



REPUBLIC OF UGANDA

Terms of Reference

FEASIBILITY STUDY ON A SUSTAINABLE FINANCING MECHANISM/ MODEL FOR PLANTATION FORESTRY (SFMPF) IN UGANDA

Project: INVESTING IN FORESTS AND PROTECTED AREAS FOR CLIMATE-SMART DEVELOPMENT (IFPA-CD) PROJECT (P170466)

1. Background

Uganda is a low-income country in East Africa with a land area of 238,535 square kilometers and estimated population of 42.7 million people in 2018. In 2018, Uganda's Gross Domestic Product (GDP) was US\$27.5 billion. The economy remains heavily reliant on renewable natural resources. Uganda's long-term development vision is enshrined in the country's Vision 2040 that seeks to transform Uganda to a modern and prosperous country. The Government of Uganda (GoU) aims to drive economic development through the implementation of a series of six five-year National Development Plans (NDPs). NDP 3 started in July 2020, and it is expected to include a strong focus on sustainable environmental management, jobs, and employment.

Uganda's natural forests are being lost and degraded at one of the highest rates in the world. The total net loss of Uganda's forests during 2000–2015 was estimated at 1.8 million ha, equivalent to an average annual loss rate of 4 percent. This trend is a result of both social, economic pressures on forests and forest land, coupled with increasing human population and policy failures and implementation challenges. However, Uganda has registered a forest cover increase to 12.4% in 2018 and 13.3% in 2020. The increase attributed to establishment of plantations by private sector under National Community Tree Planting Program, Sawlog Production Grant Scheme, licensing of new private planters in Central Forest Reserves and increased protection /restoration of degraded CFRs.

Establishment of timber plantations is important for providing sustainable wood sources and reducing pressures on natural forests. The area under plantation forest in Uganda has increased from 32,225 ha in 2004 to an estimated 314,300 ha in 2019. The National Forestry Authority (NFA) manages around 11 percent of these plantations, and the private sector manages the balance. The vast majority (about 70 percent) of the private sector plantations has benefited from incentives like licensing of government land in Central Forest Reserves and grants mainly delivered by the *Sawlog Production Grant Scheme (SPGS)*. The SPGS was established in 2004 and is seen as a model of good practice for incentivizing smaller-scale commercial plantation development in Africa. It is built on a public-private partnership model based on the principle of co-financing by the beneficiary and the project. The scheme provided performance-based conditional grants to subsidize the initial costs of plantation establishment.

Despite the increase in plantation forest area, the potential for productive forestry to become a strong economic sector is underutilized. The current plantation resource in Uganda is well below what is needed to meet the country's anticipated demand for timber, poles, and especially wood fuel. In addition, there are growing export opportunities as neighboring countries, such as Kenya, offer a potential market for Uganda's wood-based industries.

Among other wood-based products, Uganda imports panel products to the tune of USD 280 - 480m per annum from forest plantations in mainly China and Malaysia, which could be coming from Uganda's forests plantations if adequate investments were made in technology, and wasteful conversion checked. Coupled with this, the Uganda's plantation sector is not well organized and structured, this limits their bargaining power on among other factors, wood price stabilization, and industrialization. Of recent, a few districts (5) in Greater Virunga Landscape have adopted a wood-value cooperatives approach in order to deepen processing as an avenue for engaging government and private sector actors to industrialize forestry and create jobs, especially for the youth.

Private sector investments are required to meet the shortfall of supply of roundwood and processed products. The use of financial incentives coupled with technical assistance and extension services has proved to be successful in leveraging private sector investments. The 3rd phase of SPGS ended in December 2021 and its main funding Development Partner, EU is shifting away from supporting plantation establishment to a more comprehensive forestry programme including processing, natural forest conservation and forest governance. Private sector investments in plantation establishment outside the SPGS continue to struggle.

Appropriate public and private sector investments and incentives would need to be introduced to encourage the development of the forestry sector and reach a critical mass both in terms of wood volume and processing capacity. Hence a need for an assessment of feasible funding mechanisms to sustain plantation forest development. Investments in plantations and downstream processing are also expected to generate economic growth, jobs, income, and fiscal revenues through increased economic activities in sustainable forestry and forest-based value chains. Plantations are no substitute for natural forests in terms of biodiversity and environmental services. They can still contribute towards increased forest cover and decreasing deforestation and forest degradation in natural forests by providing an alternative wood source.

The *Uganda: Investing in Forests and Protected Areas for Climate-Smart Development Project* will invest in plantation forestry and wood-based value chains with the aim of enabling plantation forestry to become a strong and self-sustaining economic sector in Uganda. The MWE will, as a part of the IFPA-CD Project, carry out a feasibility **study on for a long-term Sustainable Financing Mechanism/ Model for Plantation Forestry (SFMPF) and wean the subsector from short term project based financing**. The study will build on the experiences from previous financing mechanisms such as SPGS, as well as the aspirations of the National Tree Fund that is entrenched the National Forestry and Tree Planting Act (2003) but has not been established.

2. Objectives of the Assignment

The aim of this study is to present options and strategies for a sustainable financing mechanism for plantation forestry industry development in Uganda. The ultimate result will provide options and enabling environment/ conditions that Government, Civil society organizations and Private sector can adopt to sustain investments in plantation/ production forestry.

The overall objective of the financing scheme would be creating a sustainable financing model for the sector and reduce the sector's dependency on short term project-financing.

3. Detailed Scope of work and Tasks

The study will build on such previous financing mechanisms as SPGS, and the aspirations of the National Tree Fund entrenched in the National Forestry and Tree Planting Act (2003). It will first generate a long list of possible financing schemes/models and therefrom generate a shortlist of options and assess their potential and feasibility to sustainably support plantation forestry in Uganda. The shortlisting will be based on criteria developed with the client during the study.

The assessment will be based on existing scientific research and other (e.g., consultant reports and other "gray" literature) available material, data collection from original sources by the consultant as well as stakeholder interviews and other expert opinions. Comparable financing schemes in other countries in Africa and elsewhere need to be studied to collect lessons learned. For example, the assessment can benchmark with among others, successful forestry economies such as China, South Africa, Malaysia, Finland, Sweden as well as benchmark with other crop-based enterprises such as coffee that have attained sustainable financing.

It is recognized that data availability may be limited, and sources may provide contradicting information. The consultant is expected to present professional assessment of the data and summarize it in a way that gives a reliable overall picture of the situation.

Tentatively, the assessment will have the following stages, but this will be confirmed in the consultant work plan:

- a. Review of the *current situation*, past and ongoing funding models for plantation forestry development within Uganda, East Africa Region and elsewhere. This would include – but not be limited to – reviewing fiscal policy and legal framework, NDP 3, current financing models for plantation forestry management.
- b. Review of the status and trends in financing small, medium and large size commercial plantations with view to document experiences (success and failure factors) and lessons as well as perspectives for future investments. This would include assessment of economically viable/profitable forest plantation growth pattern for Uganda. Key impediments faced by the Uganda forest sector operators in accessing commercial finance will be identified.
- c. Presentation and quantification of the public goods and externalities generated in the sector that justify an investments subsidy.
- d. Proposing the key criteria for assessing the feasibility and sustainability of various financing schemes for plantation development. These will be confirmed with the Client (MWE).
- e. Detailed assessment and presentation of a “shortlist” of three to five options in concept format indicating among other things “what, who, how, cost, assumptions and enabling environment for financing schemes¹ dedicated to forest plantation and value chain development, as well as their viability in context of policy, legislation and practice (incl. source of funds). These will be consulted with the Client and the most promising option(s) selected for further development. A separate detailed planning process under a different consultant agreement will be carried out once the model has been agreed on.

4. Qualifications and Experience

4.1 Qualification of the Firm

Bidding firms² should demonstrate that they meet the following minimum standards:

- a. At least five (5) years’ demonstrated understanding and experience in the development of financing for forestry and forest industry development (production technology, designing funding models for public financed and private sector led initiatives, etc.) within the African context as well as in the analysis and development of private sector investment schemes.
- b. Demonstrated experience of at least three (3) assignments within the last five years related to developing sustainable financing mechanism/models within the forestry, agricultural or other rural production sectors; experience from East Africa preferred, with contracts of comparable value of not less than USD 25,000.

¹ This may include continuing current schemes, modifying them or presenting totally new ones,.

² Prospective bidders may associate in order to enhance their competitiveness.

- c. Demonstrated experienced of working closely and effectively with national institutions, including Government ministries, research institutions and decentralized government authorities, and community-level organisations.

4.2 Key Experts Required

The Consultant team is required to constitute a team of experts comprising at least the following (exact staffing is flexible, provided that the specified skill-sets are included in the team as a whole):

- a. **Forestry specialist:** At least a Master's degree in a relevant subject (forestry, forest products, natural resource economics, business development, finance, law, etc.); minimum of 10 years of professional experience in analyzing and developing private sector investments in forestry or natural resources management and forest products processing;
- b. **Financial Expert:** At least a Bachelor's degree in Accounting, Finance or related field with 10 years' experience in analyzing or developing financial regulations, instruments or institutional matters at national and local government levels
- c. **Data Analyst:** At least a Bachelor's degree in Statistics, Economics or any related field from a recognized institution; a minimum of 5 years of professional experience in analyzing and developing private sector investments in forestry or natural resources management.

All team members need to have fluency in professional and technical written English; and strong interpersonal, communication skills and report writing skills. At least some team members need to have work experience in Africa, preferably from Uganda..

One team member needs to be assigned as the Consultant Team Leader in charge of organizing the team's work, quality control and communication with the Client.

5. Reporting

The consultant will report to the IFPA-CD Project National Project Coordinator, through the designated contract manager and deliver the following after contract signing:

- a. Inception Report within 2 weeks of the assignment start. The consultant will have a preparatory conference call/meeting with the Client before finalizing the Inception Report.
- b. Presentation of "shortlist" of three to five options in concept format indicating among other things "what, who, how, cost, assumptions and enabling environment for financing schemes³ dedicated to forest plantation and value chain development, as well as their viability in context of policy, legislation and practice (incl. source of funds), within 2 after commencement of the assignment
- c. Draft Sustainable Forest Plantation Financing Mechanism Feasibly Study Report and corresponding draft policy brief after 4 months of the assignment start

³ This may include continuing current schemes, modifying them or presenting totally new ones.

- d. Final Report, updated/final policy brief and standard presentation about the model by Month 5 of the assignment start.

All deliverables need to be in English language and will be submitted electronically and in hard copy (Word and PDF versions) to the client at the following address:

The Permanent Secretary, Ministry of Water & Environment
Attn: National Project Coordinator – IFPA-CD
Ministry of Water and Environment
Plot 3-7 Kabalega Crescent
P. O. Box 20026
Kampala – Uganda
Telephone: +256 772 470 023

Email: margathieno@gmail.com with a copy to Contract Manager (to be designated) .

The consultant will submit 5 hard copy bound copies (where appropriate) and 1 Flash Disk copy

The Consultant is expected to provide a monthly progress report to the Client. This may consist of a brief email on the progress and/or a scheduled video conference.

5.1 Outputs

The main final outputs for the assignment will be

- a. A Forest Plantation Financing Feasibility Study Report
- b. A concise (4–6 pages) policy brief based on the report; and
- c. A PowerPoint presentation.

During the assignment, the Consultant is expected to present a work plan and inception report and interim products as needed to accomplish the tasks and as agreed with the Client. At least one presentation on the final report will be also required as part of this assignment.

6. Level of Effort

It is expected that the task will take approximately Ten (10) working weeks of consultant time spread over 5 months.

7. Facilities and information to be provided by the client

The facilities to be provided to the Consultant shall be derived from the technical and final proposal of the selected bidder.

The Client (MWE) shall provide or facilitate the consultant to access relevant information within FSSD. The MWE will introduce the consultant to any relevant office and facilitate access to information and other procedures.