AESA

Ministry of Water and Environment

REPUBLIC OF UGANDA

CONSULTANCY SERVICES FOR FEASIBILITY STUDY ON SUSTAINABLE FINANCING MECHANISM/ MODEL FOR PLANTATION FORESTRY (SFMF) IN UGANDA UNDER IFPA-CD PROJECT

MWE / AESA Meeting
18.08.2025

Structure of the presentation

1. Background to the assignment
2. Objective of the assignment
3. Plantation forest sub sector in Uganda
4. Plantation sub sector financing models analyzed
5. Plantation sub sector financing options

Background to the assignment

- The establishment of a well-developed plantation subsector in Uganda is:
  - Essential for meeting local timber demands and facilitating exports but also for providing alternative sources of wood products;
  - Important in reducing pressure on the highly biodiverse and carbon rich natural forests.
- While past investments and initiatives (e.g., SPGS), contributed to increased land under plantation from 32,225 hectares in 2004 to an estimated 314,300 hectares in 2019, this is not enough to sustain the local demand and the growing international timber markets;
- SPGS was a project-based financing mechanism that came to an end in 2021, and was not able to sustain forest plantation financing.

Objective of the assignment

Objective

To carry out a feasibility study with an aim of presenting options and strategies for a sustainable financing mechanism for plantation forestry industry development in Uganda.

Scope of work and tasks

- The scope of work covers desk review of existing research and other available materials;
- Stakeholder interviews and consultations with experts;
- Case study analysis from countries in the region (East Africa), Africa and globally.

Institutions met	No. of institutions	Number of officers met
Ministries, Departments and Agencies	6	17
Private Companies – Sawmilling, tree planters and processing	10	11
Private Companies –Tree growers societies and SACCOs	2	10
Private Companies – Nursery operators	2	10
NGOs	4	6
Financial institutions - banks	4	4
Donors	2	2
Projects	2	2
Total	**32**	**62**

Plantation sub sector in Uganda

Category of players	Land area category
Small-scale	Less than 25 ha
Medium-scale	25–5,000 ha
Large-scale	Greater than 5,000 ha

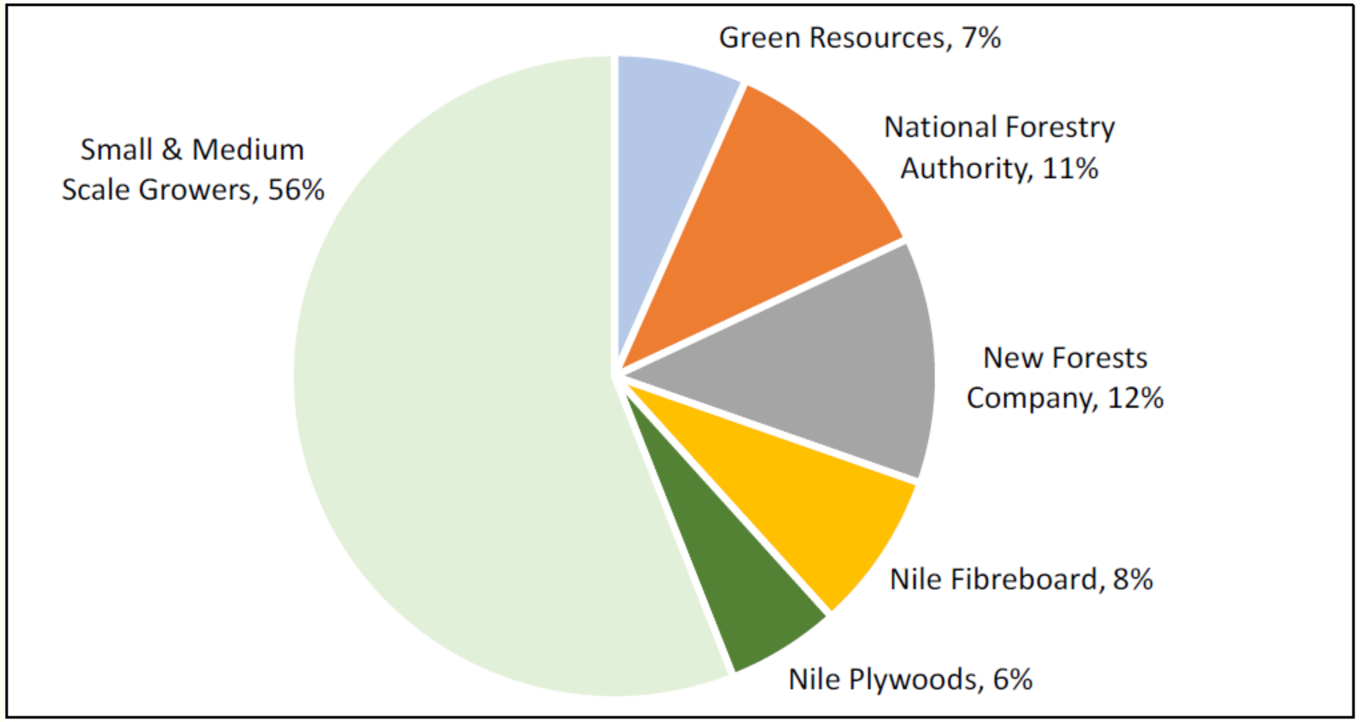


Figure 1: Plantation area by ownership: Source: NFA, SPGS, and forestry companies.

Structure of species mix

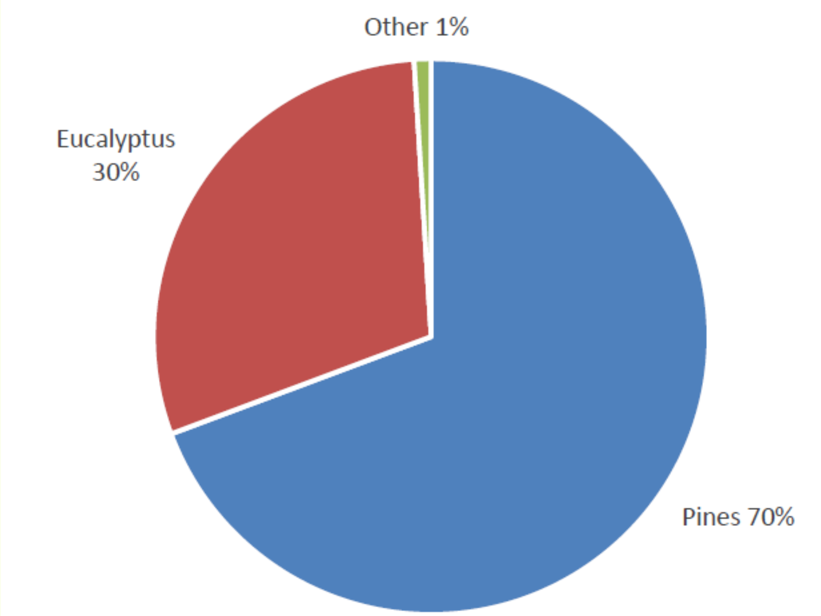
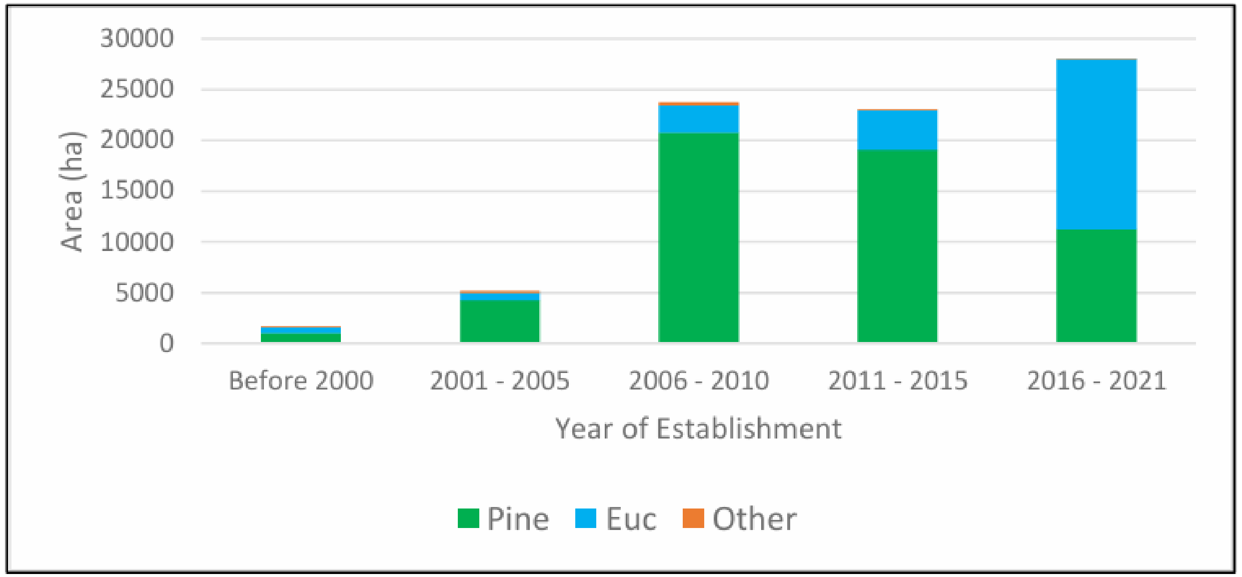


Figure 2: Main species used in establishment of forest plantations in Uganda (2006 to 2015)



Source: SPGS.

Figure 3 shows the proportionality of plantation species established by SPGS

Forest cover trends (1990 – 2023)

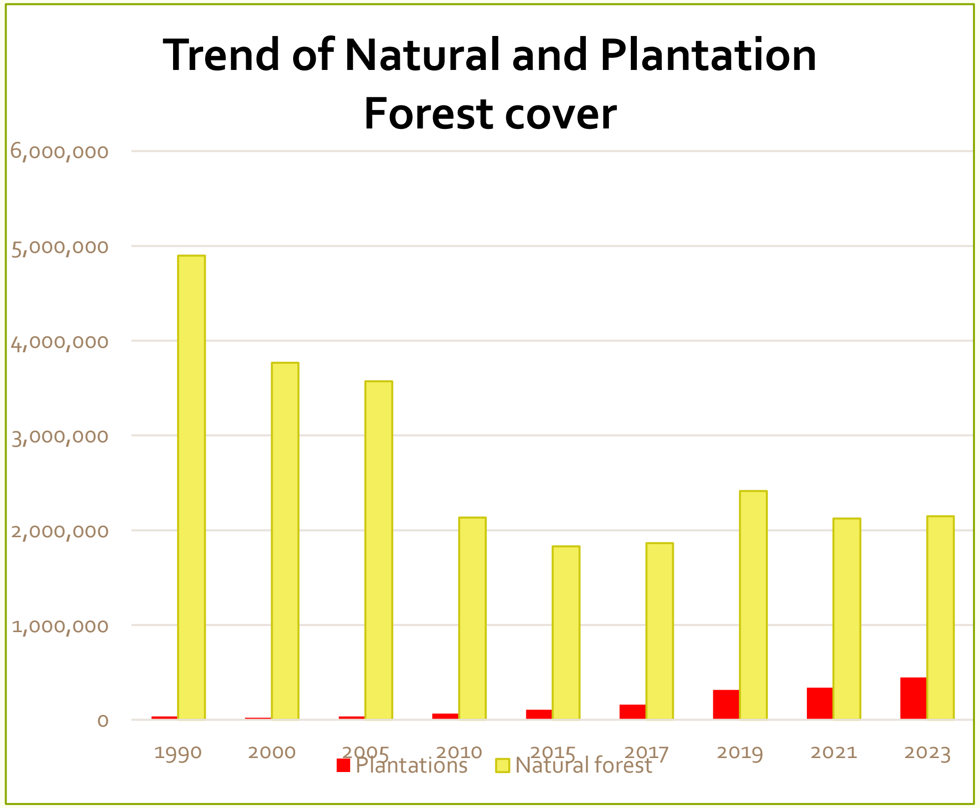


Figure 4: Trends (1990 – 2023)

- The current supply is adequate to meet the current domestic demand for sawnwood, but there are unmet demand for higher-quality products in Uganda and East Africa;
- Uganda is ideally placed to make a meaningful contribution to reducing the deficit in the region;
- However, financing for the forestry sector is hindered by many factors including what financial institutions term a high-risk sector and the long-term turnaround time required before plantation developers start recouping their investments.

Plantation sub-sector: A key pathway to economic development in Uganda

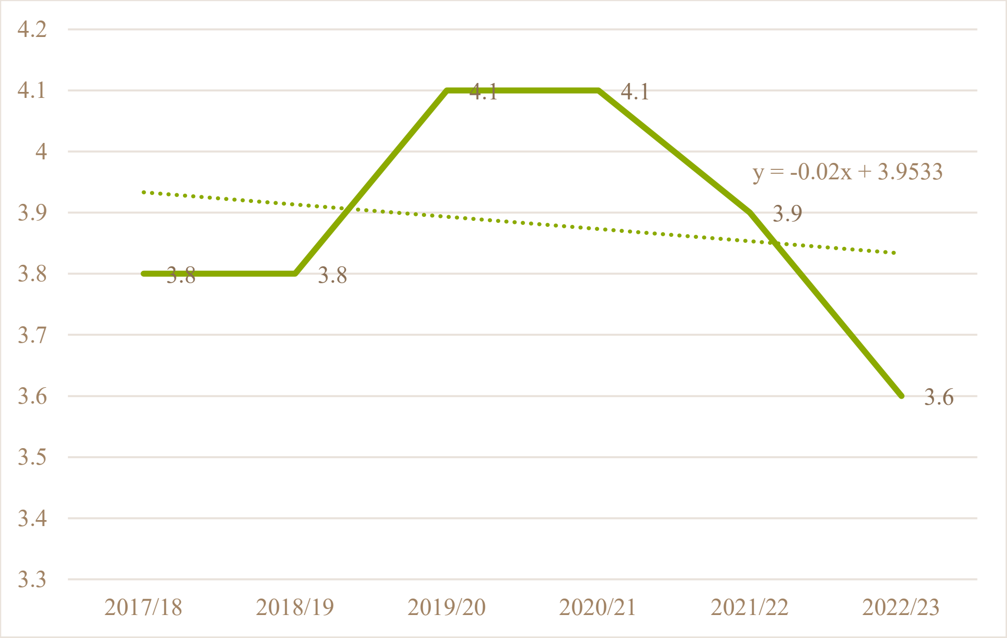
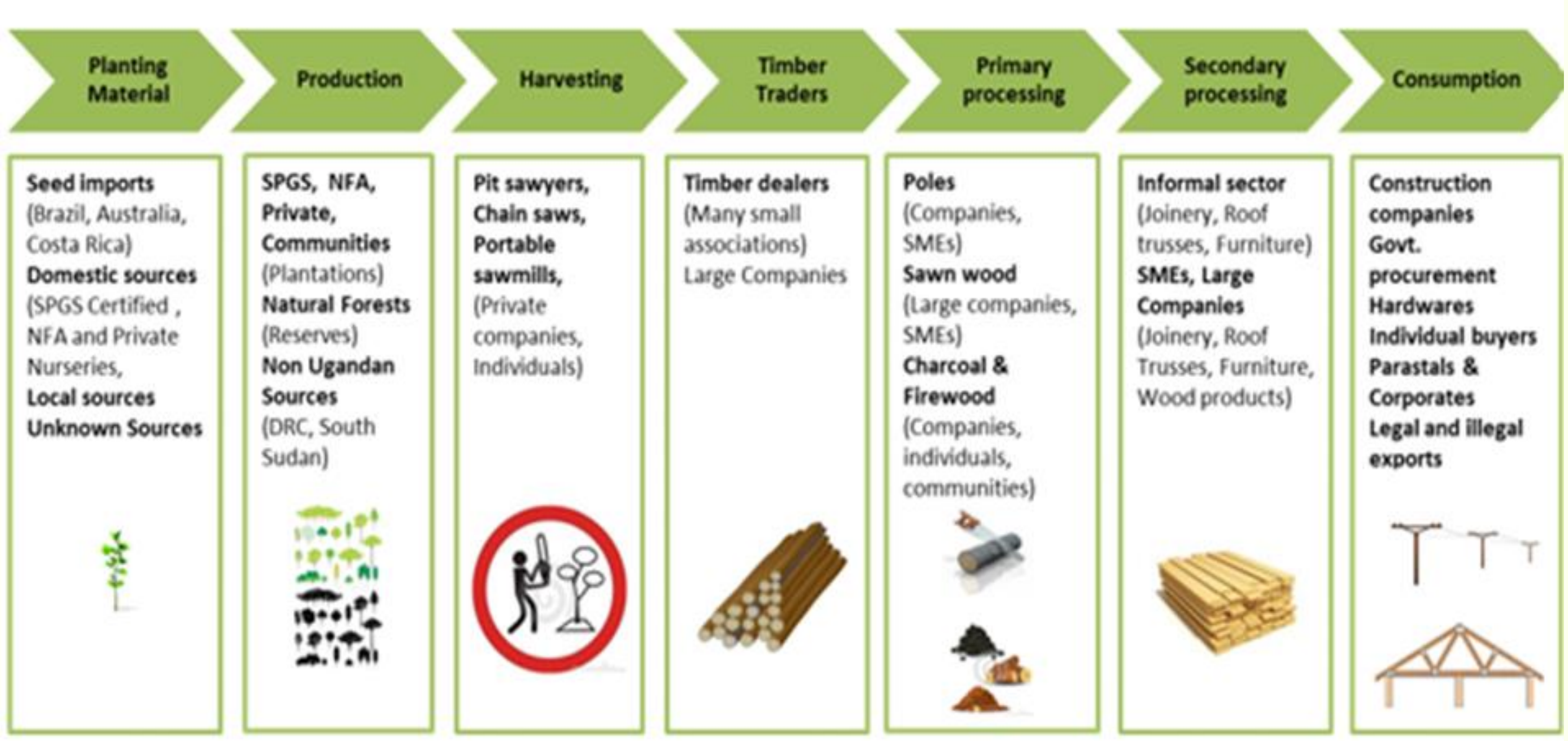


Figure 5: Percentage contribution of the Forest Sector to National DGP between 2017/18 and 2022/23; Source: UBOS, 2023

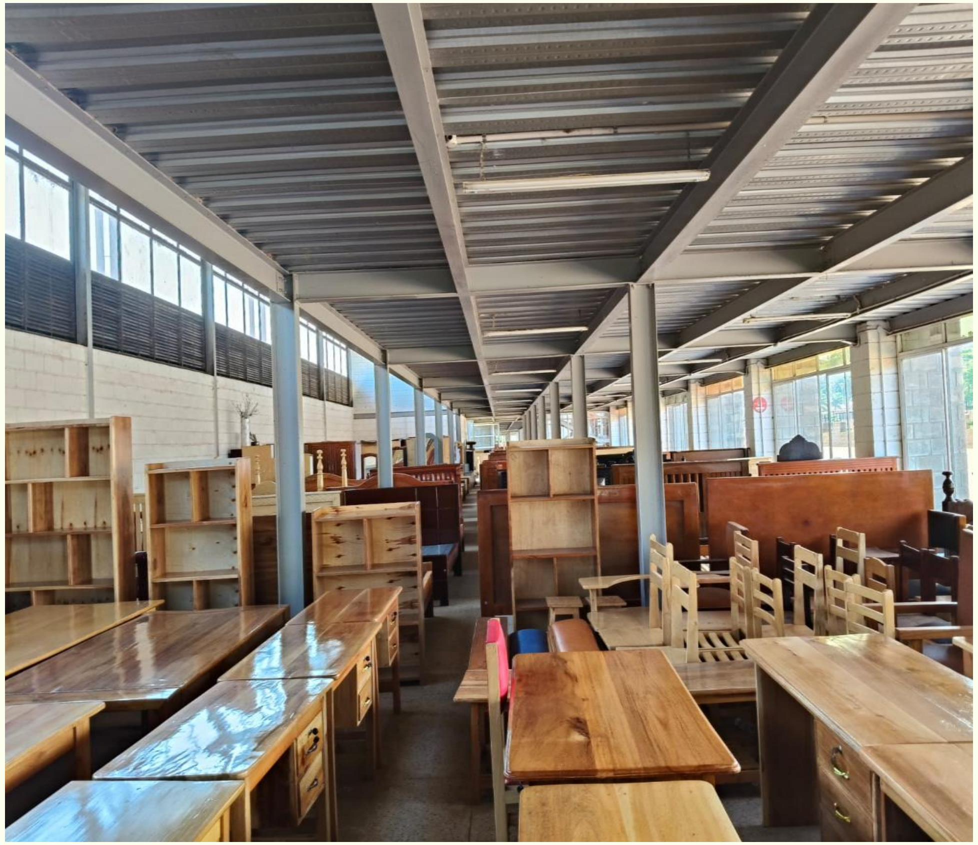
Development of plantation forestry in Uganda could:

- Significantly increase its contribution to GDP from the currently 3.6%.
- Further increase, forest revenues. The sector generated 7.4 billion shillings in FY 2022/23, an increase from 4.5 billion shillings in FY 2017/18.
- Increase carbon sequestration potential and reduce pressure on natural forests.
- Create employment opportunities in Uganda. *Indirect Jobs Measurement Paper Issue No. 2., using Business as Usual (BAU) model for employment under IFPA-CD Project, indicates that the wood production and processing sectors that use plantation wood in Uganda would provide close to 20,000 Full-Time Equivalent jobs in the supply chains.*

Wood value chain in Uganda require dynamism and profitability at all stages



Sustainable Wood-based Value Chains: KIGO Mutungo Carpentry Village Association



Plantation sub-sector: Pathways to overcoming financing challenges

- Mobilizing 'innovative' financial resources including from international financial institutions, multilateral development banks, and most critically, the private sector;
- Unlocking climate finance and financing mechanisms for ecosystem services;
- Tapping on the private sector. Most forestry and environment policies emphasize the role of the private sector in both plantation development and private sector resource mobilization;
- However, private investments require a predictable and stable policy enabling environment. See Figure 5 – effects on the 2023 unprocessed timber export ban.

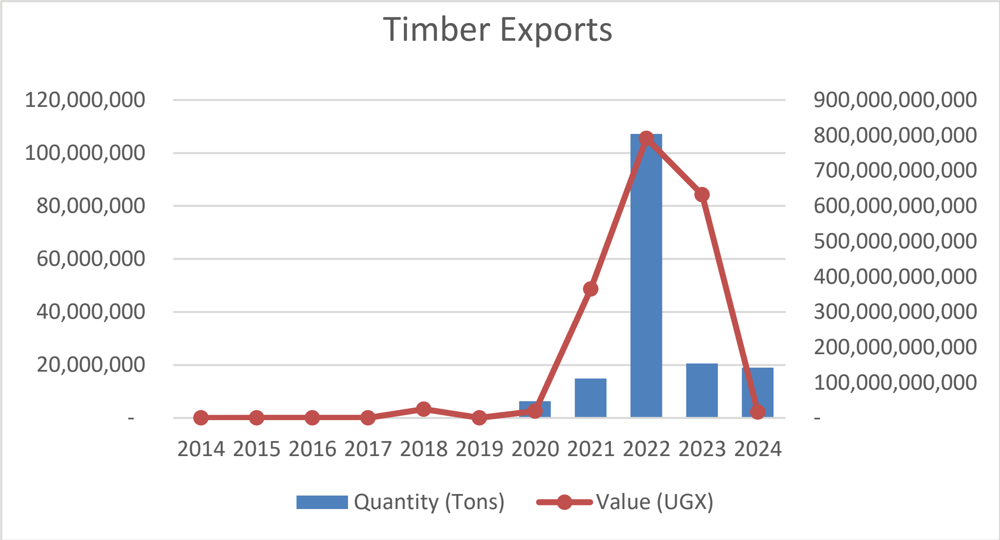


Figure 6: Timber export volumes: 2022 to 2024: Source URA

Plantation sub sector financing models analysed

Type of financing model	Number of cases analyzed			Total
	Uganda	Rest of Africa	Outside Africa	
Grant funding	2	2	-	4
National Forest Funds – blended finance	2	2	3	7
Debt mechanism	9	-	3	12
Equity funding	4	4	1	9
Debt for Nature Swap	-	3	6	9
Carbon financing	4	-	1	5
Totals	**21**	**11**	**14**	**46**

Grant financing mechanism

Key highlights

- They greatly reduce burden of repayment for users/beneficiaries, but are very competitive and becoming scarce;
- They have been catalytic in opening space for entry of other financing instruments (e.g. debt, guarantees, joint-ventures and equity);
- They accommodate all categories of players (individual, small, medium and large planters);
- They are friendly in responding to both long gestation period and risk of plantation forestry and more so where other friendly alternatives or instruments are lacking.

Type of financing model	Cases analyzed
Grant funding	1. Sawlog Production Grant Scheme (SPGS) Case Study 2. The Farm Income Enhancement and Forest Conservation Project (FIEFOC-Phase 1 and 2) 3. Participatory Forestry Programme (PFP) Case Study – Tanzania 4. Mozambique Forest Investment Project (MozFIP), 2017 – 2022

Grant financing mechanism

Key lessons for Uganda

- Although grant financing is instrumental in expanding forest plantation areas in Uganda, there must be inbuilt mechanisms and incentives to enhance its outcomes , and a predictable and stable enabling environment;
- A phased approach i.e. initiation, acceleration and maturation) allows for learning and improvement in delivery of interventions;
- For many small scales private investors in tree plantation, financial capital and financial management represent one of the greatest constraints to plantation establishment;
- For the success of big projects such as FIEFOC, a strong leading and implementing agencies with proper coordination and management skills and well-defined roles is required;
- Community associations or cooperatives could be leveraged upon to establish plantations in cases where the financing mechanisms includes financial contribution as a key requirement.

National Forest Funds (NFFs) using multiple instruments – Blended financing model

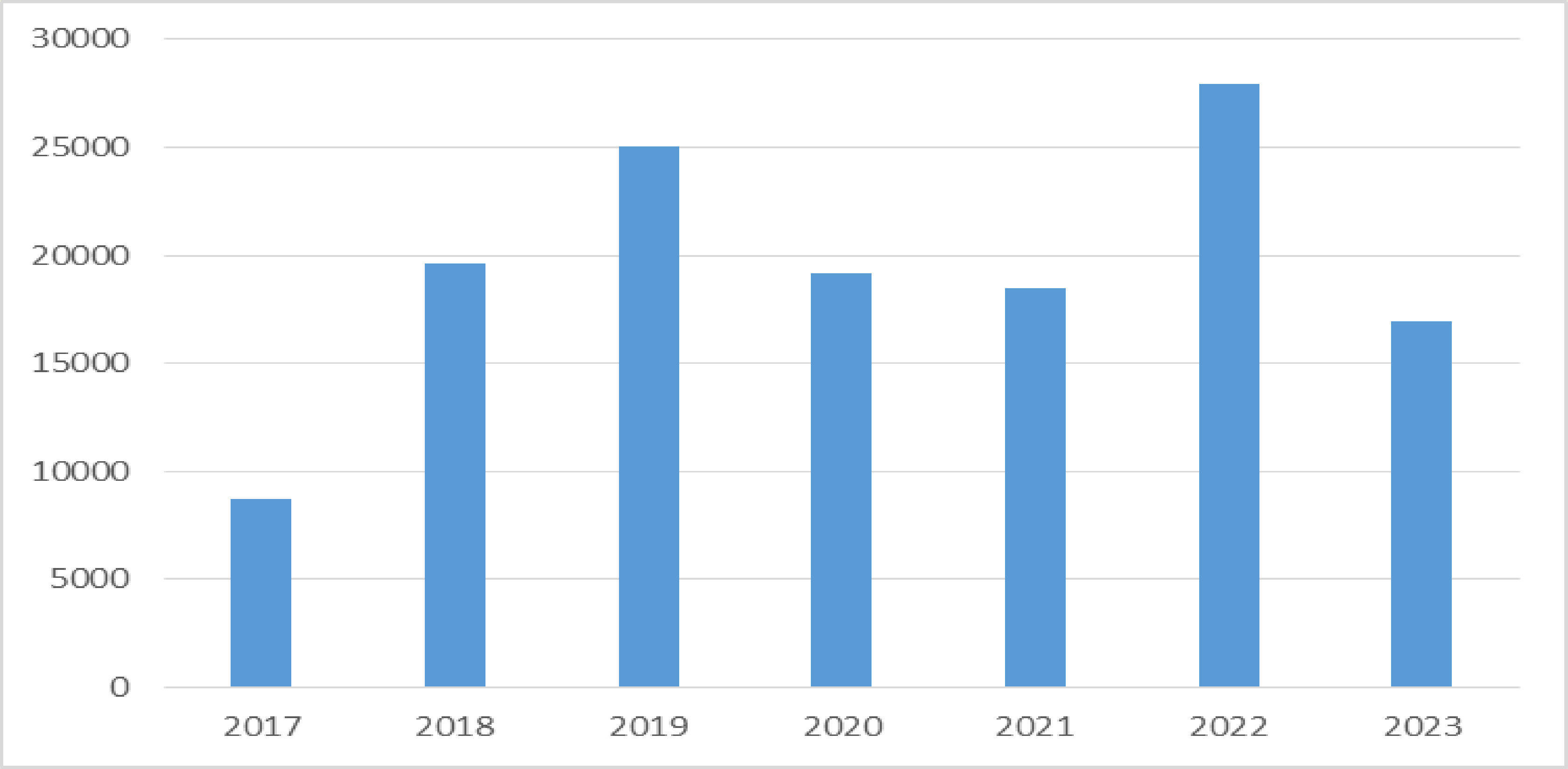
Key highlights

They provide for retainment and re-investments of forestry revenues thereby promoting forestry development;

- Ghana Forest Plantation Development Fund: Is funded by a fraction of proceeds of the timber export levy (currently 1.5%); grants and loans and the government Consolidated Fund;
- As a result, the development of plantation forestry has been steady;
- In 2023, plantation timber accounted for 63% of the total export volume. In 2023, 51% of total export revenues collected amounting to €68,809,415.56 was from plantation forestry.

Type of financing model	Cases analyzed
National Forest Funds (NFFs)	1. Tree Fund 2. Tanzania Forest Fund 3. Ghana Forest Plantation Development Fund 4. Costa Rica's Forest Financing Fund (FONAFIFO) 5. Indonesia Reforestation Fund 6. Malaysia's Plantation Development/Special Purpose Vehicle 7. The Bwindi and Mgahinga Conservation Trust

Plantation establishment in hectares in Ghana 2017- 2023

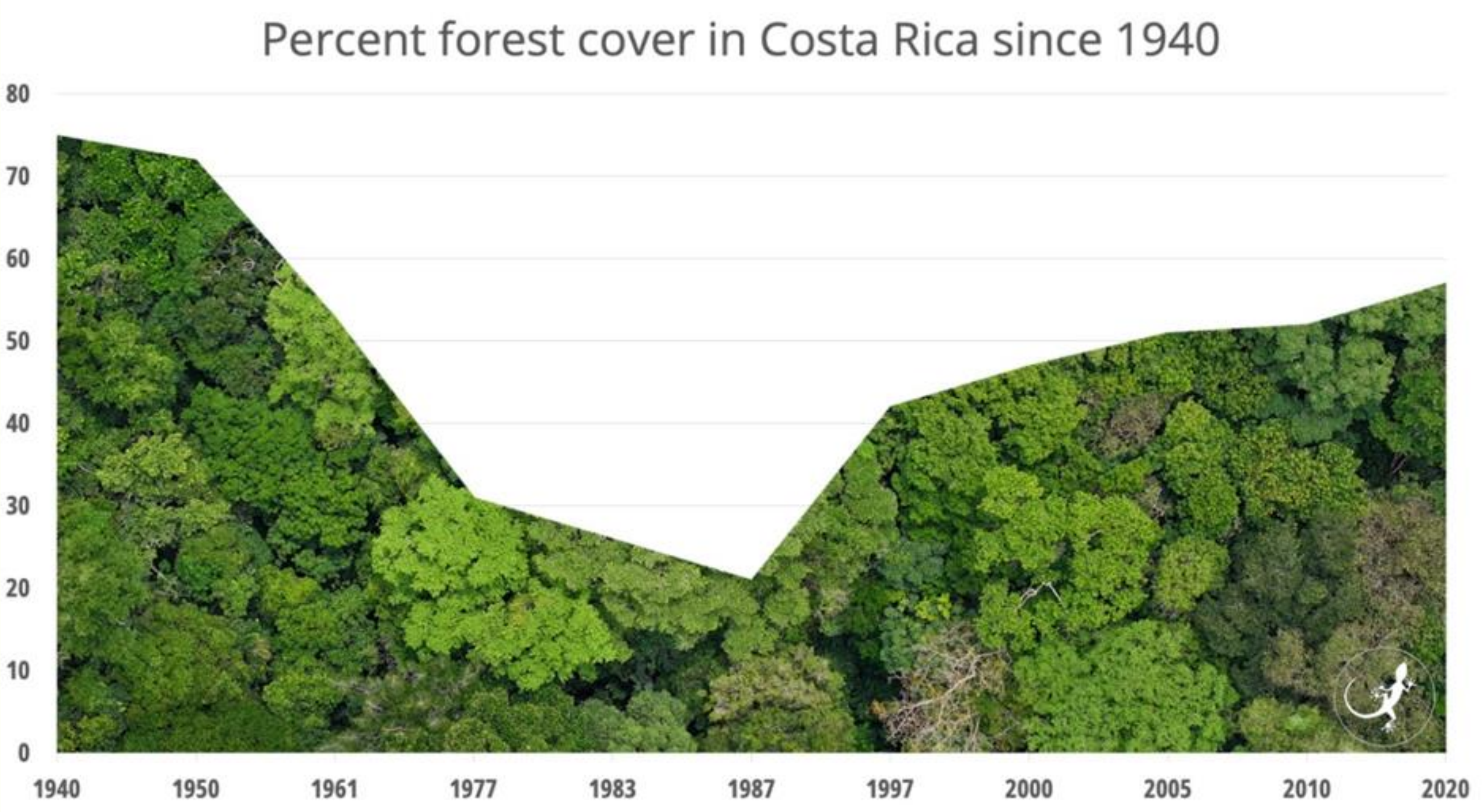


National Forest Funds (NFFs) using multiple instruments – Blended financing model

Key highlights

- Costa Rica's financing increased and broadened building on its Payment for ecosystem services program;
- As it imposed ban on logging to cub deforestation, it introduced incentives in form of PES and other revolving credit for plantation development;
- Costa Rica's Forest Financing Fund (FONAFIFO): The source of financing consists of allocating one third of the resources generated by the consumption tax to fuels (i.e. earmarked funds);
- FONAFIFO also receives Forty percent (40%) of the amount of income from the Wood Tax;
- FONAFIFAO provides revolving credits to farmers with favourable terms, up to 20 years for productive forestry and 10 years for forestry related infrastructure development;
- In 2023, Costa Rica exported $46.5M in Wood Products, making it the 99th largest exporter of Wood Products in the world;
- FONAFIFO has helped Costa Rica to raise its forest cover from 21% in 1980 to 53% today.

Trends in the loss and recovery of forest cover in Costa Rica,1940-2020



National Forest Funds (NFFs) using multiple instruments – Blended financing model

Key lessons for Uganda

- A dedicated fund shields forest management programs from unpredictable national budget cuts, allowing for long-term planning and investment in forestry;
- They can be leveraged upon to generate additional finances from multiple sources. For the case of Costa Rica, the combined use of PES, grants, revolving credit and loans through FONAFIFO created a package of financing instruments that have made the forestry sub-sector to be self-sustaining now in finance;
- They generally cover all the stages of the plantation value chain, and accommodate small, medium and large-scale players;
- Although not established, the Tree Fund is provided for in the National Forestry Tree Planting Act Cap. 160 with an aim of promoting tree planting, and could serve the same purpose as Ghana Plantation Forest Development Fund or FONAFIFO.

Debt financing mechanisms

Type of financing model	Cases analyzed
Debt mechanism	1. Banks - (I&M), Absa, Kenya Commercial Bank, Opportunity Bank, Pride Bank, Stanbic Bank, and Centenary Bank 2. Uganda Timber Growers (UTG)- Savings and Credit Cooperative Organizations (SACCO) 3. Abi Finance 4. Uganda Energy Credit Capitalization company 5. Micro Finance Support Centre 6. Generating Growth Opportunities and Productivity for Women Enterprises (GROW) Project 7. Uganda Agricultural Credit Facility 8. Uganda Agricultural Insurance Scheme (UAIS) 9. The climate Finance Facility (Green Bank) 10. Finland grant and debt model of financing forestry 11. Sweden's Performance-based payments 12. China's multiple financing instruments-domestic and foreign

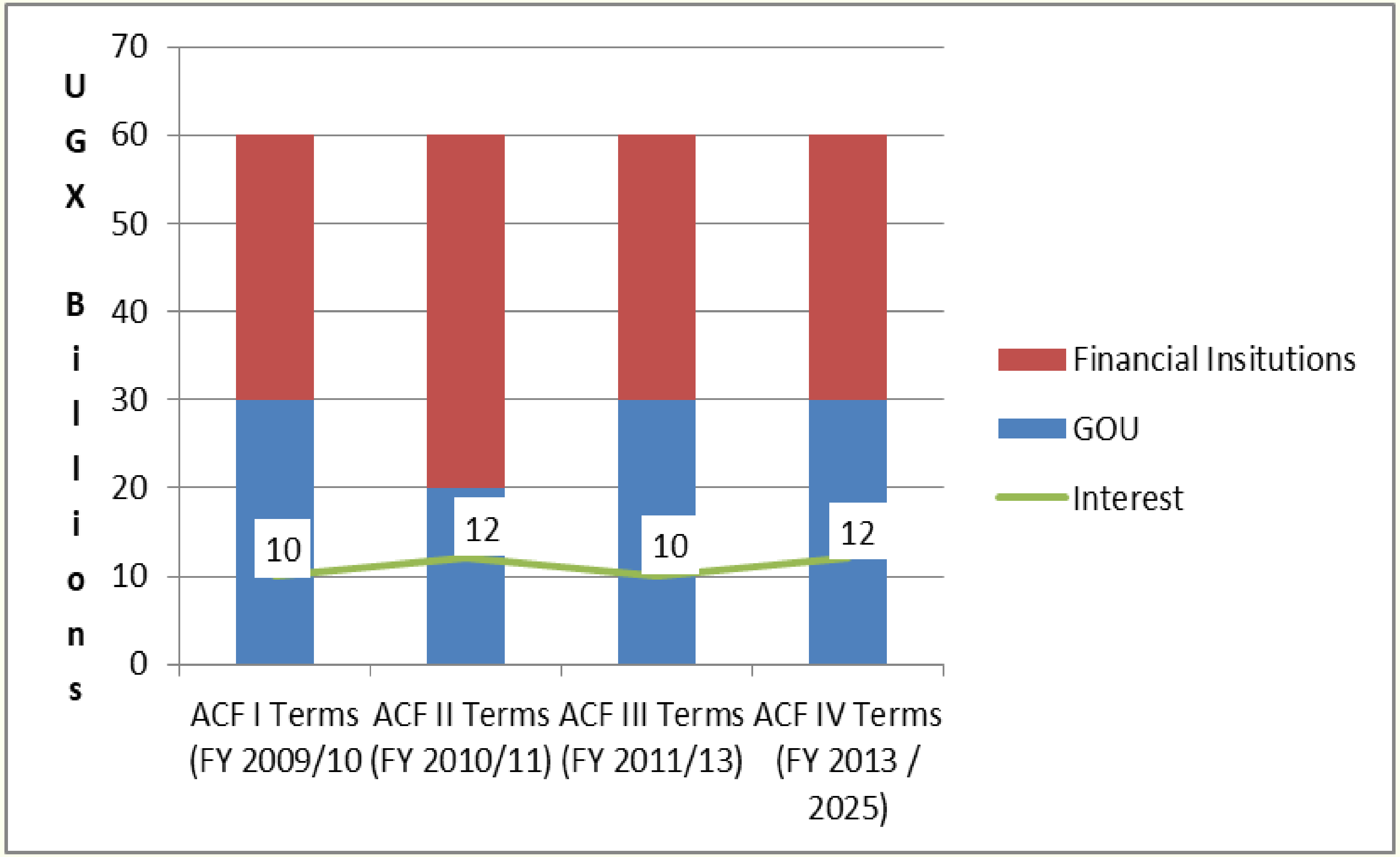
Debt financing mechanisms

Key highlights

Lessons were generated from several Banks, UTGA-SACCOs and seven non forestry sector case studies from Uganda such as:

- aBi Finance: Acts as a pool under which different financial instruments (grants, loans and guarantees) are blended to make the package of financing to smallholder farmers and agribusiness affordable;
- Uganda Energy Credit Capitalization Company (UECCC): UECCC has brought on board financial institutions and SACCOs in rural areas to lend to the renewable energy sector, a sector with inherent high start up costs and risks similar to plantation forestry development;
- Microfinance Support Centre (MSC): MSC is also a government owned company established in 2001 to manage all Government of Uganda (GoU) micro-credit programs;
- Uganda Agricultural Credit Facility (ACF): Administered by Bank of Uganda ACF provides medium- and long-term financing for projects engaged in agriculture, agro processing, modernization focusing mainly on value addition.

Blended financing by GOU and Financial Institutions and interest rate under ACF, 2009-2015



Debt financing mechanisms

Key highlights

- Costa Rica's FONAFIFO revolving credit for plantation forestry development;
- Malaysia's Forest Plantation Development Sdn Bhd is used by government as Special Purpose Vehicle to give soft loans for plantation development programs;
- Finland is one of the unique countries in that it has enacted laws for forestry financing;
- Subsidy schemes and tax reliefs as incentives are a widely used by the Performance-based Swedish model of financing forestry as a tool to steer future developments in the forest sector to support private sector owners;
- Under China's National Forest Programme, the government allocates earmarked resources from the central to local governments and on whose strength, China mobilized additional financing instruments from other players, nationally and globally, making China one of the largest timber exporting countries.

Debt financing mechanisms

Key lessons for Uganda

- Have been used by planters with grasps of the potential business case of their establishments (e.g. big planters) and are likely to leave out small and medium planters;
- It is very opportune for the government to build upon the Financing Institutions and SACCOS growing interest to finance forestry interventions building from their experiences of lending to agriculture under other arrangements like the Agricultural Credit Facility, Agricultural Insurance Scheme, Abi Finance etc;
- With commitment, the government can partner with willing development partners to pool resources for plantation forestry development using a trust originally (as it did in abi) or a company limited by shares as is the case for UECCC;
- The lessons from Finland and Sweden bring out the need to have a long-term vision for forestry financing anchored in commitment to either provide appropriations from state government or earmarked revenue which in turn can be used to bring on board other public and private players domestically and globally.

Equity financing mechanisms

Key highlights

- Uganda Development Bank (UDB) is financing three large commercial planters for secondary wood processing and value addition with an option of it taking equity in event the borrowing firms become incapacitated to repay their debt;
- Woodmill Company Ltd: Recently established by a group of willing 22 members of UTGA to add value to their mature plantation stock in a co-investment model with New Forest Asset Management Company using private equity.

Type of financing model	Cases analyzed
Equity funding	1. Uganda Development Bank 2. Criterion Africa Partners 3. Forest Management and Sustainable Charcoal Value Chain project 4. Woodmill Company Ltd. 5. KOMAZA Company Ltd-Kenya 6. FMO and Finnfund in Green Resources Rwanda 7. FORM Ghana Africa Forest Investment Forum 8. Africa Forest Impact Platform 9. The Dutch Fund for climate and Development

Equity financing mechanisms

Key highlights

- Criterion African Partners: This is a private equity firm with typical investments ranging from $5 million to $30 million with a focus on catalysing growth, increasing productivity, addressing new markets and meeting shareholder liquidity needs. In Uganda, they have invested in Global Woods AG;
- FMO - a Dutch Entrepreneurial Development Bank and Finnfund have signed a shared USD15 million (USD7.5 million each) senior loan to support New Forests Rwanda towards the development of a plantation in a concession located around the Nyungwe National Park (NNP);
- In December 2022, New Forests along with its investment partners British International Investment (BII), Norfund and Finnfund signed subscription agreements for their investment in a dedicated African Fund called the African Forestry Impact Platform (AFIP) for US$ 200 million, with plan to increase it to US$ 500 million in the next 2-3 years;
- AFIP will invest in a portfolio of plantation forestry operating companies and related assets in Sub Saharan Africa primarily targeting established assets.

Equity financing mechanisms

Key lessons for Uganda

- Are dominated by very few investors but commands high average in total plantation (38 %);
- Equity financing and/or in combination with debt and grants is increasing to Uganda but favouring the large already established forestry developers;
- This type of financing would not favour many small and medium planters, that is 56% of planters, and no strong formal out grower schemes around equity;
- The main users of equity are also present in other countries implying that Uganda has to provide attractive enabling environment to remain competitive;
- The declaration of a ban on timber exports in 2023 has made some of the equity finance providers exit the market, having sold their interests to others;
- At operational level, the combination of equity, debt and grants has helped some investors to blend it so that their investments can be more viable than they would otherwise be;
- Government has not aggressively mobilized it despite its great potential.

Debt for Nature Swaps

Key highlights

- Debt-for-nature swap is as an agreement where a creditor country forgives a portion of a debtor nation's foreign debt in exchange for a commitment to invest in specific environmental projects or conservation efforts;
- Debt-for-nature swaps had been used in over 30 countries and had restructured USD 2.5 billion of debt and released USD 1.2 billion into conservation projects by 2022;
- As an indebted country, Uganda would balance its interests for commercial forestry while at the same time reducing its burden for debt.

Type of financing model	Cases analyzed
Debt for Nature Swaps	1. Democratic Republic of Congo 2. Kenya 3. Gabon 4. Seychelles 5. Belize 6. Bolivia 7. Colombia 8. Peru 9. Uruguay

Debt for Nature Swaps

Key lessons for Uganda

- They present an excellent method of converting burdensome, budget-restricting debt into meaningful environmental and climate actions;
- They can be used as either transition financing option to debt recovery and/or unlocking other friendly financing instruments (e.g., grants);
- They support the government in remaining on course in meeting its <u>obligations (e.g., for climate change action</u>) as government overcomes debt crisis;
- They can accommodate strategy for <u>performance-based financing</u> (as long as this is negotiated between debtor and creditor country);
- They are <u>not well understood</u> in Uganda;
- They tend to <u>take a long time to negotiate</u> and implement because of their complexity and the involvement of multiple stakeholders.

Carbon financing

Key highlights

- Carbon finance is a component of climate finance that relates to provision of capital for projects through payments that are linked to the delivery of verified emission reductions in a carbon market;
- Uganda is one of the carbon market frontrunners in Africa, with a total of over 33 million carbon credits issued from the Clean Development Mechanism (CDM) and Voluntary Carbon Market (VCM) standards, **but** its participation in forestry sub-sector is still low.

Type of financing model	Cases analyzed
Carbon financing	1. Busoga Forest Company 2. New Forests Company 3.Global Woods (Fireboard) 4. Kijani Forestry 5.ECOTRUST 6.FMO entrepreneurial Development Bank

Carbon financing

Key lessons for Uganda

- It is mainly patronized by big plantation planters able to meet transaction costs for certification;
- It is accessible to small holder farmers, particularly under voluntary standards;
- It adds a stream of income to the players;
- It commands a very small market share under forestry sub-sector in Uganda, as it is considered as a secondary source of financing;
- The processes and costs for accessing this finance are generally prohibitive to many players;
- Its current outcome and impacts are still very limited due to barriers that limit many players in plantation forestry development from participating, e.g., high cost of capital, limited local demand and weak regulatory frameworks, low awareness and technical capacity shortfalls.

Tree nursery of Kasese Tree Growers and Timber Traders Cooperative Society Ltd

Rukungiri Tree Growers and timber traders cooperative society

Plantation sub sector financing – option analysis

A set of five broad criteria was used to prioritize the various schemes and options for Uganda.

A. Potential to incentivize a lot of players (small, medium and large) in plantation development;

B. Relevancy of the option for transformative action across temporal and spatial scale;

C. Institutional suitability, sufficiency and predictability of delivering the financing option;

D. Congruence with national policy, legal and institutional framework;

E. Likelihood to achieve planation forestry outcomes.

Plantation sub sector financing – option analysis using forced ranking process

A scale of 1 to 6, with 1 being the best for that criterion and 6 the least applied

Broad criteria	Financing Instruments					
	Grants	NFFs	Grants and Debt	Debt for Nature swaps	Equity, Debt and grants	Carbon finance
A: Potential to incentivize a lot of players (small, medium and large) in plantation development	2	1	3	5	4	6
B: Relevancy of the option for transformative action across temporal and spatial scale	4	1	3	5	2	6
C: Institutional suitability, sufficiency and predictability of delivering the financing option	4	1	3	5	2	6
D: Congruence with national policy, legal and institutional framework	4	3	1	5	2	6
E: Likelihood to achieve outcomes	4	2	3	5	1	6
Total	**18**	**8**	**13**	**25**	**12**	**30**

The study used both the quantitative method of forced ranking and qualitative method of consultation with Ministry of Water and Environment and other stakeholders to prioritize and select the options from which to develop concept papers.

Uganda Plantation Forestry Financing Facility using blended finance

Blended finance offers the best option for Uganda

- It provides certainty and predictability of financing of forestry sub-sector that has long gestation period;
- It provides a middle ground for the government in sustaining and expanding investments in plantation forestry (at reasonably low cost because of blending) at a time when government has other pressing financing needs;
- It is one of the financing models the government has lined up among the priority strategies for resource mobilization to fund the National Development Plan IV 2025/26 – 2029/30;
- Pooling public and private financing instruments from diverse sources in Uganda and from outside and blending them to support plantation forestry development will directly address the main barriers slowing down commercial plantation development in the plantation forestry sub-sector and its value chain.

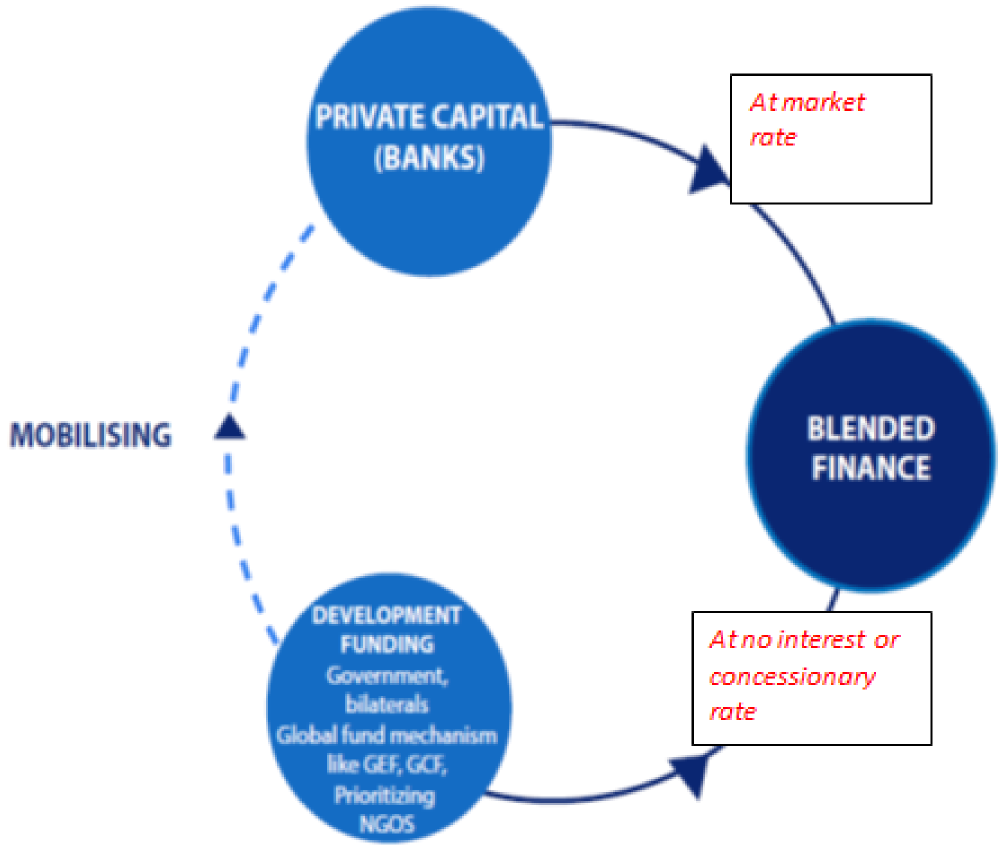
Uganda Plantation Forestry Financing Facility using blended finance

Potential institutional implementation arrangements

Uganda Plantation Forestry Facility (modelled as the Tree Fund) could be created and using one of the following scenarios;

- In the first scenario, the government could use one of the existing institutions that are familiar with blended financing (e.g., Bank of Uganda and Uganda Development Bank).
- In the second scenario, the government can exercise flexibility to create institutions in which it partners with other providers of finance not willing to use government systems because of bureaucracy or lack of technical capacity. This mode of delivering blended financing has been seen in the case studies of aBi Finance Ltd and Uganda Energy Credit Capitalisation Company Ltd.

Illustrative blended financing models in Uganda



Instrument	Illustrative delivery examples
Debt, Equity & Non-financial products	UDB- DFI already providing these options of funding structures
Debt, Grants & TA	UECCC-Company by Guarantee
Debt, Equity & TA	UMFC
Debt, Grants & Guarantees	ACF (BOU)- Has been supporting agriculture since 2009
Debt, Grants & Guarantees	Abi Trust – Company by shares with Danish Investment Fund for Developing Countries (IFU), EU, and DANIDA
NFF Facility	1. Tree Fund or 2. Or MITI Invest Company

Equity financing for plantation forestry development

Equity financing – as the second option

- Equity investments often operate in the form of funds and investors obtain returns through dividends or capital gains from the sale of equity stakes;
- This approach fosters private sector investment, which is crucial for expanding forest cover and diversifying income sources;
- This option aligns with the long-term, capital-intensive nature of forestry, providing stable and predictable funding to support sustainable development;
- This approach also encourages long-term commitment from investors, matching the extended growth and harvesting cycles of trees;
- Uganda has greatly benefited from equity financing for plantation development especially by big planters such as New Forests Company; Busoga Forestry Company; and Global Woods (Nile Fiber Board Ltd). So, there are good examples to learn from.

Equity financing

Potential institutional implementation arrangements

In this option, the main implementers are the mobilisers of the equity capital. However, the government needs to support them in form of the following type of activities and mechanisms:

- Public-private-community partnerships, whereby government would give licenses to Central Forest Reserves land and also encourage the equity providers to enter into formal arrangements to use community land (where it exits) or sign out grower agreements;
- Assessing the incentive regime for plantation forestry relative to other countries and updating Uganda Investment Code and/or recommending new incentives;
- Fighting illegality in wood trade;
- Fighting encroachment in Central Forest Reserves.

Debt and grant financing

Debt and grants – as the third option

- Debts and grants provide crucial financial resources for long-term planning, investment, and sustainable management of forests;
- These financial instruments are particularly important as they address the inherent challenges of forestry, which often involve long-term investments and projects that may not fit easily within traditional budgetary cycles.
- Grants alone may not suffice because they may not be available all the time, but would supplement debt funding. Debt is handy in supporting discreet activities that can be used for loan repayment e.g., using off-cuts and thinnings to make charcoal.

Potential institutional implementation arrangements

Institutions such as Uganda Microfinance Support Centre could be explored as implementing intermediary partners through which a revolving fund for forestry could be established or anchored to.

Debt for Nature Swap financing

DNS as an option

This financing option will address the following financial cum-development barriers:

- Limited flexibility for the government to raise additional resources internally and externally due to current high debt levels;
- Limited leeway for government to take on new investments including forestry when the financial resources have to be used to help the country adapt to climate change;
- Limited capacity of government and the private to raise new and innovative finance including carbon finance.

Potential institutional implementation arrangements

This option could jointly be implemented by the Ministry of Finance Planning and Economic Development and Ministry of Water and Environment.

THANK YOU