad small players represents a substantial part of local economies. Yet, these are largely "invisible" economies, and the SME sector is almost completely ignored in most policy and programme developments. Raising the sector's visibility such that its impacts can be better assessed, and then going on to explore how the positive links to sustainability, livelihoods and poverty-reduction can be enhanced, is a major challenge to which this initiative seeks to rise.

Reports in the series available from IIED on request, and downloadable from www.iied.org/forestry, include initial analyses of small-medium forestry enterprise issues in:

Brazil
China
Guyana
India
South Africa
Uganda

For a wide range of published reports from IIED's previous 3-year initiative on ***Instruments for sustainable private sector forestry*** see www.iied.org/psf/publications_def.html

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Executive Summary

This study identifies and reviews the key issues determining the sustainability, profitability, and contribution to poverty reduction of small-to-medium forestry enterprises (SMFE) in Uganda. It is a joint effort by the International Institute for Environment and Development (IIED) and the Uganda Forest Sector Co-ordination Secretariat (UFSCS). IIED is a policy research institute with a particular focus on forestry on forestry governance and forest private sector issues. UFSCS leads the present forest sector reform process in Uganda.

For the purposes of this study, SMFEs in Uganda have been categorised into five main groups:

- ❑ Small-scale rural producers and users
- ❑ Large-scale commercial producers
- ❑ Primary wood processors
- ❑ Secondary wood processors
- ❑ Forest-based tourism

Within these broad categories there is huge variability in terms of size, organisation, capacity, technology, market access and penetration, turnover and profitability. The following table attempts to summarise the current status of these SMFEs in Uganda, and their impact on forest resources and livelihoods.

SMFE Category	Estimated Number	Impact on Forest Resources	Impacts on livelihoods
Small-scale rural producers and users	500,000	Medium to low impact	Significant due to number of people directly engaged and through hired labour
Large-scale commercial producers	5,000	Fairly limited impact (apart from tobacco curing)	Significant for out-growers. Benefits from labour and employment
Primary wood processors	4,000	High. Leads to depletion of forest resources in reserves and on private lands	High, but primarily through direct employment. Few "poor" owners of these types of enterprises
Secondary wood processors	2,500	Low direct impact, but significant wastage and drivers of demand for primary wood processors	High – both as owners of the enterprises and from employment (casual and permanent)
Forest-based tourism	50	Very limited. May be positive impacts due to increased local benefits	Very localised and often subject to "elite capture". Dependent on unstable and somewhat fragile local tourism market

Key cross-cutting constraints (both internal and external) to the development of SMFEs that might contribute more to livelihoods whilst minimising negative impacts on the environment, include:

- ❑ *Disorganisation of the sector and resulting lack of collective strength.* Fragmentation of the forest sector, stemming from competition and distorted markets, constitutes the greatest obstacle to product development, linking to domestic and export

markets, and saps potential strength of SMFEs lobbying for more favourable policies.

- ❑ *Inability to access finance and lack of appropriate financial products.* Few financial products are available to Ugandans other than bank loans. This is undermining long term domestic investment in SMFEs. There are more opportunities for foreign investors, accessed mainly through in-country schemes. Investor behaviour is driven by confidence in long term stability of Uganda, not just by availability of finance, although this is significant.
- ❑ *Insecurity of tenure of land and trees and of concession on-reserve.* Lack of clarity in land and tree tenure, and the difficulty in registration of land and leases on and off-reserve, is hindering investment and sustainability of SMFEs.
- ❑ *Administrative inefficiency within the Forest Department.* The government forest sector is presently undergoing reform. The divestment of the Forest Department and the establishment of a semi-autonomous National Forestry Authority implicitly recognises the need to operate according to business principles and practice to rebuild investor confidence and improve efficiency and accountability within the sector.
- ❑ *Impact of distorted markets and depressed price of timber due to illegal imports.* Lack of access to pricing information is resulting in lack of awareness of fair local prices for wood and NTFP marginalising some SMFEs. There are opportunities to support this through the development of a National Information System (proposed to be run by the Private Forest Promotion Center of the NFA), and Foodnet, an agricultural pricing service accessed through the mobile telephone network, MTN. Markets for primary wood products remain distorted due to impact of illegal imports of timber. Enforcement of import regulations is required to re-establish equilibrium in the market, so that there is an incentive to plant and manage trees.
- ❑ *Lack of innovation and skills within SMFEs for new product / market development.* Linkages between financial institutions and forestry sector could be further fostered, so that investment requirements are understood and targeted schemes and financial products developed.
- ❑ *Unfair competition due to uniform royalty rates, informal dealings, etc.* Transparency and enforcement of rules must be the highest priority for the new National Forestry Authority to rebuild investor confidence.

It is clear, however, that SMFEs contribute to poverty reduction directly through employment and association, and indirectly through growth and transformation of income generating activities into SMFEs. Whilst, more work is required to highlight links specific to different types and sizes of SMFEs, key emerging opportunities for SMFEs identified in this report include:

- ❑ Institutional reform processes on-going within the forest sector, providing more favourable terms and conditions for private sector investment in forestry
- ❑ Corresponding reforms within other sectors of government designed to support micro-finance institutions, SMEs in general, foreign and local investments, market information and improve transparency in awarding licenses and concessions
- ❑ A range of donor supported initiatives offering subsidised or free services to SMEs – such as the World Bank-supported Private Sector Foundation, USAID supported IDEA and PRIME projects, the SNV Private Sector Programme and the EU supported plantation development fund

- New market opportunities in “cause-related” markets, such as natural products, green-produce, forest-based tourism and carbon offset markets

Based on these key constraints and opportunities and their close inter-relationships, a number of priority strategies have been identified and presented as four cross-cutting themes:

- Developing linkages, associations and networks
- Preparing the ground for investment
- Working with SMFEs to develop markets and improve marketing
- Shaping SMFEs to reduce more poverty

To be sustainable, SMFEs require on-going support through appropriate government policy, sufficient investment and appropriate finance, secure access to land and trees, targeted extension and advice, and access to markets. An outline programme describing how this might be done, is presented at the end of this report.

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The opinions in this paper are those of the authors alone and not necessarily those of IIED, UFSCS or DFID.

Acronyms

AGOA	African Growth Opportunity Act (US)
BAT	British American Tobacco
BUDS	Business Development Scheme (of PSFU)
CBO	Community-based organisation
CEO	Chief Executive Officer
CLA	Communal Land Association
CFR	Central Forest Reserves
DFCU	Development Finance Company Uganda
DFID	Department for International Development (UK)
DFS	District Forestry Services
EADB	East African Development Bank
ECCM	Edinburgh Centre for Carbon Management
EC-NFRMCP	EC-financed Natural Forests Resources Management and Conservation programme
ECOTRUST	The Environmental and Conservation Trust of Uganda
EIA	Environmental impact assessment
FD	Forest Department
FDI	Foreign direct investment
FID	Forestry Inspection Division
FSR	Forest Sector Review (UFSCS 2001)
GoU	Government of Uganda
Ha	Hectares
IDEA	Investment in Development of Export Agriculture (USAID)
IGA	Income-generating activity
IGCP	International Gorilla Conservation Programme
IIED	International Institute for Environment and Development
KSWL	Kinyara Sugar Works Limited
LB	Land Board (District and Sub-County Land Boards)
LSSP	Land Sector Strategic Plan
MAAIF	Ministry of Agriculture, Animal Industry and Fisheries
MEMD	Ministry of Energy and Mineral Development
MFI	Micro-finance institutions
NAADS	National Agricultural Advisory Service
NEAP	National Environmental Action Plan
NEMA	National Environmental Management Authority
NFA	National Forestry Authority
NFP	National Forest Plan (UFSCS, 2002)
NTFP	Non Timber Forest Products
PAMSU	Protected Area Management and Support Unit
PEAP	Poverty Eradication Action Plan
PFD	Private Forest Promotion Center
PFE	Permanent Forest Estate
PFO	Private Forest Owner
PMA	Plan for the Modernisation of Agriculture
PNFO	Private Natural Forest Owner
PRIME	Productive Resource Investment in the Management of the Environment (USAID)
PSFU	Private Sector Foundation Uganda
PSRP	Poverty Reduction Strategy Paper
RHT	Rwenzori Highland Tea Company
SME	Small-to-medium enterprise

SMFE	Small-to-medium forestry enterprise
SNV	Netherlands Development Organisation
SP	Service Provider
UBOS	Uganda Bureau of Statistics
UCB	Uganda Commercial Bank
UCOTA	Uganda Community Tourism Association
UDB	Uganda Development Bank
UFIDA	Uganda Forest Industries Association
UFSCS	Uganda Forest Sector Co-ordination Secretariat
UIA	Uganda Investment Authority
ULA	Uganda Land Alliance
UMA	Uganda Manufacturers Association
UPPAP	Uganda Participatory Poverty Assessment Project
USAID	United States Agency for International Development
UTB	Uganda Travel Bureau
UWA	Uganda Wildlife Authority
VAT	Value-added tax
WB	World Bank

Terms and Concepts

Forestry	Includes all activities related to forests; tree growing, forest produce, forest conservation, forest management and forest utilisation
On-reserve	Forests set aside for forestry activities in perpetuity within the Permanent Forest Estate (PFE), held in trust for the people of Uganda by the Government as national parks and forest reserves
Off-reserve	Forests on private and customary lands
Poverty	Poverty is understood to be rooted in the perpetual marginalisation of the more vulnerable in society, who, for lack of assets or unfavourable institutional, legal, cultural, geographical, or personal conditions, are further marginalised from the mainstream, and feel powerless to influence the very conditions perpetuating their exclusion (Krassowska, 2002). Once defined in terms of income, and subsequently in terms of basic needs, poverty is now recognised as a more complex phenomenon.
Private forests	The 70% of total forest and woodlands in Uganda which make up private and customary land.
SMFE	Small-to-medium forest enterprise. In Uganda SMFEs constitute almost all enterprise working in forestry due to the size relative to other countries in the study. Chapter 2 outlines the specific characteristics and categories.

1 Introduction

1.1 Background

1.1.1 The Longer Term Challenge

This study identifies and reviews the key issues determining the sustainability and contributions to livelihoods of small-to-medium forestry enterprise (SMFE) in Uganda. It forms part of a wider study currently undertaken by the International Institute for Environment and Development (IIED), entitled “Bridging the gap: between better big business and small livelihoods enterprise in forestry”. The aim of this wider study is to convert what is known from different country contexts about better big business into systems, alliances and tools that enable SMFE to contribute to the sustainability of forests and to poverty reduction.¹

1.1.2 Why focus on SMFE?

There is a particular focus on SMFE because international attention in forestry has previously been directed towards improving the conditions for either large-scale or micro-scale forestry. Much less emphasis is being placed on developing the “messy middle” which produces a high proportion of forest product and involves large numbers of people. These have to date generally fallen outside both community forestry initiatives, national planning, and certification initiatives.

The possibilities that SMFEs may have advantages over large enterprises in terms of sustainability of forest goods and services needs greater exploration. Likewise the returns to local livelihoods and poverty reduction from SMFEs are often poorly understood and yet may be significant.

The factors influencing poverty are inter-linked and inter-dependent and include access to natural resources, financial assets, social relationships, and physical infrastructure. Forest degradation and the lack of access to forest resources can be both cause and consequence of poverty-related problems.

SMFEs can provide many opportunities for poverty reduction through, for example, direct employment, securing access to a forest resource through company – community partnerships, or through spin-offs to downstream industries, upstream suppliers, transporters and middlemen.

1.1.3 Why Uganda?

Forest Sector Reform

As part of Uganda’s decentralisation process, Uganda’s forest sector is undergoing extensive reform through notably the divestment of its Forest Department and in its place the creation of a semi-autonomous National Forestry Authority. This process provides an important opportunity for supporting the development of a more favourable policy, legal, institutional, and administrative framework overall for SMFE in Uganda. Initiatives will be able to build upon the most recent Forest Policy (2001) and the newly proposed forest legislation (Forest and Tree Planting Bill 2003) which give renewed

¹ See box on the inside front cover of this report.

scope for the private forest sector and recognise and provide for the fundamental role of forests to eradicating poverty.

Poverty in Uganda

Despite the apparent decline of the poverty rate in Uganda from 56% in 1992 to 35% in 2000 (UBOS, 2001), and despite the concerted efforts to improve the quality of life of the last decade, the Ugandan population is still characterised by the widespread occurrence of absolute poverty. The Forest Sector Review (2001) notes that;

- The poorest 20% have become poorer in the last 20 years
- Regional disparities have become more pronounced, with the poverty rates for the Northern region increasing from 60% (1997) to 66% (2000)
- The poor and the vulnerable are even more dependent on forest and tree resources for their livelihoods as access to land is increasingly restricted²

The Government of Uganda (GoU) is also beginning to take seriously the link between natural resources and poverty. There are three main strategic programmes for poverty eradication; the Poverty Eradication Action Plan (PEAP), the Plan for the Modernisation of Agriculture (PMA), and the Land Sector Strategic Plan (LSSP).³

1.2 Objectives of this report

IIED's partners in developing countries have suggested that the longer-term challenge as outlined above would be best met through the development of enabling conditions to improve the sustainability, profitability and poverty-reduction potential of SMFEs relevant to each country context. To this end, the purpose of this study is to identify and prepare a diagnostic of the key issues for SMFE in Uganda⁴:

- To characterise the SMFE sector in the Uganda context
- To identify key factors which currently support or undermine the profitability and sustainability of Uganda's SMFEs
- To review options for developing both an enabling external framework (institutional, policy, legal, administrative, and financial) and internal framework (capacity, skills, links) in support of SMFE in Uganda
- To determine how, through an improved external and internal context, Ugandan SMFE may best contribute to poverty reduction

² Sources for Forest Sector Review (2001) compiled from: Uganda Poverty Status Report (1999), Makerere Institute of Social Research (2000), State of Environment Report (1998), EPRC (2000)

³ PEAP aims to combat poverty through provision of public services. In terms of forests it recognises that the lack of access to these services has contributed significantly to forest degradation. PMA aims to eradicate poverty by improving natural resource-based livelihoods. LSSP seeks to improve the livelihoods of the poor through a more equal and equitable distribution of land access and ownership, and through greater security of tenure for vulnerable groups (Forest Sector Review (2001)).

⁴ This diagnostic also provides the basis for developing an outline for a two / three-year work plan for supporting SMFE in Uganda. The work plan will act as a "toolbox" for supporting SMFEs. This work plan may be accessed from IIED as a separate document.

1.3 Who is this targeting?

What constitutes an SMFE varies depending on each country context. In Uganda, the “messy middle” encompasses nearly all forestry-related enterprise due to its small scale relative to other countries in the study. There are indeed some large processing enterprises, but these are large only by local standards, as will be discussed in Chapter 2. The most important distinction to make is between forestry for profit and forestry for income generation. For the purposes of this study, the former constitutes enterprise while the latter does not.

This study specifically aims to examine the issues relating to forestry-related activities motivated by profit; enterprises which remain small enough to require a boost through policy and incentives to make things profitable and sustainable. Within “forestry enterprise”, the study focuses not only on the larger-scale industries, which generally in Uganda also constitute SMFE, but those who potentially have a more direct impact on reducing poverty. In Uganda the range for SMFE is very wide, encompassing, for example, an association of roadside furniture makers as well as the leading sawmillers and downstream processors (see section 2.1 for a working definition).

1.4 Review of methodology

1.4.1 Scope

The scoping study has sought to identify key issues affecting Ugandan SMFEs by;

- reviewing existing publications and available grey literature in-country, and
- discussing with forestry professionals and SMFEs about issues concerning them.

The review builds in particular upon issues raised in three pieces of work carried out by the Uganda Forest Sector Co-ordination Secretariat (UFSCS) which are currently informing the reform of the forest sector as a whole. These publications are the *Forest Sector Review* (2001)⁵, the *Review of Forestry Initiatives* (2001), the *National Forest Plan* (2002).

The aim is to provide background information and diagnostics in order to develop ways to build upon and take the recommendations raised in the above publications a step forward. If it is deemed that further work will be relevant and provide added-value in support of Ugandan SMFEs, a work plan will be developed based upon an outline proposed at the end of this report.

1.5 Limitations of the study

There are a number of factors which limit the scope of the study somewhat. Given the available time to address such complicated issues, and given that the forestry sector is currently undergoing a full transition, the issues and opportunities raised may all be relevant and deserve attention but need deepening in order to identify more precise and manageable entry points. This is especially important as the new institutions in forestry come into being over the next year and will require support. To that effect, comments and critique will be received gratefully.

⁵ There were many studies consulted which were carried out as part of the *Forest Sector Review*, notably Jacovelli & Carvalho (1999), and Sepp & Falkenberg (1999).

2 Description of the SMFE Sector

2.1 Definition of SMFE

For the purpose of this report SMEs in the forest sector are enterprises that use wood and/or non-wood forest products and services with a primary goal of making a profit. Small and Medium Scale Forest Enterprises (SMFE) are those, which have:

Number Of Employees:	20-100 people both permanent and temporary /casual basis.
Annual Turn-Over:	Ush 20 million (USD 10,500) to Ush 50 million (USD 26,300)
Financial Investment:	Between Ush 1.9 million (USD 1,000) to Ush 950 million (USD 500,000)

SMEs differ from Income generating activities (IGA) because the primary purpose of the enterprise is to generate a profit for reinvestment - whereas IGAs tend to be more focused on generating income for supporting basic livelihood needs. SMFEs are medium sized enterprises that depend on, or use, forest products as their primary source of raw materials. Technically speaking, SMEs that use forest products in the production of their primary product (such as brick-makers, fish smokers and lime burners) are not SMFEs. However, they have been included in this study due to their dependence and potential impact on forest resources in Uganda.

The majority of rural and urban enterprises in Uganda fall within this category - as illustrated by the fact that 80% of Uganda Manufacturers Association (UMA) members are SMEs while 90% of Private Sector Foundation Uganda (PSFU) members are SMEs.

2.2 The general status of SMFEs in Uganda

The private sector is viewed by many within and outside government as the major vehicle for poverty alleviation (Ministry of Finance, 2000). Theory has it that economic growth leads to the alleviation of poverty through employment opportunities, wealth creation and absorption of the roving labour force (SNV, 2000). The Medium Term Competitive Strategy for Private Sector aims to further foster the development of the private sector.

Forests in Uganda are an important source of employment as well as a source of raw material for wood based industries. The level of employment in forest-based activities in the formal sector has been estimated as at around 100,000 people, while secondary processing (carpentry and joinery) and the distribution and marketing of wood products employs an estimated 250,000 people, (Jacovelli and Carvalho, 1999). The formal sector (sawn timber, poles, charcoal, tourism, and non-timber forest products) is estimated to contribute approximately 1.9% of the GDP, while the informal (non-monetary sector) contributes to 2.75% of the GDP (Sepp and Falkenberg, 1999).

Over the last decade there have been significant increases in numbers of forestry related SMEs, as the demands for wood and forest products has increased. The introduction of mobile sawmills during the early 1990s has also resulted in a proliferation of forest harvesting and processing enterprises within and close to planted and natural forest areas.

2.3 Description of the players

For the purposes of this review, forest-based SMEs have been classified into the following categories, largely based on a prior classification developed in the Review of Forestry Initiatives in Uganda.⁶ These categories are briefly characterised and summarised below with case studies provided in boxes. Please refer to the Annex (A1) for a synthesis of the categorisation.

2.3.1 Small-scale rural producers and users

This category includes the following groups:

- Small scale tree farmers and fuelwood users
- Non-timber forest products producers and processors (includes products such as shea butter, herbal medicines, honeys, gums, resins, oils, spices and foods/fruits.
- Commercial nursery operators
- Brick and lime makers, and fish smokers
- “Common pool” resource managers and pastoralists

Estimated numbers of SMFEs in this category: 500,000

Location and concentrations: Predominantly rural, often located around major urban centres where demand is concentrated

Enterprises within this sector are typically small, family-based (in that they often draw upon family labour), often seasonal or temporary, have limited investment or technology and low levels of returns. In some cases, they may technically be income-generating projects, contributing to sustaining rural livelihoods more than constituting a viable long-term enterprise. Richer farmers, on the other hand, may be more able to take risks, invest capital and labour and put land aside for productive activities such as commercial tree farming. This category engages the highest numbers of persons and almost certainly provides the greatest opportunities for poverty reduction impact. The dispersed, disorganised and highly informal nature of this sector, however, makes it probably the hardest to intervene in, in terms of external support.

⁶ All the following case studies are largely synthesised from the Review of Initiatives, carried out by the UFSCS in 2001.

Entrepreneur profits from urban tree nursery

This nursery operator is working on the outskirts of Mbarara, and has an annual production of 100,000 seedlings. His land is leased from the Catholic Church with water supply and a road front. Initial investment capital was provided from the sale of a motorbike. The nursery sales are around 1,000 seedlings a week. It has 2 staff on a permanent basis and 1 casual. The value of its assets (seedlings) are estimated at Ush 8,000,000 (USD 4,400). After only three years the owner had recovered his investment capital of Ush 300,000.

The trade in medicinal plants and products flourishes. A study carried out in 2001, identified 182 vendors of medicinal plant products in Kampala and Jinja alone, some of whom were involved in exports to Europe and North America (Omeja, 2001). The market structure of medicinal plants includes a wide variety of actors and SMFEs including traditional birth attendants, traditional healers, collectors, processors, wholesalers, traders, retailers and exporters (Auren, 2002). Baldascini (2002) characterises twelve main non-wood forest products currently harvested from natural forest ecosystems, coming from over twenty main species.

2.3.2 Large-scale commercial producers

This category includes:

- Tea and sugar estates (and associated out-growers)
- Tobacco growers (and associated out-growers)
- Private timber producers on reserve land
- Private natural forest owners
- Tree growers for carbon fixation (a new opportunity as yet to be realised in Uganda to any significant degree)

Estimated numbers of SMFEs in this category: 5,000 (including out-growers)

Location and concentrations: Rural. Tea estates: Western Uganda, Tobacco: North western and south western Uganda.

These enterprises have considerably higher levels of investment, organisation and capacity (and in some cases may not technically constitute SMEs but are actually large scale enterprises). Some enterprises of the first two types within this category invest in forestry as a raw material for the production or processing of the primary crop (as compared to primary wood processors whose main focus is on adding value to timber or wood products). This category tends to be larger scale than the previous group, with more permanent staff, a skilled workforce and often linked directly to international markets via multi-national investors (such as tobacco, tea, sugar growers).

High standards of production and self sufficiency on Bushenyi tea estates

The principal stakeholders of the Rwenzori Highland Tea company are the Commonwealth Development Corporation, East African Teas, James Finlay, and the Government of Uganda. Its main operation is tea production, and aims to produce this tea under environmentally-friendly conditions. It has planted 465 ha of eucalyptus for use as woodfuel in processing tea. The eucalyptus planted is of a high quality, and has benefited from privately-contracted extension and advice. It imports high quality seeds from southern Africa and produces its own seedlings. Until recently it has purchased eucalyptus logs produced by local farmers on private woodlots. This market opportunity is now beginning to vanish as the tea estates strive for local self sufficiency

While many of the large tea estates (such as Rwenzori Highland) operate as fully self-contained tea estates – others such as the Kayonza, (Kanungu district) and Iganga (Bushenyi district) Tea Estates offer services to small holder producers. Through the EU supported Small Holder Tea Production Programme, farmers are provided extension and inputs as well as processing facilities at central factories. Prices are raised through direct purchases from the UK-based Traidcraft PLC, acting on behalf of “Tea Direct”, who offer fair trade tea in a number of UK supermarkets. Tobacco, grown extensively in the west Nile region and south western Uganda also operates on an out-grower basis offering incomes for farmers.

For SMFEs engaged in large-scale timber production, this represents a long term investment, with considerable risks and uncertainties, and with minimal returns for a considerable period following the establishment of the venture – putting it largely beyond reach of those with a limited financial base or lack of access to long term credit options. Financial profitability determines whether timber plantations are established or not. The “taungya” system is designed to minimise establishment costs and increase returns, as the land is leased to the producer at a nominal rent. Informal observations from the field would suggest that a number of rural entrepreneurs are taking advantage of the taungya/forest leasing arrangements (such as that being offered in Bushenyi District in Kalinzu forest), but that active beneficiaries tend to be drawn from the middle or upper income brackets⁷. Tobacco producers have had a major impact on natural forests but now are seeking to redress this by establishing woodlots on farmers land as fuel for curing tobacco.

⁷ Personal communication with Tom Blomley, CARE.

Limited replanting on state-owned land by Nile Plywood Limited

The company started in 1994 and is located in Jinja. Principal stakeholders include PFOs, two directors from Nile Ply Ltd., FD, and UWA. Its main operations include plywood and blockboard manufacturing, sawn timber production, flash door production, carpentry and joinery, timber drying, and forest plantation establishment.

Nile Ply is engaged in replanting of areas harvested in FRs. Currently it has replanted 50 ha in Kifugo, Oruha, and Namasiga forests. Replanting of these forests is in accordance with the concession agreement which, at that the time of signing, stipulated that a company has to replant the areas in which it operates. Nile Ply acquired a permit in 2000 for replanting in Kagoma, Ngereka, Lubanyi FR, an area of ca. 1100 ha, out of which only 250 ha have been planted with *pinus ocarpa* and *pinus caribea*. The company raises its own seedlings for planting. However the replanting was implemented more in adherence of the concession agreement than a genuine interest in restocking and management of trees in their of operation.

2.3.4 Primary wood processors

This category includes the following:

- Charcoal producers and traders
- Pitsawyers
- Sawmillers
- Timber traders
- Plywood manufacturers

Estimated numbers of SMFEs in this category: 4,000

Location and concentrations: Charcoal producers and pitsawyers predominantly rural. Others urban or peri-urban

Unlike small-scale rural producers this sector does employ labourers but usually on a casual or temporary basis. Profits generated are usually reinvested back into the business. According to Forest Department and Uganda Wildlife Authority (in 2000) currently there are 92 (mainly mobile) registered sawmillers in plantations and 3 in natural forests, while 117 registered pitsawyers have been allocated concession in natural forests in organised associations. It is estimated that this only represents a small percentage of the real number of enterprises as many operate illegally or semi-legally. Many pitsawyers are organised locally, while sawmillers belong to national associations such as the Uganda Forest Industries Association (UFIDA). Apart from larger scale enterprises, the quality of technologies in this sector are often poor and levels of efficiencies are typically low. Charcoal burning takes place on site, often as a spin off designed to defray the costs of land clearance for agriculture and with few incentives to invest in efficient technologies. Pitsawying usually takes place deep in the forest, and only plank-sized timber beams are extracted, leaving much of the off-cuts behind. Timber traders are closely linked to sawmillers and pitsawyers. They tend to control commodity chains from harvesting to processing, marketing and sales.

Uganda Forest Industries Ltd, Mbarara

Objectives of company: Sawmilling and tree planting (both replanting and afforestation) in Bugamba FR. The company is owned by Henrik Hellenius, a Swedish national. Total investments: Around USD 300,000. Annual recurrent costs: USD 100,000. Source of funding is from foreign private sector investment (bank loan and own capital). Number of employees are 10 permanent skilled staff and 35 unskilled permanent and casual staff. Licensed to an allowable annual cut of 7,000 m³ of roundwood timber, but facing liquidity problems since the ministerial ban restricting timber harvesting

2.3.5 Secondary wood processors

This category includes the following:

- Industrial processors (paper, matches etc)
- Carpenters
- Joiners
- Artisans (woodcarving and drum making and other crafts using wood)

Estimated numbers of SMFEs in this category: 2,500

Location and concentrations: Urban centres

This category consists of both industrial operations and traditional trades. In Uganda industrial production of wood-based products for the market is small, relatively unsophisticated and widely diversified. However traditional carpentry and joinery trades, as well as artisan and handcraft trades based on rattan furniture, woodcarving, drum making are flourishing with varying sizes of enterprise. This is classified according to the number of people an enterprise employs. Industrial processing is not very developed and some of the factories either closed down, or never took off in the first place.

High-value, urban furniture markets

Furniture World is situated in the Industrial Area, and was set up in late 2002, due to growing demand for high quality furniture. Its market is principally Kampala furniture traders, such as Double Dutch (the local franchise for IKEA), elite urban Kampala, and institutions such embassies. A partnership of an Asian, an Englishman, and an Swede own the company. Its main activities are carpentry, joinery, and in-house timber drying / handling / storage (to ensure high timber quality) for own use. It also recruits qualified carpenters and provides further training in-house. It employs approximately 15 people in total, of which 7 are permanent (craftsmen and managers). Women are also employed and trained in finishing. Future plans for the business include reducing wood wastage through expanding into new product lines which utilise offcuts and other materials such as metals.

(Source: personal communication with the manager, 10 March 2003)

2.3.6 Forest-based tourism

This category includes the following:

- Community managed campgrounds
- Guides and porters associations (Rwenzori and Mount Elgon)
- Trails, picnic sites, guided walks and specialist viewing (birds, chimpanzees etc)

Estimated numbers of SMFEs in this category: 30

Location and concentrations: Natural forest areas on established tourist circuits

The stakeholders in this particular category include local and international tourists, the service providers and artisans whose work and businesses are based on tourism. Of particular relevance and interest to this study are recent initiatives in Uganda known to variously as community tourism, or eco-tourism or nature-based tourism, in which deliberate attempts are made to ensure that some or all of the revenues from these enterprises return to local community members. The assumption underpinning this approach is that as local people begin to realise tangible benefits from tourism, they will be more inclined to take steps to conserve nature.

Uganda offers some unique opportunities for community tourism, because of its diversity of eco-systems and species, which include the mountain gorillas, large population of accessible chimpanzee and reputable diversity of birds. In 1997 around 220,000 foreign visitors entered the country, earning UWA a total of Ushs 2,533 million from protected areas (PA) (UFSCS 2001). The Forest Department, on the other hand, earned a total of Ushs 27 million from eco-tourism in Budongo and Mabira forest reserves. In 1998 4,050 visitors came to Kibale National Park primarily to view the unique primates and trek chimpanzee.

There are two main service providers in Uganda namely, Uganda Tourist Board (UTB), a government agency promoting and supporting tourism, and Uganda Community Tourism Association (UCOTA), a local NGO which supports and trains its members and local communities / community groups.

UTB is the lead government agency for tourism promotion. Its mandate is to promote, market and popularise Uganda as a tourist destination. It also promotes and sponsors education programmes in the tourism industry. It strongly supports locally- based tourism initiatives, by offering marketing services (via websites, brochures and information at UTB offices). Through support from World Bank Protected Areas Management and Support Unit (PAMSU) limited grants are available in support of local tourism initiatives.

UCOTA provides training to community service providers and assists in quality improvement and marketing of crafts. UCOTA works closely with UTB and other private sector associations such as local travel agents and Uganda Tour Operators Association, to ensure that community tourism develops and become a common practice which could lead to poverty alleviation.

Local communities provide tourism services such as accommodation, food, cultural entertainment, guided tours, transport, small art and craft businesses run either

privately or through CBOs. Eco-tourism and handicraft enterprises run by communities have a potential to alleviate poverty and to help conserve the natural environment. However they must have strong links to mainstream tourism and be managed in an accountable and transparent manner so that the community members benefit.

Other projects or donors that have in the past supported community tourism initiatives are;

- International Gorilla Conservation Programme (IGCP) which supports community campgrounds at Buhoma and Mgahinga national parks in southwest Uganda
- UNDP Small Grants Programme, which supports wetlands tourism around Lake Victoria as well as several community-managed projects in the Busoga region
- WWF/USAID Rwenzori Project, which has supported Rwenzori Guides and Porters Association (Rwenzori Mountain Services)
- EC-financed Natural Forest Resources Management and Conservation Project, which has supported community tourism in Budongo, Mabira, and Mpanga FR

Community members cash-in on primate tourism

Kibale Association for Rural and Environmental Development is involved in tourism based on the use of the Bigodi wetland, which is located adjacent to the Kibale National Park. The association offers bird walks for local people and tourists; they have constructed a tree house for bird watching, a visitor centre, a community hall, a health centre, and campsites.

The association has employed a few of the Kibale NP trained tourist guides and have invested in the construction of a secondary and a dispensary for local community use. Their primary customary base comes from visitors to the national park who come to track chimps, view the abundant primates or watch birds.

2.4 Impacts of SMFEs in Uganda

The following table attempts to summarise the current situation with regard to SMFEs in Uganda, their implications on the forest resource and contributions to alleviation of poverty

SMFE Category	Estimated Number	Impact on Forest Resources	Impacts on livelihoods
Small-scale rural producers and users	500,000	Medium to low impact	Significant due to number of people directly engaged and through hired labour
Large-scale commercial producers	5,000	Fairly limited impact (apart from tobacco curing)	Significant for out-growers. Benefits from labour and employment
Primary wood processors	4,000	High. Leads to depletion of forest resources in reserves and on private lands	High, but primarily through direct employment. Few "poor" owners of these types of enterprises
Secondary wood processors	2,500	Low direct impact, but significant wastage and drivers of demand for primary wood processors	High – both as owners of the enterprises and from employment (casual and permanent)
Forest-based tourism	50	Very limited. May be positive impacts due to increased local benefits	Very localised and often subject to "elite capture". Dependent on unstable and somewhat fragile local tourism market

3 Internal Constraints and Opportunities for SMFEs

3.1 Overview

This section provides an overview of the internal opportunities and constraints facing SMEs in the forestry sector. Internal (as opposed to external) constraints refer largely to problems or challenges that are caused by internal failures or weaknesses, such as capacity, skills, technology or marketing. Each category of internal constraints is described, and where possible illustrated with case studies, and for each constraint, where applicable, corresponding opportunities are added.

3.2 Financial management

3.2.1 Constraints

Key Issues:

- Poor skills in financial management and business planning undermine the effectiveness of many SMFEs

For SMEs in Uganda (within and outside the forest sector), finances and financial management represent one of the greatest constraints to effective operations. For many SMFEs, an inability to undertake effective budgeting, cash-flow projections, preparation of business plans, maintaining solvency and liquidity, to manage accounts and to provide accurate financial records for external investors or tax authorities remains a major problem. Unfortunately, SMFEs are often operated as one of many parallel business ventures and finances tend to flow between individual enterprises, causing problems of cash flow and liquidity within individual SMFEs. Even when SME entrepreneurs are aware of these limitations it is often beyond their means to either equip staff with these skills, or afford to hire them in.

Micro-finance institutions typically provide only short-term loans and for small amounts of capital (commonly not exceeding Ush 2 million), while big financial institutions like banks, deal only with large firms, and have an average lending threshold of USD 100,000 (see section 4.9). SMFEs tend to fall between these two extremes and are consequently rarely served.

3.2.2 Opportunities

Key issues:

- On going reforms within government and the liberalisation of the finance sector provides major opportunities for SMEs
- External support targeted at building the capacity and skills of SMEs provide new opportunities for the development of the forestry SME sector

The government of Uganda, through its Medium Term Competitive Strategy for the Private Sector identifies support to financial services to SMEs as a key area that will

receive public support during the period 2000-2005. Specific opportunities that will be supported include:

- ❑ Business Development Services (BUDS) facility within the Private Sector Foundation of Uganda (PFSU),
- ❑ Enterprise Uganda (funded by UNDP),
- ❑ Uganda Manufacturers Association,
- ❑ SNVs programme of support to “Small, medium and micro-enterprises” (SMMEs) through capacity building of support to Intermediary Support Organisations (ISOs)
- ❑ Uganda Small Scale Industries Association (USSIA) and Uganda Enterprise Network (UEN) who provide courses and training opportunities for SMEs.

3.3 Technology and other inputs

3.3.1 Constraints

Key issues:

- Low investment in technology by forestry SMEs is leading to wastage, inefficiencies and poor quality products
- Poor supplies of high quality tree seeds constrains commercial tree growing

For most wood processors investments in sawmilling equipment is minimal, leading to high levels of wastage. Harvesting is often undertaken by pitsawyers using hand operated technology (or sometimes chainsaws) while milling is largely done close to the forest edge using simple sawmills or mobile milling equipment. Given that a significant quantity of wood harvested from forest areas is undertaken illegally (or under semi-legal arrangements) investments in efficient technology is minimal (due to risks of confiscation).

High levels of wastage are also caused by rigid market standards and slow rates of adaptations. Commonly timber buyers in Kampala do not accept timber less than 14 feet (4.2 metres) in length. Similarly, due to transportation in seven tonne trucks, sizes tend to be standardised. This inevitably leads to increases in waste as well as decreases in efficiency of harvesting and processing operations, which ultimately affects profit levels.

Sellers rarely have any form of grading system for timber and poor storage and drying of timber leads to further wastage and poor quality products. Beyond timber production and milling SMFES, the picture appears to be similar in other sub sectors. Charcoal production tends to be undertaken with minimal investments beyond either family or casual labour.

Availability of quality tree seed remains a problem for many private tree producers. This could be because tree seed tends to be harvested locally with minimal consideration of provenance, or individual mother tree characteristics. This is due to the limited resources and low levels of technology which most SMFES have in the field of seed collection and choice of species.

Need for quality seed

In Mbarara district, many small woodlot producers grow eucalyptus but would also like to diversify into other species like pine or cypress to meet new market demands. Despite expressing their demand to commercial nursery managers and seed suppliers, their needs are not being met.

(Source: UFSCS, 2001)

3.3.2 Opportunities

Tree seed remains in high demand but to date, there has been limited support to the development of private sector or community based seed suppliers. The Uganda Forest Seed Centre is currently exploring with ICRAF support under a Danida three country programme to private sector initiatives within the tree seed sector – which would transform the current Seed Centre from a provider of seed to a facilitator (and regulator) of private sector seed producers, suppliers and traders.

3.4 Technical skills

3.4.1 Constraints

Key Issues:

Skills levels in forestry SMEs tend to be low due to:

- Casual employment nature of many staff
- Limited training opportunities and investments in human capital

Coupled with limited inputs and low quality of technology, the limited skills base of employees or producers leads to further losses and inefficiencies. The fact that many of the people engaged on or workings within SMFEs tend to be casuals with limited levels of education, there are limited incentives to achieve savings or produce efficiencies.

A family business produces furniture for the Kampala market

Elgon-Malaba General Crafts – (Elmaco) is a small artisanal group produces furniture from rattan and timber, which is sold along Nsambya Road, Kampala. This is a family business, which has fluctuating labour requirements. Engaging casuals solve this at peak season and shedding staff during low labour periods. Permanent staffs acquire skills from other staff members' on-the-job basis. No formal or external training has been received

To take the example of pitsawyers – the owners of pitsawyers SMFEs are often not involved in the harvesting operations directly – they typically employ temporary labourers – often drawn from Kigezi area of south western Uganda - to undertake the hard manual labour involved in felling sawing and transporting timber to collection

points outside the forest. Employees, like other casual or migrant labourers, tend to be poorly organised, have limited training and skills, low bargaining positions to negotiate terms and conditions and have little or no incentive to manage the resource sustainably or increase efficiency.

3.4.2 Opportunities

Key issues:

- The NFP and external support from projects and donors in the coming five years provides opportunities for improve technology and other inputs within the SMFEs

The National Forest Plan aims to improve efficiency and quality within the wood harvesting and processing sector. This will include providing skills to sawmillers and pitsawyers in timber harvesting, processing and storage. In addition to NFP will facilitate the sensitisation of employers and employees on working conditions and health and safety aspects. In the coming five years, USAID plans to provide considerable support to the private sector in terms of increasing productivity and quality (see section 4.11.2).

3.5 Marketing, market information and knowledge

3.5.1 Constraints

Key Issues:

- Knowledge of markets and new market opportunities among forestry SMEs remains very poor and constrains diversification and innovation
- Low product quality reduces opportunities for reaching high value markets locally and abroad

Knowledge among SMFEs of markets and market opportunities remains very limited. This is not an issue specific to SMEs within the forest sector – it cuts across all SMEs in Uganda. However, it significantly undermines the bargaining position of many SMEs, as they have limited options when negotiating prices with buyers. While government agencies and NGOs/donor projects have made some progress in disseminating market prices for agricultural commodities through the printed and radio media, availability of market information in the forest sector remains very limited. This is particularly the case for new and emerging markets such as the growing global trade in carbon offsets, which has the potential to provide real benefits to small investors and tree producers, or medicinal extracts (such as the bark of *Prunus africanum* – traded internationally as a basic ingredient for treatment of thyroid cancer)

Quality of storage, workmanship, finishing, and consistency (in terms of size and dimensions) in many SMFEs remains poor and restricts many from reaching higher value markets both within and outside Uganda. This is caused by a range of factors some of which have already been discussed (skills, technology and finances). However, despite high quality raw materials, and skills among local craftsmen, quality remains low. Market differentiation remains limited, resulting in quality products being only demanded by a limited portion of the Ugandan (and predominantly urban) population who have the cash to pay a little more and are aware of the availability of good quality products.

3.5.2 Opportunities

Key issues:

- New and emerging opportunities for regional and international trade are being promoted by the government of Uganda

The last five years has witnessed an increase in trading associations who have come together for a range of reasons, not least sharing information on marketing as well as external promotion. Uganda Manufacturers Association and Uganda Investment Authority play a key role in promoting Ugandan produce and informing its members about new opportunities such as AGOA and regional trade initiatives within the East African region. The forest sector has made some progress in this area, but much could be learned from other sectors.

The medicinal plants sector in Uganda continues to thrive and recent moves by the Ministry of Health to regulate, register and recognise traditional healers as legitimate health workers provide opportunities for increased and regulated trade in medicinal plants (Auren, 2002). Medicinal plant trade within and beyond eastern Africa has also been facilitated by World Health Organisation (WHO) and the Organisation of African Unity's Scientific Technical and Research Commission (OAU/STRC), (Omeja, 2001)

Emerging opportunities in the sale of carbon offsets – particularly by rural landowners and farmers, presents exciting options in the future. Although the rules and regulations governing this under the Clean Development Mechanism remains somewhat unclear and changing, there are examples from other countries of farmers trading carbon directly on the world market through specialist intermediaries. Opportunities being investigated in Bushenyi district under the proposed CARE/ECOTRUST collaborative carbon offset project through land leases on forest department land offers exciting examples of public-private partnerships.

Finally, the government of Uganda recognises that access to market information is a major constraint to profitability of rural agricultural enterprises. NAADS, PMA and UMA are planning major initiatives to increase local information on prices and markets using innovative technologies such as mobile phones and SMS (now widely available in market centres across Uganda)

3.6 Land availability and tenure (land and trees)

Land tenure issues are discussed in more detail in the external factors.

3.6.1 Constraints

Key Issues:

- High land rental/purchase fee which is beyond reach of most SMFEs

Establishment of SMEs often requires an urban location, with access to power, transport and markets. Land availability (for purchase or rent) remains beyond the reach of many emerging enterprises. Where plots are leased, the agreement rarely remains formalised and consequently long term investments in fixed assets remains a risky enterprise.

3.6.2 Opportunities

Key Issues:

- New opportunities exist under the National Forest Plan, the Forest Bill and the Land Act (1998) for rural entrepreneurs to access tenure (and in some cases land and tree) rights over forest land

Out of the 1.1 million hectares of natural forest, grassland and bush land currently under government management as forest reserves, more than 500,000 ha have been set aside for large-scale plantation. Within this area, there are increasing opportunities for small and medium scale investors to lease land within forest areas under leases of between 10 - 50 years (Jacovelli et, al. 1999).

Women groups hopeful of carbon funds from trees planted on government land

In Bushenyi district, the Bitereki and Kyeitembwe Women Groups have managed to access lease agreements for woodlot establishment within the Central Forest Reserves of Kalinzu and Kasyoha-Kitomi. This has been facilitated with a grant and technical support from ECOTRUST, a Ugandan grant making institution. A pilot carbon offset initiative, supported by UFSCS, ECOTRUST and CARE could increase profitability of woodlot production considerably.

3.7 Licensing and legality

3.7.1 Constraints

Key issues:

- Lack of transparency coupled with unclear and bureaucratic procedures for obtaining licenses undermines SME activities and leads to market distortions
- Unfairness in issuing of concession

Many SMEs operate under a semi-legal or illegal basis. For example, the legal basis for the production and trade in charcoal remains at best unclear, (UFSCS 2001). This opens possibilities for graft while transporting charcoal from its place of production to the place of sale and minimises opportunities for investments in more efficient technologies. For many SMFEs, the issuance of permits led to significant financial outlays and investments, with the expectation of modest financial returns. These hopes currently are in jeopardy. Given the significant numbers of SMFEs operating illegally (or with “informal” licensing arrangements), brokered locally with

Forest Department staff, compliance with regulations is seen by many as an additional “cost”, to be weighed up and assessed just as other investments. Unfortunately few incentives exist that promote compliance with transparent licensing and concessionary arrangements.

Recent positive moves by the government towards awarding pitsawing associations with harvesting licenses (such as in Kalinzu and Budongo Forest Reserves) has

however resulted in increased uncertainty. In some cases (as with Masindi Pitsawyers Association), the Forest Department approved a certain number of licenses but this was less than the number of members. The association officials therefore issued them to individual members. This meant that some did not get the license for that pitsawing for one year, but could be considered for the next year. This was done to deliberately ensure that members compete to improve management practices, but has had some negative effects on internal structure and caused conflict between some members.

3.7.2 Opportunities

Key Issues:

- Moves by government to reduce bureaucracy, increase transparency in the award of licenses and leases can increase the efficiencies within forestry SMEs.
- Decentralisation of forestry services (DFS)

Under the National Forest Plan, districts will retain all revenues collected by a newly established District Forestry Service (DFS) from taxes and registration fees from forestry activities, and transport fees on firewood and charcoal. According to the NFP (2002), the DFS will be set up to take responsibility for mobilising, providing and co-ordinating forestry extension services in the districts. It will also be responsible for developing forestry activities on farms, around forest reserves, and in private customary forests, through support services and incentives for sustainable forest management. To fulfil these obligations the local authorities will be required to recruit district forestry officers who will be further supported with help from, Forestry Inspection Division (FID), who are responsible for formulating policies and guidelines on standards, and for monitoring.

Government increasingly recognises the need for transparent and accountable systems for allocating licenses, concession, tenders and contracts – an area that has seriously retarded investment in much of the natural resource management sector. The Medium Term Competitive Framework for the Private Sector provides for reforms in public procurement processes, both within local governments and at national level, across all ministries and agencies. The considerable “red tape” required opening and legally operating SMFEs as well as getting general approval, permits and licenses within the forest sector discourage investment and increase chances of corruption. This will be reformed with support from the DFID supported Uganda Deregulation programme, which among other things will reduce and simplify the number of business registration forms (currently around 100) to a few relevant and simple ones.

3.8 Organisation and associations

3.8.1 Constraints

Key issues:

- General lack of linkages between the existing associations
- Different forms of association; formal, informal or semi- formal
- Weak organisation and networking among forest SMEs is resulting in lost opportunities in policy advocacy, developing market standards, and obtaining training and support

- The casual nature of many staff working within forestry SMEs reduces opportunities for organisation and lobbying around issues such as safety and terms and conditions
- Competitive nature of the sector
- Lack of knowledge of existence and benefits offered by organisations
- High membership fee
- Fragmentation and the small nature of SMFEs

SMEs across the forestry sector are typically poorly organised and networked. The failure of SMEs to cluster, organise or link up results in limited sharing of market information, limited opportunities for collective marketing and limited opportunities for taking part in on going programmes being offered by government or donor-funded projects or initiatives. Fragmentation of SMEs also leads to reduce chances of forging overall “standards” for production or sale, and as a result general standards remain low and also reduces opportunities for advocacy and lobbying.

High membership fee often constrains the participation of smaller enterprises – resulting in effective representation only going to those who can afford it. For example Private Sector Foundation Uganda (PSFU), whose members are 90% SMEs, provide services through which the members and other private sector entities obtain insight and skills for more effective and profitable operations. This is done through the private-sector capacity-building programme. (PSFU, and pers. comm.2003). None of its member are from forest SMEs, this might be due the high membership fees or the fact that most SMEs in forestry are not aware of its existence and/or its mandate.

At lower levels, however, the picture is far from clear. To take the example of the Masindi Pitsawyers and Wood Users Association, members tend to operate as individuals, therefore competition among member as been a characteristic feature, breeding internal conflicts and further weakening the association.

Discussions with street-side furniture makers in Kampala indicated that fears of competition and mutual distrust constrained the chances of increased organisation. Clearly the awareness and incentives for group action has yet to be understood and internalised by many of the SMEs in the forest sector.

Low educational levels among the staff is a constraint. Many of the employers of SMFEs tend to be uneducated, e.g. casual labourers employed on a quota or temporary nature; opportunities for organisation and representation within these groups therefore become minimal. This could be due to the fact that most of them do not know their rights and can not be bothered to join groups in fear of losing their jobs.

Disputes between pitsawing artisans and licensees

Pitsawing artisans working on behalf of licensees in Masindi district have poor wages, work on casual basis and any disputes are always settled in the favour of the licensee. The most frequent complaint among artisans is over the non-payment of agreed prices by licensees or the definition of poor quality timber for which the licensee does not pay but still collects.

(Source: UFSCS, (2001))

3.8.2 Opportunities

Key issues:

- Opportunities exist for forestry SMEs to learn from other sectors where trading and professional associations have flourished
- Associations can provide platforms for lobbying, promote higher standards, undertake collective marketing and act as a conduit for training and other external support

SMEs are increasingly associating to form trading associations, to lobby for their interests, to undertake collective marketing and to regulate members through internal codes of conduct that promote high quality produce. While these associations appear to have flourished in some sectors, such as those with a strong export base (such as fish producers and exporters, flower producers and horticulture, commercial farmers) or those associated with micro-finance (Uganda Womens Finance Association, Uganda Micro Finance Association, etc), there appears to be little associate change in the forest sector. Apart from Uganda Forest Industries Association (at national level) and occasional local associations such as the Masindi Pitsawyers and Wood Users Association and the Bushenyi Pitsawyers Association) the level of organisation appears limited. Clearly opportunities exist for learning from other sectors and increasing levels of organisation within the forest sector.

At the local level, there is a wealth of organisational structures and forms that are based on family ties, clan, lineage, proximity or ethnic groupings. These groups can be viable forums through which government can begin to engage with rural communities.

Uganda has signed a number of international agreements that influence the forest sector; some of them are already being implemented or are in the process of being implemented. One of the key international obligations and opportunities related to forestry is the agreement with World Trade Organisation to seek fair trade arrangements for forest products.

3.9 Associations

3.9.1 Formal Associations

Formal associations are those that are known or recognised by the government. They are registered as non-governmental association, and usually have external funding.

They have a membership fee, which is paid on a yearly basis. Some of these associations are described below:

Uganda Forest Industries Development Association

Or UFIDA, is a national forum through whom the forest industries can get assistance in dealing with the government, statutory and non-governmental organisations. UFIDA also inform advice, represent and carry out activities that facilitate the success of their businesses. It represents the forestry and forest industries in UMA and is establishing links with Uganda Investment Authority. The linkages with the forest department are tenuous. The relationship with the private forest owners is on supply of cheap sawlogs.

Uganda Manufacturers Association

UMA is an umbrella organisation for manufacturers in Uganda. They are a lobbying body and forest associations are represented through UFIDA. The association charges a annual fee of between Ush 200,000 – 500,000 according to the capacity and size of the company or association. The member's benefits include; advocacy based on sub-group, (e.g. forestry, fisheries...) assessment of the issues. Direct benefits are training, quality assessment schemes, marketing services and information, discounts on exhibits in trade fairs and businesses exchange forums. The forest sub-group has few members and is not as active as those representing fish and flowers interests.

Private Sector Foundation Uganda

PSFU is an umbrella organisation for private enterprises and businesses in Uganda. The main objective of PSFU is promotion and development of the private sector initiatives and capacity. Its focus is on a national scale but at the moment they only operate within the city of Kampala.

Uganda Community Tourism Association

UCOTA is an umbrella organisation for Uganda's community tourism operators and craft production. Strongly supported by donors such as USAID and SNV, it provides training to members on tourism operations, crafts and marketing.

3.9.2 Semi-formal Association

Semi-formal associations are those not well known, but who have registered members linked vertically for purposes of supplying raw materials (upstream) or for further processing, sale and marketing (downstream). Linkage and association tend to be through family, clan, or personal association. Another example of semi-formal association is the Asian connection, where the leading sawmillers are mostly Asians, who all know each other and regularly meet for informal exchange.

4 External Constraints and Opportunities for SMFEs

4.1 Overview

This section provides an overview of the external constraints and opportunities for SMFEs in Uganda. The external context refers to those factors exogenous to SMFEs themselves, but which form the policy, institutional, legal, and administrative environment in which they must operate and make decisions.

The study identifies eight main external factors affecting SMFE profitability and sustainability;

- Nature of the forest sector
- Land
- Environment
- Investment
- Fiscal
- Access to Finance
- Markets
- External Support

In reviewing the above, it should become apparent that, in certain cases, what is felt as a constraint to one SMFE may be seen as an opportunity to another. Furthermore, despite the formality of the policy, legal, and institutional environment, it is often the informal aspects of these which come to bear most heavily on the SMFEs in practice.

4.2 Nature of the forest sector

4.2.1 Key issues

Disorganisation

There are several aspects to this disorganisation. Firstly, there is lack of co-operation and co-ordination amongst the different ministries who are responsible for forests. Forest management, to varying degrees, forms part of the main mandates for the Ministry for Water, Lands and Environment (FD / FID-NFA), Ministry of Tourism, Trade, and Industry (UWA and national parks), and Ministry of Agriculture, Animal Industry and Fisheries (in terms of management of private forests, agroforestry, and extension provision through NAADS).

In second, the lack of clarity between what is formal and informal provides ample scope for confusion and continued illegality throughout the forest sector. The nature of competition for natural resources characterising most de facto open access resources drives this, as does the ongoing perception that these resources are always available for the taking. Power and access to information and forest resources plays a fundamental hand in this amongst SMFEs. This perpetuates the secrecy and fragmentation characterising the forest sector as a whole relative to other sectors which are more organised and co-operative, such as the fish and flower sectors.

4.2.2 Constraints

Few linkages and lack of association

What drives the disorganisation of the sector? What influence does a fragmented sector have on their operating environment? The larger SMFE players are, to a certain extent, in association, either through informal contacts (for example through the Asian connection) or formally through UFIDA (sawmillers) or UMA (industrial wood processors). The bigger players have access to influencing policy, however their ability to influence the *implementation* of policy is limited.⁸

'Informality' versus 'formality' over implementing policy and statute remains a fundamental reason for lack of co-operation in forestry enterprise. Informality refers to the resorting to petty corruption to gain advantage. The impact is that the institutional framework is taken advantage of by those who can, while being unable to provide support and incentives across the sector. Accordingly, competition has become a free-for-all for a limited domestic market, and the resulting fragmentation of the sector has hindered the co-operation required to develop new markets, especially for export. The ability to compete on unequal terms to gain unfair advantage further perpetuates the fragmentation of the sector, as vital interests must continue to be protected at all cost.

The sector remains, as a result, stagnant with few prospects for dynamic development while remaining disorganised. The disorganisation of the management of forestry in Uganda is thus both a cause and consequence of this state.

The Collection of Royalties

Royalty rates are stipulated through Statutory Instrument (2000) No. 16, The Forest Produce Fees and Licenses Order (2000), yet in practice the collection of royalties is far from consistent, often benefiting smaller sawmillers who may resort to petty corruption to gain access to forest concessions, and disproportionately burdening larger sawmillers operating legal concessions (UFIDA correspondence, 2000). It is felt that the illegal operators wield disproportionate power when it comes to the implementation of policy and law on the ground, enabling them to gain unfair advantage over larger legal players. Buchanan Timber Products, formerly one of the larger sawmillers operating in Hoima District, said that they went out of business because they could simply not compete with the smaller sawmillers who escaped paying royalties. Budongo Sawmillers has effectively remained inoperative due to related difficulties, and Kapkwata is presently facing similar fate.

⁸ As correspondence records between UFIDA and Forest Department show, UFIDA has made numerous requests for discussion with FD regarding the revision of royalty rates and plantation replanting schemes (UFIDA correspondence records, 1997-2003).

No policy determining forestry as preferred land use

On private and customary land, which make up 70% of Uganda's total forest and woodlands area, there is no policy specifically determining forestry as the preferred

land use. There is a resulting lack of incentives both for off-reserve forest plantations and for the sustainable use of natural forests.

FD management and administrative procedures

There is a general uncertainty amongst SMFEs regarding FD management and administrative procedures. Much of the uncertainty stems from confused roles and responsibilities within FD. These may be deliberate, as in the case of royalties above, or they may be due to lack of awareness amongst FD field staff.

Control of "Reserved Species"

These problems can be illustrated by the example of the control of individual trees on private and customary land. The FD mandate over trees off-reserve extends to 65 "reserved species" (NFP, 2002). When harvesting "reserved species", you must pay a royalty to FD, even if you are the landowner. No royalties are to be paid for trees not designated "reserved species". Although the mandate is clear, confusion nevertheless arises in the field. FD field staff are often unaware or misinformed as to their mandate, while landowners and forest owners alike often either perceive FD to be in control of all trees, or are unaware of their rights.

The impact of administrative and managerial inefficiency on SMFEs can be substantial and manifests itself in a number of ways. Some of the largest sawmillers are having to either restrict or shut down operations because of the adverse effect on operating costs of royalty rates and informal costs associated with leasing, which, it is felt, are effectively subsidising the FD's inefficient collection rate overall.⁹ Lost royalties also impact both sawmillers and all secondary processing industries downstream. Inefficient collection yields very little return for re-investment in re-stocking and management of forest resources on-reserve. It is likely that there will be a timber shortage in future if this is to continue at the current rate. This would eventually affect production within all SMFEs.

Corruption

There is a widespread view that corruption prevails within forestry in different forms and scales, and can affect the profitability, sustainability, and livelihood returns of SMFEs both positively and negatively.

Corruption is both related to the inefficiencies within FD above, can be driven by the SMFEs and investors themselves who aim to take advantage of the system, and is also prevalent in its own right. There is a distinction to be made, however between petty corruption, which is likely to affect all smaller SMFEs, and the more grand corruption amongst the more powerful players in the form of allegiances and contracts. Petty corruption is able to flourish under the present archaic, centralised system which is

⁹ Personal communication with sawmill owner, February 2003

demoralising to its staff and does not pay them well enough. It is regarded as the lesser of two evils, and may be more easily rectified with higher salaries and an improved work morale.

According to potential investors, corruption is conclusively the dominant disincentive for large-scale investment in forest enterprise, particularly regarding plantation development. Conversely, the incidence of petty corruption has enabled many smaller SMFEs to enter the arena and subsequently sustain a competitive edge. This benefit is not seen as sustainable in the long run however, particularly amongst those SMFEs who are serious about the long-term viability of a forestry-related business.¹⁰

Lack of tree seed

There is a current shortage of proper tree seed in Uganda stemming from the ineffectiveness of the National Seed Bank, despite NORAD's extensive support. There is demand for seed from all over Uganda, both from smallholders and plantations which cannot be fulfilled. Lack of proper tree seed will negatively affect future timber supply, which in the long term is likely to render both primary and secondary processing industries unviable. Rather than becoming a driving force in the economy, the forest sector will become a drain and ultimately Uganda may lose out on a lucrative potential source of income from domestic and foreign markets.

4.2.3 Opportunities

Reform of the forest sector

The institutional framework for forest management both within forest reserves and on private and customary land is presently undergoing extensive reform. Many of the constraints identified in the study are at the centre of the reform process. The FD is to be divested, and in its place the National Forestry Authority (NFA) created, guided by the Forestry Inspection Division (FID), as the forestry sector policy-making body within MWLE. The NFA is to be guided by the revised Forest Policy (2001), which emphasises the important role of private forestry in sustaining Uganda's total forest reserves. The new policy also recognises the wide-ranging role of forestry to poverty reduction, and fully incorporates collaborative forest management and community forestry strategies to support this. In support of the policy, the outdated Forest Act of 1964 has been revised. The Forest and Tree Planting Act (2003) introduces for the first time the ability to register forests, either as a private owner or as a community, for example, as further incentive to owners to plant trees or manage natural forest through security of tenure and extended advisory benefits.

The NFA will be responsible for all Central Forest Reserves, including the restocking of the concessions within these, and will continue to control the "reserved species" on private land.¹¹ Forests on private lands remain in the hands of the owners, be it the

¹⁰ There are cases where individuals obtain a lease concessions, or obtain loans for processing machinery, (which subsequently lie idle or under-utilised) largely for personal gain rather than as a serious investor in a forest enterprise (personal communication with sawmill owner, February 2003).

¹¹ There has been much debate as to who should be responsible for the re-stocking and primary management of forest reserve concessions. FD has, until recently maintained that it should be the responsibility of the concessionaires, while the concessionaires have argued that it is the role of FD to do so. There is inevitably a conflict of interest regarding the interest in the forest resource; foresters tend to manage the trees with a long term view of sustainable harvesting, while sawmillers, for example, tend to perceive the forest resource in terms of total quantity to be harvested to maximise returns. The NFP now confirms that FD will be responsible for restocking so as to maintain some control over the long term management of the resource.

community or an individual, with support from the new District Forestry Services (DFS). Forest owners will be able to demand support services to help them improve the management of their forests.¹²

The reform of the forest sector in general, and of the Forest Department in particular, presents many opportunities. Efforts are currently underway to:

- Stamp out corruption within FD and run the management of forest reserves according to business principles and practice based on a performance contract. Decentralisation of responsibility with improved management systems, a new budget process based on achieving performance targets, and adequate remuneration is expected to raise morale and work ethic within the new NFA.
- Revoke all present concessions, to design new guidelines and regulations regarding their use, and to re-issue new longer term leases (1-2 rotations) with genuine title giving security of tenure for the duration of the lease.
- Re-select and re-train all staff, so as to have a small efficient unit, and subsequently pay sufficient salaries in a timely and reliable manner.
- Contract out quality seed provision, which could be run as a business with minimal capital outlay and guaranteed demand for quality seed.
- Transparently select a respected CEO to run the NFA who, as head of the NFA Board, will lend credence to the sector and present a sound base upon which investor confidence may be re-built.

That these constraints have been identified and targeted for reform is positive, however the extent to which the above can be implemented in practice remains fraught with uncertainty. This is given that implementation is subject to a) parliamentary approval of the Forest Bill, b) the transparent and accountable selection of NFA staff, c) the full adoption of FID's roles and responsibilities within MWLE after June 2003 (when UFSCS ceases to exist). There is a positive attitude that these constraints can be rectified through the current reform. This view is felt both within UFSCS, as the policy-making body guiding the upcoming reform process, and within the EC-FRMCP, who, as forming the heart of the future NFA, is already taking steps towards meeting these objectives.

4.3 Land

Land availability and secure tenure over both land and trees is important to the success and profitability of SMFEs. This relates not only to tree production, for which it is a fundamental constraint, but also to the downstream processing industries whose production is wholly or largely dependent on forest products.

¹² It is proposed that the PFD provides a national level forest extension service (to support NAADS who operate directly with farmer groups at the sub-county level and below). On the one hand, PFD seeks to provide price information on wood products, which could be funded by NAADS. On the other hand, PFD could provide training and extension support to the DFS, which would be funded by the District. These are ideas which are currently being developed as part of the launch of the NFA subject to parliamentary approval of the revised forest legislation (personal communication with Mike Harrison, Forestry Development Advisor to UFSCS, 6 March 2003).

4.3.1 Constraints due to unclear land and tree tenure

Lack of awareness of land rights

New opportunities for securing tenure rights over trees and forest land have emerged in the new Land Act (1998). However, these are largely unknown to both the general populace and to many of the smaller SMFEs who source their supply directly from smallholder producers and harvesters.

Lack of Land Policy

The lack of awareness of rights is largely driven by the lack of a Land Policy to accompany the Land Act (1998), which has fundamentally undermined the implementation of the new law.

Difficulties in registering land and leases

The inability to easily register clear ownership of land continues to be one of the most important disincentives to large-scale plantation forestry and smallholder forestry alike. The process, however clearly stipulated in the Land Act (1998), remains predominately an informal, and hence costly, one. This adversely affects the smaller SMFEs, who may be dependent upon smallholder producers, but is also affects larger SMFEs who also find it progressively “costly”, either to register land or offset their suppliers’ land registration costs.

The impact of this is also felt within forest reserves, where again the formal and informal are in conflict. Concessions on forest reserve land remain held in trust by the FD, although they are “leased” as concessions carrying a title denoting the conditions and time of the lease agreement. It is not the formal which is problematic, argue the concessionaires, but that leases are granted by the FD often informally, with considerable red-tape (and consequently time) necessary to obtain a legally enforceable agreement or lease.

Many SMFEs in tree production, large and small, operate thus under unclear land arrangements. This constitutes a significant disincentive to both current and future SMFE investors. The long-term impact of this for downstream secondary processors is a potentially severe shortage of timber.

4.3.2 Opportunities

New options for registering forests and land

New opportunities for securing land and tree tenure have arisen out of the Land Act (1998), and most recently the Forest and Tree Planting Bill (2003).

According to the Land Act (1998), registration of land should be an inexpensive and relatively straightforward process, providing security of tenure according to customary, leasehold, freehold or mailo tenure arrangements.¹³ Additionally, the Land Act (1998) provides for a new joint tenure arrangement for customary land, the

¹³ The decentralisation of the land registration process from the Lands Survey Department in Entebbe to the Districts and parishes makes this possible.

Communal Land Association (CLA). Under a CLA, any number of people may jointly register customary land (as per the normal registration process) for a declared purpose, which will run as a business association according to an agreed management plan. This option lends itself neatly to either tree planting or the sustainable management of natural forests, and is currently being piloted in Masindi District.¹⁴

The Forests and Tree Planting Bill (2003) provides for registration of *forests* on titled land. The registration qualifies the forest owner for benefits in extension and advisory service.¹⁵

Land Sector Strategic Plan

The LSSP has been set up to address the problems of implementation of the Land Act (1998). Its principal objectives are to work on the ground and within government to ensure a more equitable distribution of land and of ownership, and to disseminate information about land rights and land use. Its progress remains to be seen.

4.4 Environment

There is considerable policy support for the environmental protection in Uganda through a number of channels. The National Environmental Action Plan (NEAP) commenced in 1994 borne of the 1992 Rio Summit. In support of this process, the National Environmental Management Authority (NEMA), funded by the World Bank (WB), has been created as a statutory body, supervised by MWLE, to advise government on policy and legislation relating to the environment. It is also responsible for ensuring that environmental concerns are integrated into national planning and into business practice. It is responsible for the Environmental Statute (1995), which, for example, stipulates for EIA as obligatory for business management plans (UFSCS (FSR), 2001).

4.4.1 Constraints

NEMA slow to adopt poverty focus

Paradoxically, extensive funding from WB has hindered efforts by NEMA to mainstream a poverty-focussed approach to the environment. While other ministries and programmes have had to adopt a poverty approach to secure funding from the Ministry of Finance, Planning and Economic Development (MFPED) in line with the paradigms of the day, NEMA has not had to.

Overlapping mandates

NEMA formally designates FD as responsible for CFRs, while the District, private forest owners, and local environment committees are responsible for management of forests on private lands. There are, however, grey areas where the mandates of NEMA and FD overlap, and where the mandates of the District, and of particularly the local environment committees, are not clearly defined. This has caused difficulty for SMFEs when attempting to operate within the law. For example, what might constitute a “fragile

¹⁴ The NGO BUCODO is currently piloting several CLAs on customary natural forests (personal communication with Madira Davidson, BUCODO, 8 February 2003)

¹⁵ Registration of forests presumes that a forest owner, whether in this case a community or an individual, possesses a land title, formally registered according to the Land Act (1998). Difficulties of registration stemming from the delayed implementation of the Land Act (1998) may exclude many from obtaining these envisaged benefits (Krassowska, 2002).

ecosystem” under the National Environment Statute (1995) may well be owned by a private forest owner, and constitute an area both under jurisdiction of the owner, the District, and designated for government protection. This occurs especially for forests approximate to wetlands or which constitute natural riverine forests.

Overlapping mandates have also exacerbated institutional rivalry, resulting in both duplication of work and in neither agency properly enforcing their mandate. The impact on SMFEs is that neither agency is taken seriously, and that EIA, for example, is easily by-passed.

4.4.2 Opportunities

Statute outlines guidelines for EIA

The National Environment Statute (1995) determines guidelines for EIA, and prescribes management procedures for businesses in general. This is an opportunity for SMFEs to demonstrate their legality and develop sustainably, while those who are not able to comply with EIA will in time drop out of the market. The challenge is for EIA to be enforced duly by all institutions involved directly or indirectly in forest sector enterprise. Implementation of EIA is expected to be promoted heavily by NEMA in future, as fees from EIA are to provide a main source of revenue after WB funding ends.

4.5 Investment

Sufficient investment over the longer term is fundamental for the sustainability and profitability of SMFEs. The Ugandan government recognises this and has been developing what it sees as favourable conditions for attracting foreign direct investment (FDI) and investment in general. Despite this, there is very little realised private investment in forestry enterprise. What little there is, is concentrated in secondary wood processing and furniture making.

Table 1: Private investment projects in the forest sector (1999)

Field of Activity	No. of planned investment projects ¹⁶	Planned Investment (USD)	Actual Investment (USD)
Forestry	4	2,535,000	193,000
Wood Products	52	56,470,160	13,582,475
Furniture	33	20,815,840	2,873,112
Total	89	79,821,000	16,650,587

Source: Falkenberg & Sepp (2000) based on data from UIA

There are many potential and actual investors who recognise that Uganda is endowed with highly favourable conditions for tree growth, and similarly there appears to be substantial scope for profitable investment in wood processing and in the manufacture of wood products (UFSCS (FSR), 2001). This is reflected in the high levels of planned investment in Table 1.

¹⁶ An investment project is a project which has been assessed by UIA (UIA, 1999).

Planned investment, however, is not necessarily realised, as we see in the case for 1999 above. What are the reasons for this? What are the implications of this for the development of SMFEs? What are the constraints and opportunities within the investment policy and overall investment climate for SMFEs?

4.5.1 Constraints

Limited long term confidence in Uganda

Macro-economic and political stability are necessary preconditions to attract domestic and foreign investors in general and to the forest sector in particular. Although Uganda has been considered relatively stable since 1986 and continues to develop, there is still an over-riding lack of confidence amongst foreigners as to whether Uganda provides the long-term stability and institutional structure required for forestry-related enterprise. This view is particularly notable amongst Asians who have dominated the legal sawmilling scene.¹⁷ The substantial capital investment necessary for both production and processing requires long term guarantees for investors and significant recovery of return on the investment. Foreign investors rarely consider Uganda to provide sufficient guarantees or a favourable climate for investment, either through joint ventures or direct foreign investment.

Countries elsewhere have vast (unregulated) forests

There is little to indicate particular interest in Uganda, relative to other developing countries endowed with larger forests and forest resources. There may be greater opportunity elsewhere to fully exploit (legally and illegally) a more vast, perhaps less

regulated forest resource, such as in the Congo or Brazil. Uganda's competitive edge remains to be developed, particularly with its limited road and rail infrastructure undermining logistics for trade and ultimately contributing to costs.

Low timber prices

Due to uncontrolled supply of illegal wood from natural forests, and unregistered imports of wood (mainly Congo but some from the Sudan), prices are maintained at unrealistically low levels in many areas. This does not bode well for a reasonable return on an investment within a short-to-medium term, and acts as a strong disincentive to serious local and foreign investors.

¹⁷ Asians are in control of the Big Four sawmills, Budongo Sawmills, Buchanan Timber Products, Amaply, and Kapkwata. All are currently either operating far below optimal or have closed down due to unsustainable operations and to avoid making further losses (personal communication Nari Patel, 5 February 2003)

The Congo Effect

The extent of illegal timber trade from Congo is not widely known, although its impact is widely felt in terms of a depressed market price and an unusual availability of certain species on the timber market. This is particularly the case for mahogany, which is not widely available in Uganda other than from concessions within Budongo FR. Mahogany is widely available from Congo, and enters Uganda by road and lake. It is usually bound for Kenya where there no supply and a high demand (fetching a high price), although pieces are “dropped” along the way entering the Ugandan timber market in the districts and in Kampala. More work is needed to assess the true extent of the Congo Effect and its real impact on the Ugandan timber market.

Uncertain arrangements for obtaining concessions in CFRs

As discussed in earlier sections, concession agreements are uncertain and difficult to arrange without resorting to the informal. The concessions themselves may not have been well-managed, resulting in low quality timber and low yields per hectare, rendering the investment a risk. Uncertain land tenure renders private off-reserve forestry potentially too risky in the long term.

Planning investment to hold onto land claims

The process of registering land is at times very long and may be costly. Formal submission of investment plans for the land can help to support land claims on land which is either not yet fully under title, or to support owners in defence against encroachment by squatters. Land-use plans supported by investment proposals for, for example, plantation development would demonstrate that the owner has plans for the land. It would thus help to alleviate pressure on him or her to give up all or part of the land. This maybe one reason for why planned investment does not equal realised investment, as depicted in Table 1.

4.5.2 Opportunities

Favourable Investment Code

Statute No. 1 of the Investment Code of 1991 outlines the legal framework for local and foreign investments in Uganda, and provides some favourable conditions for investment. These include;

- The prompt processing by the UIA of investment license applications
- Exemption of import duties and sales tax for investors if importing plant, machinery, or construction materials under certain terms
- Exemption of corporate tax, or withholding tax and tax on dividends for periods of three to four years depending on the size of the investment¹⁸

The SMFEs to benefit principally from the above would be those in secondary processing. Designated areas include furniture making and paper processing.

¹⁸ Synthesised in the Forest Sector Review by UFSCS (2001)

Land rents to be reviewed

There is a plan, with the establishment of the NFA, to review land rents and license terms for concessions, and the necessary administrative procedures for allocating permits, in order to attract more investment in forest reserves (UFSCS (NFP), 2002).

Medium Term Competitive Strategy for the Private Sector

This is a GoU strategy designed to create a favourable environment for increased private sector investment, savings and returns. It aims to remove the constraints that prevent the private sector from being competitive at home and abroad. It is based on premise that poverty alleviation can only take place under high levels of private investment and business activity.

Specifically, the strategy defines the following areas for action over the 6-year period (2000 – 2005);

- Revisions of the law on micro-finance institutions (MFI)
- Withdrawal of government from credit and micro-finance sector and working instead with credible credit institutions
- Measures to reduce corruption
- Improving tendering processes through introduction of clear guidelines, provisions for appeal, openness on information and decision-making rationale
- Deregulation (reducing red tape) of business start-up operations
Supporting service providers to the SME sector (MFPED, 2000)

Protection of foreign investment

In response to the concerns raised notably by Asians regarding prospects for compulsory confiscation of property (and hence capital investment), as subjected to under Amin from 1972, there are a number of measures put in place to guarantee the protection of foreign investment in Uganda. The Multilateral Investment Guarantee Agency (MIGA) protects foreign investments from compulsory possession and provides for terms of compensation. There are also numerous bilateral country agreements, as for example with UK and with India, providing parallel protection on investments. It is, however, questionable as to whether business people have faith in these systems.

4.6 Fiscal

Taxation provides a useful instrument for government to support some sectors or sectoral players while setting others at a disadvantage. It also provides options of which potential investors may chose to take advantage. Although there are no tax options designed specifically to encourage forestry, there are, nevertheless, a number of ways in which Uganda's taxation can make or break SMFEs.

4.6.1 Constraints

Tax policy driven by big players

The lack of organisation within the forestry sector, particularly amongst the smaller secondary wood processors (artisans and carpenters, for example), has hindered effective advocacy for supportive tax policies. The larger SMFEs, particularly those in secondary wood processing, are able, despite few formal horizontal linkages, to influence tax policy to their advantage. Lobbying is reported to have been most effective

through informal (legal) communication, which the larger SMFEs are able to do through personal connection, whereas the smaller ones do not often naturally possess these informal personal links.¹⁹ It could be argued that the biggest tax payers *should* be in a position to influence tax policy, but not that they should have exclusive access to doing so.

The overall impact of unfavourable tax policies to smaller fragmented SMFEs is that they remain under-represented and emerge from the de facto tax burden (which distorts profit margins) to compete in the same market but on vastly unequal terms. For example, there are different VAT tax rates of 17% and 30% for registered and unregistered timber dealers respectively. This is, of course, designed to encourage registration of dealerships (hence legality). Another important fiscal incentive encourages investment over USD 100,000 to qualify for a tax holiday. Additionally, Ugandan tax law provides adequately for deduction of initial expenditures (during the long build-up period) from later net revenues before tax is levied.

Lack of available fiscal schemes to local investors

While there are numerous opportunities available to foreign investors (in their own country) in the form of loans, credit schemes, grants and guarantees to invest overseas, there are few such fiscal incentives available to Ugandan investors investing in Uganda. As such, there are no alternative sources of finance than banks and other lending institutions. This presents few options for Ugandans willing to invest in forestry in their own country over the long term.

Certain tax disadvantages relative to Uganda's neighbours

New evidence has revealed recently that Uganda has a tax disadvantage as compared to its neighbours. This is particularly affecting its tourism and manufacturing sectors. The study, funded by the World Bank and PFSU, estimated the average tax rate on fuel in Uganda to be 174% as compared to fuel tax rates in Kenya of 62% and Tanzania of 26% (Chen & Reinikka, 1999, in MFPED, 2001).

4.6.2 Opportunities

Fiscal schemes available to foreign investors

Foreign investors have greater access to fiscal schemes through their own country mechanisms. The German Development Bank, for example, offers to German investors in Uganda access to soft loans, credit schemes, subsidies, insurance and guarantees. The Norwegian development agency, NORAD, manages loans, guarantees, and grants as part of an incentive package to encourage Norwegian companies to develop corporate partnerships and joint ventures.

Low corporate tax

The corporate tax is 30% lower than most African countries.

¹⁹ The personal connections amongst Asians predominate, from which a formidable lobbying force may be formed naturally to influence policy. The smaller artisans, who are usually Ugandan, tend to form family bonds and vertical linkages upon which they are dependent for (upstream) sourcing and (downstream) markets, but they remain in stiff competition with those in the same business (ie. horizontally) (personal communication with diverse artisans and furniture makers along Ggaba Road)

4.7 Access to finance

Sufficient, reliable, and honest access to finance is fundamental to the smooth start-up and sustainability of all business ventures. There are many problems accessing finance in Uganda, due to its relatively under-developed financial sector, and this particularly affects sustained investment in long term ventures such as forestry.

4.7.1 Constraints

Lack of access to finance

There are a number of reasons for this. There are too few types of lending institutions for business stemming from an under-developed financial sector (UFSCS (FSR), 2001).²⁰ Loans for SMFE operations are thus obtained from banks, which require considerable collateral from SMFEs. Smaller SMFEs who cannot provide collateral simply do not get a loan, and must resort to informal lending with very high interest rates, or to rely on personal connections.

There is a lack of co-operation between banks and forest sector. Further understanding of the specific and long term nature of forestry investment are necessary for banks to understand operating requirements for SMFEs.

While there may be interest in investing in tree planting, for example, there is generally insufficient widespread ability to invest in a sector which yields only long term benefits.

Insufficient financial reporting

There is, according to some, no official reporting required with Bank of Uganda to obtain sources of finance.²¹ There is ample scope, therefore, for informal financing from BoU by the "better connected" SMFEs. Smaller, fragmented and less powerful SMFEs, who cannot access BoU funding, are further squeezed due to lack of available finance.

4.7.2 Opportunities

Supportive financial institutions

There are options for finance provided by some banks for wood processing (while almost none for plantations). Dfcu Bank, the East African Development Bank, and Uganda Development Bank have traditionally provided some loans for processing. Uganda Commercial Bank is coming round. Bank of Uganda is interested to kick-start an export drive, which could provide a platform for developing new markets for larger SMFEs in high-end products, such as up-market furniture. Barclays Bank has also apparently developed a cheap credit arrangement for smaller businesses based on World Bank finance.

Plantation Development Fund

A Sawlog Production Fund is being established to support plantation establishment for sawlog production, overcoming the problem of access to long-term finance for small-to-

²⁰ There are indeed many lending institutions, yet these focus either on micro-finance (principally for income generation) and on large-scale lending. Most SMFEs do not constitute either category, and fall in-between where there is little or no support.

²¹ Personal communication Nari Patel, 5 February 2003

medium size plantation development. The PDF will be operated as an independent entity through a management agent or bank, and will provide a mix of grants and credits targeting small-to-medium private investors and organised groups (UFSCS (NFP), 2002).²² Although not directly having a poverty focus, it may enable investment by smaller investors, which may help to lift them, and their dependents, out of poverty.

Leasing agreements to be clarified

In a modern financial sector there are financial products such as asset leasing and venture capital. In Uganda, no such services exist as of yet, and government regulations do not allow or recognise the modern concept of leasing. An opportunity exists, however under the Financial Institutions Bill (2003) (currently being debated in Parliament), whereby there will be developed a clear operational and legal framework pertaining to the lessee (operator of equipment) and leaser (owner of equipment). The Bill further clarifies taxation and obligations of all parties under such agreements. If leasing were clarified and henceforth available, it would provide opportunities for SMFEs to commence or expand operations.

Expansion of equity finance

Equity facilities provide much-needed finance to small and medium-sized enterprise worldwide. In Uganda, equity financing is limited, largely due to the loss of social capital stemming from years of civil unrest, which has resulted in mistrust between lenders and receivers of credit in general beyond close family ties. Currently EADB, UDB, and DFCU are beginning to offer equity funding on a limited basis. The GoU recognises the need to develop prudent and predictable macro-economic policies that will encourage the growth of equity funding options.

Greater stability in banking sector

Banks are also no longer collapsing, as was the trend in the late 1990s.²³ The financing environment is more stable, although interest rates are on the rise with the present threat of war and the unstable price of oil.

Financing not the greatest obstacle

It is worthy to note that leading sawmillers contacted identify financing as an issue, but maintain that the real problem for the investor is taking the long-term risk. Financing is “always available somewhere”.

4.8 Markets

For efficiency and competition to thrive, prices should accurately reflect actual demand and supply within a given market.

²² It should be noted that the present PDF allocation is to help finance a total of 6,000 ha throughout Uganda. For an investor requiring 50% finance for a plantation of, say, 10,000 ha, the PFD could not help him. If the PDF has been designed up to help attract large-scale investment in plantation development, as the long term future of the NFA and of Uganda’s forests will require, the PDF will have to be scaled up in due course to match truly large-scale investment.

²³ Greenland Bank in 1998 and Uganda Co-operative Bank in 1999 are notable recent examples of bank collapse in Uganda.

4.8.1 Constraints

Distorted market

There is, however, a distorted market in Uganda due mainly to cheap illegal timber (“Congo Effect”) and poor administration and ineffective enforcement of the regulations. Depressed prices promote greater short term exploitation to the detriment of following through with longer term plans for sustainable harvesting, as sawmilling operators try to survive through further flooding the market. Legal operators find it increasingly difficult to compete with low returns while paying royalties, license fees, and taxes.

Ignorance of fair market prices

The market prices vary for timber and non-timber forest products depending both on local supply and demand and on the relative spending power of consumers. Variation of price for the same product provides ample scope for middle-men and other traders to ‘maintain’ the harvesters at a disadvantage, because it is difficult to access the fair price. This makes it even harder for marginalised SMFEs (primary processors and NTFP suppliers) to benefit and ultimately compete in a Uganda-wide marketplace. Transport middlemen and traders add to the distortion of prices, as they are having to either internalise higher fuels costs or charge higher prices in onward sale of wood products in the cities.

Additionally, royalty rates do not take long term price differentials into account. UFIDA continues to raise this issue with FD. Some SMFEs are claiming to be at a disadvantage, as they are located in an area where prices are low while incurring the same royalty rates as where overall returns are higher.

4.8.2 Opportunities

Measures to improve access to wood and NTFP prices

- ‘Foodnet’ commodity pricing

Concerted action is required to redress the equilibrium in the market for particularly timber, especially due to the Congo Effect. There are other opportunities, notably for overcoming the lack of awareness of locally fair prices. The NGO Foodnet, in collaboration with MTN (the leading mobile telephone network in Uganda) runs a service providing commodity prices in different locations around the country.²⁴ There are opportunities for Foodnet to provide listings for wood products and NTFP, given a demand for the service. A potential downside is that access to a mobile telephone and the MTN network is required, which may present difficulties to some smaller and/or remotely placed SMFEs. This constraint presents another good reason for improving horizontal integration amongst smaller competing SMFEs; through association it would be jointly possible to a) afford a mobile phone and send someone to access a signal, so as to b) ultimately stand up against middlemen to demand the locally fair price.

Related to this, are the more traditional forms of media. A radio service is provided pricing for agricultural products, including notably medicinal plants. Local prices are broadcast on local radio stations in local languages around the country.

- Proposed National Information Service

²⁴ The service is funded by NAADS.

It is being proposed that the Private Forest Promotion Center (PFD), which will come into effect with the launch of the NFA, should provide as one of its main functions an information service to disseminate local prices of timber products and NTFP at national level. It has been proposed that NAADS fund this service, although nothing has of yet been agreed. The NIS would provide NAADS with an opportunity to fund an out-of-house targeted pricing service, and would complement its other information programmes, such as Foodnet.

Downstream industries may benefit from lower prices

Locally low prices are an obstacle to a wood product supplier, and might ultimately put him out of business. However, if these locally lower costs are passed on through the middlemen to the secondary processor, these downstream industries would benefit (as would the middleman who is able to have a competitive edge on other transporters and sell his product more easily).

Operation Forest Watch

Efforts are being made to address the problem of illegal timber trade (domestically and of imports from Congo). Operation Forest Watch is being initiated to: reactivate the Timber Tracking Unit with full powers to control illegal trafficking and trade of forest produce and commodities; to work with the Special Revenue Protection Services and other relevant security forces (UWA, Police) to put in place a national control system, including at forest reserve level; and to reward at source those who contribute directly to the impounding of illegal timber with cash. This programme will be funded by the EC-FRMCP.

African Growth Opportunity Act

Although tenuous at this early stage, the AGOA presents an opportunity to exploit for the forest sector. The AGOA is an Act passed by the US Government aimed at improving prospects for industrial growth in 27 African countries, of which Uganda is one. It seeks to support the improvement of quality in industrial products from Africa, and directly link these to US markets free of tariffs and quotas (*New Vision*, 5 March 2003). At present the domestic focus rests squarely with textiles, but many other sectors could qualify. This might provide some incentive for secondary processors to organise themselves to seek help to improve their products, and help kick start the development of the export market. SMFEs must be made aware of these opportunities to take advantage of them.

The degree to which forestry SMEs can sufficiently organise themselves to take advantage of AGOA is questionable. One sawmiller contacted expresses doubt as to whether his processing can deliver the high standards of quality required for supplying the downstream wood products to qualify for AGOA. It is also arguable whether African products, textile or wood, could ever truly compete with US-produced goods. This raises the question as to the comparative advantage of Ugandan production from cheap labour relative to US production benefiting from extensive subsidies.

Developing organised markets

The provisions for registering natural forests stipulated in the Forest Bill and as CLAs in the Land Act (1998) open up new opportunities for the organisation of fuelwood and charcoal markets, for example. There is much to learn from the experiences in, for example, Niger, where villages have been given control over management of natural woodlands in return for a commitment to their sustainable management and

organisation of the *production* of fuelwood for sale (World Bank, 1997). UFSCS is currently facilitating a pilot project in Nakasongola District to group organise charcoal producers for bulk sale to a given market. This aims to contribute to livelihoods through empowerment to seek better prices further afield through a joint marketing effort and enable producers to focus on other IGAs as well.

4.9 Support from external agents

Forestry in Uganda has traditionally benefited from both government support and its donor partners.

4.9.1 Constraints

Focus on FD rather than on private sector forestry

Donor support has tended, over the years, to be distributed through the FD for both its recurrent and capital development expenditures. There are many bilateral support programmes underway, some of the main ones being;

- NORAD has an on-going agreement to give operational support and support for improving the links between conservation and community development.
- The EU continues to finance the improvement of natural forest management within the forest reserves through the EC-NFRCMP.
- DFID is currently funding the reform of the forestry sector as a whole, through the running of the policy-making body, Uganda Forest Sector Co-ordination Secretariat (UFSCS), which is sitting within MWLE.

While these are driving the reform process towards forestry managed along business principles, they may also be inflicting unnecessary duplication and institutional rivalry over certain aspects of the forestry sector. There is also little direct emphasis through donor programmes thus far specifically to the development and organisation of SMFEs themselves.

4.9.2 Opportunities

Support for overall reform of forest sector

The main opportunity through external support is the overall drive to reform the sector. The focus is the divestment of FD and creation of the NFA to be run along business principles and practice, guided by a forward-thinking policy and law. All SMFEs require the stable, accountable, transparent, and reliable institutional and legal framework to operate sustainably, which the NFA is being set up to provide. Therefore, while support is being channelled through MWLE and FD, it is chiefly directed at improving the conditions for private forest enterprise to operate profitably and sustainably. It is recognised that the future of the NFA, and of forests in Uganda, fundamentally depends upon this transition being made.

Direct support to private sector enterprise

The private sector is being supported through a number of programmes. These programmes do not have a particular focus on forestry, however they provide useful

and forward-thinking options for SMFEs, and are potential collaborating partners for future work on SMFEs. Some examples are;

- SNV, the Netherlands Development Organisation, has initiated a **Private Sector Development programme** of work to specifically support the development of the “small, medium, and micro enterprises” (SNV, 2000) through focussing on both the macro and operational framework for SMEs while also focussing at the meso and individual firm levels. The main elements of the SNV programme include business development, establishing market linkages, advocacy for improving access to financial services, skills and technology upgrading, and institutional and organisational development.
- The World Bank has set up the **Private Sector Foundation of Uganda (PSFU)**, an umbrella organisation for private enterprise and business associations in Uganda. It aims to be the national focal point for organisation, promotion, and development of private sector initiative and capacity. It sees itself as a leading partner to government in the development of a globally competitive private sector for Uganda (PFSU, Dec 2002). Within PSFU, the Business Development Scheme (BUDS) facilitates links to training, and provides 50% of training costs to successful SME applicants.²⁵
- USAID runs the **IDEA project** (Investment for Development of Export Agriculture) which focuses on the development of high-end agriculture aiming to double exports by the end of the project in 2004. A study was commissioned last year on the scope for export of *prunus africana*, the bark of which is processed by pharmaceuticals for treatment of testicular cancer. Potential also exists for tree-based crops such as vanilla and coffee, both targets for improving high-end export agriculture. IDEA is also directly linking up with large and smaller-scale farmers (at least 15 acres) to try to encourage co-operation for bulk marketing.²⁶
- **PRIME** (Productive Investment in the Management of the Environment) is a USAID-sponsored initiative with a tentative budget allocation of USD 25m over 5 years. The project, which is scheduled to start in mid 2003, aims to provide economic incentives to the management of natural resources through support to environmentally sound rural enterprises. Potential areas of support within the forest sector include NTFPs, certified timber production, increasing sawmilling quality and efficiency, carbon sequestration, improved charcoal production and eco-tourism. The primary area of focus will be south western and western Uganda, with an emphasis on the biodiverse Albertine Rift.
- There are plans underway to develop the **Plan Vivo Project** to promote and implement the sale of carbon credit to tree farmers large and small. The project will benefit those tree growers who can demonstrate ownership through formal land title or who legally and formally hold concessions within forest reserves. These benefits would not be so extensive as to provide a primary incentive to plant trees (unless a very large-scale plantation is envisaged), but should provide a lucrative by-product from investing in planting trees for other purposes. The project is envisaged to be set up by CARE Uganda in collaboration with ECOTRUST, facilitated by the Edinburgh Centre for Carbon Management (ECCM), who have extensive experience in setting up carbon sale in Latin America, South America, and Asia.

²⁵ Qualifying for the BUDS scheme may be difficult for SMFEs, as they would have to know how to apply, and then provide 50% of training costs with the training institute PSFU has links with.

²⁶ Personal communication Steven Humphreys, USAID IDEA project (4 March 2003)

The fund would be financed through links to companies committed to investing in the environment through buying carbon credits.

5 Linkages and Relationships

5.1 Why are these important?

Linkages and relationships provide the context in which an SMFE operates. An SMFE requires supportive linkages with;

1. Government policy ‘enablers’
2. Land and resource owners and managers
3. Financial ‘enablers’
4. Services
5. Markets
6. Other SMFEs

These linkages and relationships are important because they support (or constrain) SMFEs. Diagram (A2), located in the Annex, suggests a framework for identifying the type of support needed through the linkages and relationships listed above.

The relationship differs, depending on the type, scale and market of an SMFE; for example, small family-owned furniture-maker ELMACO requires different types and scale of finance than larger high-end furniture-maker Furniture World. A follow-up analysis to fully identify support required by each type of SMFE would, using the framework in A2, ask the key question;

What kind of support is required for this particular SMFE ?

Section 5.2 and 5.3 outline the fundamentals of the relationship based on the framework in A2, followed by case studies for ELMACO and Furniture World describing in more detail how these relationships presently differ in terms of support. Diagram (A3), located in the Annex, illustrates these case studies.

5.2 Direct relationships

5.2.1 Government policy enablers – SMFEs

‘Government policy enablers’ support (or constrain) SMFEs *directly* through policy, law, developing guidelines, fostering linkages, and providing public information. They also support (or constrain) SMFEs *indirectly* according to their relationships and linkages with land and resource owners, financial enablers, service providers and markets.

5.2.2 Land and resource owners and managers – SMFEs

Land and resources are either owned privately or ‘held in trust for the people of Uganda’ by UWA and FD / NFA (Land Act, 1998).²⁷ The management of land and

²⁷ Land and resources (including forests) are also ‘not owned by anybody’, ie. subject to ‘open access’ use. For the purpose of this scoping study we will focus mainly on the constraints to SMFEs posed by private ownership and land and resources held in trust / managed by UWA and FD / NFA. It should be noted, however, that customary land and resources are rapidly being depleted by individuals and SMFEs alike (especially given the intense competition for access to forest resources), and deserves focus in future work.

resources is guided through policy and law determined by Government policy enablers. Owners and managers in turn determine SMFE access to land and resources, tenurial arrangements with SMFEs (eg. concession arrangements within NFA-managed central forest reserves), and may provide SMFEs with advice on management. Arrangements for land and resources primarily affect price for the forest product.

5.2.3 Financial institutions – SMFEs

SMFEs require linkages with investors and support from the Uganda Investment Authority (UIA) to help attract investment to the country, to the forest sector, and to their specific operation. Investors include private investors, banks, and micro-finance institutions.

5.2.4 Services – SMFEs

SMFEs require a range of services, ranging from extension advice, training, provision of information (e.g. market prices), support in advocating their interests, and research. In Uganda, service provision has been decentralised and is now to be provided by dedicated ‘service providers’ (SP) who are either contracted directly by the SMFE or through local government. Principal SPs for forestry include NAADS, NGOs such as Environmental Alert (domestic) or CARE (international), formal associations such as UMA and UFIDA. Following the launch of the NFA, the Private Forest Promotion Center (PFD) may be contracted by, for example, NAADS or DFS, to provide services specific to forestry.

5.2.5 Markets – SMFEs

SMFEs are generally constrained by lack of access to (new) markets and by low prices.

The success or failure of an SMFE is largely determined by access to different markets and the profit margin on its products. Expansion through the development and maintenance of linkages to existing markets and to new markets is fundamental to its profitability and sustainability.

5.3 Indirect relationships

5.3.1 Affecting vertical integration amongst SMFEs

Vertical integration portrays the formal, semi-formal, and informal linkages and relationships amongst SMFEs developed through mutual dependence. This supply and demand relationship can be demonstrated through tracing dependencies arising through the “commodity chain” specific to a given SMFE. The commodity chain identifies the route a forest product takes from harvest, through primary processing,

through secondary processing, to sale to the end-consumer. This relationship is demonstrated in brief in A2 (SMFE Cluster) and the cluster analyses in A3.

Relationships and linkages between government policy, financial institutions, service providers, land and resource owners, markets, *and other SMFEs* linked through a commodity chain will affect the operations and decision-making in the SMFE in question.

5.3.2 Affecting horizontal integration amongst SMFEs

Horizontal integration portrays the formal, semi-formal, and informal linkages and relationships between directly competing SMFEs.

Given the competitive environment in which SMFEs operate, horizontal linkages are not so prevalent amongst smaller family-run / owned SMFEs. Amongst larger SMFEs, and particularly amongst those which are Asian-owned / managed, at least an informal co-operation exists for purposes of lobbying government or accessing finance or contracts. The lack of co-operation amongst smaller SMFEs, especially in face of greater co-operation amongst the larger ones, further marginalises them as they are unable to gain from economies of scale, joint training / processing / storage, accessing new sources of finance, or in jointly advocating for a more favourable policy context.

5.4 Case Studies

Furniture World: linkages and relationships

FW is a medium-size secondary processing enterprise producing high-end furniture products. Its workshop and showroom is located in the Industrial Area. It sources its materials directly from FD impounded timber, imports from Congo and Sudan, and indirectly through relationships with timber traders with linkages to pitsawyers and sawmillers in Uganda. FW is therefore *indirectly* affected by policy and laws (and the ineffectiveness of these) affecting its upstream suppliers and transporters. This impacts on price, which FW must either absorb or pass on to the consumer.

Due to its relative size, FW is in a position to take advantage of opportunities not accessible to smaller SMFEs, such as ELMACO. FW is, for example, able to access finance through securing private investment and from banks, and has developed its own relationships with financial institutions. The long term availability of finance, in turn, makes it possible to process in-house quality timber (dried and stored well), access external training for trainers (who train employees), and take advantage of new ideas and expand into new products (invest in new equipment and materials).

As an industrial processor, FW is linked to UMA, which avails it certain benefits. UMA provides a formal, and informal, platform for exchange with other like-minded SMFEs from which to learn, and co-operate on influencing policy to FW's benefit. It also enables FW to learn from the successes or failures of SMEs in other sectors.

FW's market tends to be the middle-and upper end urban consumer, who wants a quality product. These consumers are the well-off public who come into the showroom, and institutions such as embassies and private businesses who place bulk orders. It also supplies to other high-end furniture dealers (IKEA franchise, eg). Bulk orders secure a substantial return to FW and enable it to continue to re-invest.

FW contributes directly to poverty through relatively secure employment of highly-trained and skilled craftsmen. Its employees may not be the poorest of the poor, but may have been lifted out of abject poverty through their relationship with FW over time.

ELMACO Crafts: linkages and relationships

ELMACO is a small-scale secondary processing enterprise producing low-end furniture and crafts made out of rattan and softwood. Its workshop is in a shed located along the Ggaba Road (along with many other similar SMFEs) and it markets its products on-site outside along the road. It sources its materials directly through a relationship it has with Mbale Rattan Cutters (an informal group of harvesters located around Mbale), and its softwood indirectly through Kampala-based timber traders. It is family-owned and run, as are many similar SMFEs.

These relationships are formed through association by family, clan, friendship, which helps to secure mutual favours in terms of price, credit, transport, storage, and at times training. ELMACO survives through its vertical integration with known reliable networks. Given that it is, along with other small SMFEs, very much at the mercy of policy determined by the larger players in this commodity chain and of larger industrial processors (such as FW), these relationships are of primary importance. It has virtually no relationships with rivals or competitors (ie horizontally), due mainly to mistrust and competition. It has no linkages to financial institutions, and relies completely on start-up funds from family, friend or other personal connection. The enterprise is sustained through further injection of 'capital' through personal connection and earnings. Re-investment is minimal, therefore, and focuses on securing raw materials, labour, and basic tools. Training is provided on-site through family or senior

6 How can SMFEs be supported?

6.1 Taking stock

We have identified and reviewed key issues affecting the profitability and sustainability of SMFEs, which are summarised below.

The most important **internal** factors are;

- Lack of capacity to innovate and develop new markets
- Lack of financial management and technical skills
- Insufficient finance to register land ownership / leases or for capital / human investment
- Weak organisation and linkages with other players in forestry sector leading to lack of lobbying force and ability to buy / sell / process in bulk

The most important **external** factors are;

- Fragmentation of the forest sector as a whole leading to lack of co-operation
- Unclear land / tree / concession tenure
- Tax policy driven by Big Players
- Lack of clarity in FD administrative / management procedures and mandate
- Corruption within FD (payment of royalties, allocation of concessions, etc)
- Transport costs too high from high fuel tax and under-developed infrastructure
- Lack of appropriate financial products and available finance for Ugandans
- Little understanding within financial institutions of investment requirements for forestry
- Limited long term confidence in Uganda overall
- Distorted market especially for timber and very low prices due to “Congo Effect”
- Favourable opportunities in forestry elsewhere

The present reform of the institutional, policy, and legal framework is addressing many of these factors. How can such diverse SMFEs take advantage of the many opportunities that the transformed context will present?

6.2 The Way Forward

Given the wide range of factors presently affecting SMFEs in Uganda, what can be said about the future? How can SMFEs in Uganda be supported to be profitable, sustainable, and contribute to reducing poverty?

To be sustainable, SMFEs require on-going support through appropriate government policy, sufficient investment and appropriate finance, secure access to land and trees, targeted extension and advice, and access to markets. A support framework depicting appropriate linkages and support for SMFEs is illustrated in the Annex (A2).

Although the above are rather different in the ways they affect SMFEs, there are nevertheless key themes which emerge, deserving particular focus. These have emerged because they encompass the cross-cutting nature of the issues raised, and provide focus for developing strategies.

The themes are;

- 1. Developing linkages, associations and networks**
- 2. Preparing the ground for investment**
- 3. Working with SMFEs to develop markets and improve marketing**
- 4. Linking SMFEs to poverty reduction**

Each theme is reviewed, where relevant, in context of the questions listed below, and corresponding strategies are outlined, providing a basis for the development of a work plan incorporating areas which can be addressed by IIED and collaborating partners. For ease of reference, a synthesis is provided in the Annex (A5).

What is the diagnosis?

What can be done?

How would this support SMFEs to be profitable, sustainable, and poverty reducing?

What contributions to livelihoods does this make?

What are the implications for policy, if any?

Who might the collaborating partners be?

6.3 Theme 1: Developing linkages, associations and networks

6.3.1 Reviewing the Diagnostic:

Disorganisation the *cause and consequence* of constraints to SMFE viability

Relationships between and among government policy makers, financial institutions, service providers, providers of land and resources, markets and SMFEs are in practice either non-existent, weak or distorted. In short, this is driven by the competitive nature of the forest sector and the accompanying systematic inability to properly enforce policy and statute..

This affects different SMFEs in different ways, however in general, lack of proper association and co-operation in the sector is the fundamental obstacle to its further development, and may be regarded as an *underlying constraint* to most issues identified and reviewed in the study.²⁸ In this regard, addressing the disorganisation of the forest sector should be given priority for further work. There is also not much known about the different requirements of SMFEs, how many they are, and what their impact is on livelihoods. A focus on characterising, quantifying, and developing linkages and relationships provides ample scope for collaborative action research, and could potentially add most value to IIED's comparative country study.

²⁸ This disorganisation is, in turn, further perpetuated by "issues" such as insecure tenure, lack of available finance, lack of access to markets, and so forth, which drives the intense competition pushing some into informal dealings.

6.3.2 **Strategy 1:** Identifying and characterising SMFEs

What can be done?

Given that there is not much known both within and outwith the forestry sector about forest SMEs, the priority should be to fully identify, quantify, and characterise all SMFEs in Uganda.

There is a particular requirement to quantify the smaller urban and rural SMFEs, which are not registered and tend to be family owned. This will require a dedicated effort over some time.

6.3.3 **Strategy 2:** Further Identify and analyse linkages required by SMFEs

What can be done?

There is a need to further identify and analyse the relationships and linkages required to improve co-operation and organisation;

1. amongst SMFEs (especially smaller family-run ones)
2. between SMFEs and government policy makers
3. between SMFEs and service providers
4. between SMFEs and financial institutions
5. between SMFEs and owners and managers of land and resources
6. between SMFEs and markets
7. between government policy makers and service providers, financial institutions, and land owners and managers (including NFA)

These relationships, as outlined in Chapter 5, are important to SMFEs for different reasons depending on the characteristics of the SMFE. The diagram in the Annex (A2) sets out these relationships in a framework which could help, *as a first step* in future work, to identify what *type* of support is required for different SMFEs. When manageable entry points are thus identified, committed facilitation will be required to foster the development of linkages.

6.3.4 **Strategy 3:** Supporting the set-up of an SMFE association

What can be done?

An additional support structure could be fostered through encouraging and supporting the set up of an autonomous SMFE association as an umbrella organisation for *all* forestry-related enterprise. UFIDA provides a useful example, however its focus remains squarely on larger-scale primary processing (sawmilling).

6.3.5 How would this support SMFEs?

A focused inventory and analysis of all SMFEs would raise awareness amongst the 'enablers' (A2) and amongst SMFEs themselves of the gaps. SMFEs would be put in the centre of the map. Better organisation and co-ordination of SMFEs could strengthen SMFEs as a whole for lobbying for favourable policy, legal, and institutional context, and promote co-operation for joint training, processing, ordering, and marketing.

Smaller family-run SMFEs would especially benefit from developing horizontal linkages with each other.

In-depth 'stakeholder analysis' for each type of SMFE, based on the frameworks proposed in A2 and A3, would significantly help to identify more precisely what support is needed from whom, how the type of support required differs depending on the SMFE in question and how support given in one area affects the behaviour and operation of another. Manageable entry points could more easily be identified and appropriately targeted. These analyses would provide an important catalyst to targeting support for different types and sizes of SMFEs. SMFEs will remain disorganised and dis-jointed without a dedicated focus which puts them at the centre of the relationship.

6.3.6 Contributions to livelihoods

Dedicated analysis (S1 and S2) would help to establish the importance of different SMFEs to livelihoods (quantitative and qualitative impact), and to identify the different ways in which SMFEs can contribute to poverty reduction. These analyses are required to more precisely determine the likely contributions to livelihoods expected impact on poverty reduction.

Some aspects are apparent, however. It can be envisaged that the smaller family-run SMFEs would benefit from horizontal co-operation through achieving some economies of scale (in training / ordering / processing / transporting / / packaging / marketing, etc). Their labour force would be empowered through potentially higher income and, and if better co-operation and organisation lead to developing new or expanded markets, there is potential for new employment prospects.

6.3.7 Implications for Policy

This process must be supported through targeted policy, backed by the willingness to address fragmentation in the forestry sector. There are those who benefit from its disorganisation.

6.3.8 Collaborating Partners

There have been some attempts by EC-NFRMCP in the past to organise SMFEs but they have not been successful. They indicate that they are interested to be supportive and part of a new initiative. Existing associations (as service providers), such as UMA, UFIDA, UCOTA, PSFU, and smaller perhaps less formal associations should also be part of a collaborative effort.

Why have previous attempts to organise sawmillers failed?

EC-NFRMCP has offered in the past to support the formal organisation of sawmillers in Uganda. Despite numerous attempts to discuss the opportunities with the sawmillers, it was felt that there was little interest by the main players and small players alike, and was deemed unsuccessful. Sawmill representatives consulted for this study emphatically respond that they have not been, and continue not to be, interested in dealing with a "corrupt FD". This experience sheds light on two key lessons to factor into future attempts; a) that SMFEs themselves may be reluctant to develop formal relationships which could damage existing 'partnerships', and b) that the future NFA must remain accountable and transparent to regain and maintain the trust of SMFEs.

6.4 Theme 2: Preparing the ground for investment

6.4.1 Reviewing the Diagnostic

The most important disincentives to investment are; corruption and administrative inefficiency within FD; unclear land and concession tenure; a disjointed and disorganised forestry sector hindering, among other things, bulk supply and production; and distorted markets and low prices for wood products.

6.4.2 **Strategy 1:** Developing guidelines and regulations for forest management

What can be done?

The importance of guidelines and regulations, which are enforced and abided by, to rebuilding investor confidence in the forest sector can not be overstated. To support SMFEs, guidelines and regulations are required particularly for selecting NFA staff and the NFA Board in a transparent and accountable manner, for allocating and registering concession agreements, for the management of private & customary forests, for the registration of private and customary forests and for CLAs, for determining royalty rates and for the collection and enforcement of royalties and fees for forest produce.

How would this support SMFEs?

In support of the launch of the NFA, guidelines and regulations would help to provide the clarity, reliability, and supportive institutional and legal framework, current and future investors require to be able to commit and plan long term investment in the forestry sector. Without adequate investment and the capacity to re-invest SMFEs are unviable. The transparent selection of the NFA CEO and NFA Board, as would the timely and adequate re-numeration for NFA staff at all levels, would further enable investors to take the forestry sector seriously, and help towards the well-being of forestry in Uganda. This would support the profitability and long term sustainability of all viable SMFEs.

Contributions to livelihoods

The process of registering land (and forests) is one of the greatest disincentives to owning land and leasing a concession. The ownership of land (and a concession) whether individually or as a group, provides, in turn, the greatest incentive to valuing a resource and managing it sustainably. Guidelines which systematise and time-bind the registration process will enable the poorer resource users, and the smaller SMFEs, to take the "risk" to register land and forests (or concessions), a process which, currently, is far too informal and hence costly.

Collaborating partners

In June 2003, the FID of MWLE will take over the responsibility from UFSCS when its mandate ends to design, develop, and publish all guidelines and regulations required for the management of forests on- and off-reserve. FID is therefore an important partner in this process, as is the NFA, PFO and the District Forestry Service. The development of guidelines relating to land and CLA registration require collaboration with the LSSP and Land Commission (MWLE) as well as the District and Sub-County Land Boards.

6.4.3 **Strategy 2:** Clarifying land tenure on- and off-reserve

What can be done?

Further support and advocacy is required for practical implementation of the Land Act (1998). The LSSP is in place to do this, however further pressure is needed for its activities to be felt on the ground. There is also need for specific programmes sensitising on the new options available for forestry through the Forestry and Tree Planting Bill (2003), and how for example CLAs, as stipulated in the Land Act (1998), can be utilised for forestry.

There are plans to re-design concession agreements. This process could be supported through ongoing dialog with present concession holders and associations such as UFIDA. Royalty rates could be re-set to reflect more appropriately the local price of timber.

How would this support SMFEs?

Security of tenure and of concessions would encourage long term initiatives (plantation development, smaller scale tree planting, tourism development). It would also remove the 'informality' of some concession arrangements, which give some lease holders unfair competitive advantage. A reform of royalty rates to reflect local prices would also remove barriers to fair competition. A systematised and time-bound land and forest registration process would enable SMFEs to predict and plan for expenditure outlays and future investment requirements.

Contributions to livelihoods

Systematisation of land registration would be a fundamental aspect of improving rural peoples' livelihoods. As for SMFEs, insecurity of tenure has desire to plant trees, or to desire to sustainably manage natural forests. Privatisation of forests and land (through either individual private ownership or communal private ownership (CLA)) would encourage the long term sustainability of natural and planted forests, which could provide both a stable source of income and subsistence resources for the poorest and less poor alike.

Implications for policy

LSSP must be operative and funding must be targeted within LSSP for programmes for dissemination of land rights, Uganda-wide.

Collaborating Partners

The Uganda Land Alliance (ULA) is a group of lawyers and other professionals advocating for land reform on the basis of the implementation of the Land Act (1998) through the development of a Land Policy. Collaboration on research could be positive through ULA and the Centre for Basic Research, if it was felt this was needed. ECOTRUST, a Ugandan NGO presently funded by USAID, may be able to co-ordinate this process.

6.4.4 **Strategy 3:** Fostering better organisation of the sector

What can be done?

This addressed in “Theme 1”. It is noted here to emphasise the importance of co-operation and organisation of the forestry sector as a fundamental platform for attracting serious investment which is committed to forestry in the long term.

How would this support SMFEs?

In terms of preparing the ground for investment, better organisation of the sector would enable more reliable quality supply of raw materials for downstream production, and enable co-operation for export in bulk quantities as required by importers in the EU or US, for example. Bulk orders, either from downstream processors or for export, will reduce operating costs for shipping, transport, and labour, as these will be planned and benefit from some economies of scale.

Formal and tight organisation of the sector could benefit the serious forestry enterprise, and work to discourage illegal or semi-legal exploitative forestry enterprise who would be less able to take advantage of a fragmented sector.

Contributions to livelihoods

This supports the empowerment of individual small (ad hoc) producers (of charcoal and fuelwood producers for example) through promoting access and development of new organised markets. Organisation potentially fosters greater security of employment, higher income and could further the development of employees' skills base and capacities.

Implications for policy

This is addressed in under Theme 1. It should be re-iterated, however, that support will be required to institutionalise the SMFE sector.

6.4.5 **Strategy 4:** Stabilising the timber and NTFP markets

What can be done?

There are a number of routes to follow to redress equilibrium in the market. Of primary importance is to initiate serious action to curb illegal timber imports from the Congo which are depressing the timber price in Uganda. Efforts would have to target both the supply and demand-side, which would be difficult in practice given the interests at stake.

A second route is to work with SMFEs to develop new products to take advantage of new markets both domestically and abroad, and to improve existing marketing and packaging. This will be discussed in full in “Theme 3: Working with SMFEs to develop markets and improve marketing”, however it is important to mention for its importance to attracting investment.

Third, support must be given to setting up and implementing the proposed National Information System, a pricing service for wood products and NTFP envisaged to be provided by the Private Forest Promotion Center under the NFA. Efforts should also be made

to encourage Foodnet, the agricultural pricing service operated through MTN, to provide prices for wood and NTFPs.

How would this support SMFEs?

This would help to redress the balance in particularly the timber market through greater awareness of prices, price stability, and prices high enough to ensure some profit and ultimate sustainability of an SMFE. This would help to prepare the ground for investment.

Contributions to livelihoods

Greater access to generally accepted local market prices could empower the smaller rural SMFEs and local fuelwood and charcoal processors & agroforesters. Curbing the illegal timber imports (notably mahogany) could adversely affect some livelihoods, however, because it provides an informal income (managing its transit, for example via headloads across the border, storage, marketing handling agents, for example).

Implications for policy

These issues must be addressed head on, not just in the policy and legal framework, but which demonstrate the political will to develop practical mechanisms for enforcement.

Collaborating partners

This is the overall responsibility of NFA, MWLE, MFPED, MTTI, and URA. There is a clear role for Foodnet, and for the PFD NIS (when operative) for disseminating price information.

6.5 Theme 3: Working with SMFEs to develop markets and improve marketing

6.5.1 Reviewing the Diagnostic

The key constraints to product development and improving marketing and packaging are; the fragmentation of the sector which is hindering co-operation; the widespread lack of interest in innovation and finding out about new product options or improving finishing; and the under-development of linkages to domestic and export markets.

6.5.2 Strategy 1: Fostering better organisation of competing SMFEs

What can be done?

This is addressed in “Theme 1”. It is re-iterated here to emphasise the importance of co-operation in the sector to enable access to the export market and to enable bulk imports to reduce the cost burden on SMFEs requiring inputs not available in country. Lessons could be learnt from the fish and flower sectors, which have organised themselves to gain access to the export market.

How would this support SMFEs?

Better organisation would improve access to training programmes (reduces cost), improve the potential for accessing loans or developing new financial products targeting forestry enterprise, enable a joint effort to find out about new products and initiate exchanges with other countries, companies, associations and sectors for exchange.

Collaborating partners

Links to the fish and flower sectors could be provided through UMA and PSFU, with further information potentially provided by the IDEA project.

6.5.3 **Strategy 2:** Supporting innovation for product and market development

What can be done?

Over time, demand for higher-quality wood products (furniture, etc) could be fostered to provide a new domestic market for lower-end artisans and carpenter SMFEs. SMFEs cannot take risks to provide new higher-quality products if they do not see a demand for them. At present, there is limited demand for middle-quality products, due to a combination of factors. It is because a) poverty continues to promote a demand for very cheap goods, b) higher-quality domestically-manufactured products have not yet been available at affordable prices (and so there has been no demand for them), and c) demand is driven through persistence of the norm. As such, there is no incentive for smaller SMFEs to take risks to improve product finishing and design.

Support could be given to hold a “wood product convention” in Uganda for those involved in wood processing and production, to demonstrate quality production and design. Examples from India, Indonesia, China, Denmark, and US, as well as high- and middle-end domestic niche producers such as Furniture World, Naturaleaf, and UCOTA, for example, would be invited to share their experiences and demonstrate product design and marketing.

How would this support SMFEs?

This would support the development of new products and better finishing (new sources of profit) through fostering (it is hoped) a new inquisitiveness amongst smaller SMFEs involved in secondary processing (carpenters, artisans, joiners, paper processors). This would be expected to encourage better finishing and packaging to kick-start a new middle-end market. This would enable an easier jump in the longer term into the export market. Contact at the convention between upstream and downstream producers and processors could help to cement bi-lateral linkages internationally and domestically.

Contribution to livelihoods

The expansion of a domestic ‘middle-end’ market would provide further room for manoeuvre by the smaller family-run urban based secondary processors (carpenters / joiners / crafts people). It would directly positively contribute to livelihoods of those employed in these enterprises through securing income and employment. For those able to make the jump to the middle-end market, employees may benefit from achieving greater skill and capacity in their work.

Implications for policy

These initiatives require policy support in several ways. New product development requires support through the development of appropriate financial services and

products (access to finance and leasing of equipment). The development of a middle-end market requires encouragement by the GoU through sensitisation in initially urban areas to demand “higher quality” and “customer rights”, leading in the longer term to a change of attitude amongst average middle-end target consumers. Support would be needed from MTTI to promote a favourable investment climate; develop targeted incentives for developing trade linkages with SMFEs.

Collaborating partners

The NFA would be encouraged to lead in advocating for favourable policy and to help legitimise and set up a convention in collaboration with UMA. USAID, through the IDEA project, is a potential partner for new product development in the agricultural context (promoting high-end agro-forestry crops such as vanilla). USAID could also provide insight into AGOA and its opportunities for linking manufacturing products to US export markets.

6.5.4 **Strategy 5:** Improving awareness of economic and aesthetic value of forest resources

What can be done?

Current wastage of forest resources is extremely high in many SMFEs involved in harvesting and primary processing of timber. This is driven to a large extent by competition and lack of awareness of the alternative or new wood products which can utilise off-cuts, or lower-quality soft and hardwoods. Uganda’s domestic production of plywood, parquet and other flooring, veneer products, and high-end wood packaging, to name a few, could be further encouraged, especially as these products are mainly imported. Non-consumptive use of forests in the form of tourism is also an area not yet fully appreciated or explored as of yet, and should be acknowledged and encouraged by NFA as a potential future revenue source.

How would this support SMFEs?

Reducing wastage and developing new product lines and markets helps to expand the SMFE sector and alleviate pressure on the few existing markets. Although competition will remain stiff, further co-operation may be more possible when SMFEs recognise that it is potentially more beneficial to take advantage of the new opportunities and gain competitive edge through exchange of ideas, bulk production (division of labour) and marketing.

Contributions to livelihoods

Forest-based tourism presents new opportunities for alternative rural and urban income generation, especially for local communities living adjacent to forests. There are also opportunities for CLAs to form and thrive based on tourism-based non-consumptive utilisation of forests.

6.6 Theme 4: Shaping SMFEs to reduce more poverty

6.6.1 Reviewing the Diagnostic

SMFEs may both contribute to *poverty* and contribute to *poverty reduction*. The challenge is twofold;

- To identify ways in which supporting SMFEs may further contribute to *poverty*

...so as to:

- To identify ways to support SMFEs to contribute to *poverty reduction*.

Identifying how supporting SMFEs may be contributing to poverty

The following gives some examples of how supporting SMFEs may directly or indirectly contribute to poverty;

- Formalising land and concession tenure may be removing access through to the poorest rural communities who largely depend on forest resources for a livelihood. SMFEs involved in plantation development, primary processing, and PNFO would be involved here.
- The curbing of illegal activities (e.g. through organising pitsawyers, banning illegal concessions) removes opportunities for unskilled employment in rural areas. The added income that this provides to the poorest (male youth; and hence young families) is often the only external income if land is sparse and/or during months leading up to harvest.
- Encouraging the formation of associations amongst the smaller SMFEs (carpenters, artisans, pitsawyers, for example) may inadvertently remove any control they had over their own business and further marginalise them from a more “centralised” decision-making if (when) these associations are hi-jacked by the more powerful amongst them.

6.6.2 Whose poverty reduction?

Although it may be said that supporting SMFEs may contribute to poverty in many ways, we must establish whose poverty we are trying to reduce by supporting SMFEs. As was iterated in the Introduction, poverty reduction is not specifically aimed at ‘the poorest of the poor’, but should, for the purpose of this work, primarily target ‘the middle poor’, as those who are directly or indirectly involved with private sector forest enterprise. It is insufficient to rely on the trickle-down argument; and this is not to be the case. Nevertheless it cannot be entirely excluded in identifying potential links between SMFEs and poverty reduction.

Further work is required to specifically identify which types of SMFE could best be further shaped to contribute positively to livelihoods and help reduce poverty.

6.6.3 **Strategy 1:** Improving existing working conditions and access to training

What can be done?

SMFEs can be supported to improve existing working conditions through being able to offer sufficient and reliable income, access to training to improve skills, and comfortable working environment. Links could be fostered with larger SMFEs and companies whose Corporate Responsibility Programmes could benefit from supporting SMFEs. Nile Ply, BAT, the various sugarworks, and Rwenzori Highland Tea Company, for example, could sponsor training programmes in tree planting, plantation development, improving treatment of sawlogs for timber (drying, storage, treatment), and packaging and finishing.

Contributions to livelihoods

This would support SMFEs to contribute to poverty reduction through helping to develop better living standards amongst their employees, a greater ability to educate children, better awareness of rights at work, and the potential empowerment of individuals to acquire better skills and a reliable source of income.

Implications for policy

This requires support from GoU and a better-organised SMFE sector to advocate for access to targeted finance, a favourable investment climate, and access to useful training programmes. It would be especially encouraging if strategies were further developed within the framework of the Poverty Reduction Strategy Paper (PSRP) in support of the many different linkages between SMFE (SMEs) and poverty reduction.

Collaborating partners

Collaborating partners include the private sector, FID of MWLE, PSFU, the NFA, and relevant trade unions to take this forward.

6.6.4 **Strategy 2:** Supporting the proliferation of new viable SMFEs to provide employment

What can be done?

Tourism is often overlooked in the forestry sector in terms of private sector enterprise. Yet it provides an alternative product and a completely new market to traditional forest enterprise, which relies on harvesting and production of forests, in that its viability relies principally on leaving the forests intact, or at worst, sustainably harvested. UWA is already fully exploiting some of these opportunities for revenue generation (e.g. Gorilla Tracking) and FD is tentatively developing eco-tourism sites. There are, however, opportunities for the private sector outside Forest Reserves and National Parks to develop jungle trekking, NTFP trips, adventure tourism, “outward bound” style training, jungle camping, canopy walks, and outdoor management development training, to name but a few. These remain to be fully developed for Uganda.

The development of tourism SMFEs represents a potential area for growth which needs limited capital outlay but requires substantial training and expertise to be viable and safe. It contributes to poverty reduction through providing more

opportunities for employment outside the traditional SMFE sector, while requiring a skills base in its employees which is transferable outside the sector. It can also provide alternative or supplementary income generation for PNFO and concessions if managed appropriately and in accordance with other objectives in forestry.

Implications for policy

This requires, however, new thinking within forestry regarding the potential for profit of non-consumptive forestry enterprise.

Collaborating partners

Collaborating partners should include the private sector (tourism operators, e.g. Adrift), organisations of solid repute in adventure tourism and training with a jungle focus such as Outward Bound UK & Tanzania / Trekforce Expeditions UK / Rakata Indonesia, existing and potential community tourism operators Uganda-wide, the PRIME project when its comes into effect for SMFEs in the southwest of Uganda, UCOTA, UTB, MTTI, MWLE, NFA and UWA.²⁹

6.6.5 **Strategy 3:** Indirectly contributing to poverty reduction through supporting IGAs with potential to become SMFEs

What can be done?

Supporting land tenure

Continued support can be given to LSSP to further develop security of land and tree tenure. This would, in time, enable smallholder and CLA treeplanting to be a more viable income generating activity, which could eventually develop into an SMFE.

This would contribute to poverty reduction by helping to lift smallholders out of poverty, while helping to guarantee future supply of timber for primary and secondary processors who are also employers.

Implications for policy include that the LSSP continues to be 'operative'. It also requires that the District Forestry Services (DFS) is able to provide support to private and customary forest owners, and that NAADS recognises its role in forestry as a service provider or to contract specialised forestry extension through the PFPC of the NFA.

Collaborating partners include FID, LSSP / MWLE, the Uganda Land Alliance, and NAADS in collaboration with NFA.

²⁹ Trekforce Expeditions provides infrastructural development and jungle guides training for tourism to further tourism development and biodiversity conservation in developing countries. Their projects are funded by volunteers who participate on the projects in collaboration with rural communities. A partnership with Trekforce would provide a free service to kick start a tourism enterprise with a forest focus.

Encouraging membership of formal associations

Large associations, such as UMA and PSFU, could be encouraged to lower membership fees to attract smaller SMFEs through a restructuring of the membership rates towards a more progressive charging system.

This could support the development of smaller SMFEs and potential SMFEs through association.

PSFU and UMA, to name the two largest formal associations, must be supportive of attracting smaller SMFEs by recognising benefits they provide to the forestry sector as a whole – presently they might not see this as their mandate.

7 Conclusions

7.1 Demand for further work on SMFEs

Ugandan forestry is in a state of transition, given the extensive reforms underway in the move towards a 'new public management'. Private forest enterprise is at the centre of the new approach, and is also expected to provide the drive behind revenue generation for the NFA. The profitability and sustainability of SMFEs is therefore fundamental to the long-term viability of Uganda's forests.

Given this, there is a need to track the sector in transition in order to determine further how best, based upon the array of opportunities that have been identified in the study, to support SMFEs to be profitable, sustainable, and poverty reducing.

7.2 Key priority areas

There are a number of key priority areas which can be recommended as priority for further work to understand the Ugandan context;

- There is a need to fully quantify and qualify the SMFE landscape in Uganda.
- There is a need to identify and analyse specific linkages and relationships which are required by Ugandan SMFEs.
- There is a need to explore direct and indirect linkages between different SMFEs and their contribution to livelihoods and impact on poverty reduction, in the Ugandan context.
- There is a need to analyse to what extent, in Uganda, pursuing the objectives for SMFEs of profitability, sustainability, and poverty reduction are mutually reinforcing or mutually exclusive.

7.3 Secondary areas

There are numerous issues to be further explored in support of the above primary research areas. These include;

- Assessing the real impacts for Ugandan timber markets of illegal timber imports (The Congo Effect)
- Assessing the extent to which SMFEs are involved in corrupt practices vis a vis forests and what impacts these have on other SMFEs and FD administrative efficiency
- Identifying viable options for new markets for wood and NWFP which could benefit Ugandan SMFEs of all types
- Exploring the potential for forest-based tourism as a non-consumptive use of forests

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Within Uganda's Small and Medium Forest Enterprises (SMFEs) sector there is huge variability in terms of size, organisation, capacity, technology, market access and penetration, turnover and profitability. Yet there are surprising overlaps in the main constraints which they face. The lack of political stability and related investor confidence, the insecurity in land tenure, the inefficiency of government administration, distorted markets and depressed timber prices due to illegal imports and the lack of business skills for entrepreneurial innovation all present major challenges. It is clear, however, that SMFEs can contribute to poverty reduction given the right enabling environment. But to be sustainable, SMFEs require on-going support through appropriate government policy. They need secure access to land and political stability in order to attract sufficient investment. They need targeted extension and advice to help them break into markets. An outline programme describing how this might be done is presented at the end of this report.

This study was commissioned as part of a cross-country initiative coordinated by the International Institute for Environment and Development (IIED) on Small and Medium Forest Enterprise. Most international attention in forestry has been given to improving the conditions for large-scale or micro-scale forestry, and much less to the 'messy middle' – which produces a high proportion of forest product and involves huge numbers of people. The aim of these studies is to raise the visibility of SMFEs and assess ways by which they can better contribute to reducing poverty and improving the prospects for sustainability.

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