Financing Sustainable Forest Management in Uganda

Full Country Case Study Report

For 3 decades, Uganda has been at the forefront of pioneering innovations in governance, planning, fiscal management, and reforms to the forestry sector. One such innovation was the introduction of sector-wide approaches (SWAp), which shift focus from institutional to cross-sectoral interests, imposing new norms of behaviour upon stakeholders and requiring shared responsibility. Since Uganda’s natural resources and environment contribute about 54% to its GDP, the Government of Uganda (GoU) created the Environment and Natural Resources Sector Working Group (ENR-SWG), a unique body whose duties include setting fiscal priorities, approving projects and monitoring resource allocation. The National Forestry and Tree Planting Act (NFTPA) established a Tree Fund to promote “tree planting and growing at national and local level” and to support tree planting and growing of “non-commercial nature”. Still, current reviews of these shifts in governmental planning express frustration with poor implementation.

Uganda is considered forest rich, yet it is experiencing a rapid decline in forest cover. The main drivers of deforestation are uncontrolled harvesting (for timber and wood-fuel) and encroachment of agriculture and human settlement. Biomass (firewood and charcoal) is the dominant energy source, providing over 90% of the energy used to meet basic needs.

As mentioned above, Uganda implemented many outcomes from the global forest policy dialogue, which drastically improved their forest management strategy. Yet despite very elaborate systems for planning and budgeting at the local government level, most local governments still lack the financial, logistical and human resources capacity to follow through on these procedures as written. Another issue obstructing implementation is that the Government of Uganda runs on a cash budget. This means that disbursement depends on tax revenue when and if it is collected each fiscal year. This system is haphazard, unpredictable and persistent with leakages, poor cash flows, and other uncertainties. Also, the mandate to manage forests is scattered between different government agencies and ministries, creating avoidable overlaps and resulting in agencies competing for resources and wasting time. One solution would be to merge some of these institutions to prevent overlap.

Of the small proportion of potential revenue that is collected, most is not recorded in official documents, and does not get to the treasury. Moreover, inadequate law enforcement causes further revenue leakage. In comparison with other sectors, the environment and natural resources sector's budget is also extremely low, and therefore not given high priority. The government of Uganda gives priority to roads, schools and hospitals.

Because of its long gestation, forestry is construed as very risky business, and this perception has made many financial institutions excessively “risk averse”, making access to credit almost impossible. Public-Private Partnerships (PPPs) could be a good start of a transition from largely informal to more formal forestry business, but the public sector is still reluctant towards PPPs because they don't wish to cede authority and influence. Banks in Uganda, however, do not see the long gestation period of forest crops as being risky. Other forest stakeholders should reach beyond their traditional finance networks and invest time into better collaboration with domestic banks.

This reflects a larger trend, with public finance (domestic & donor) declining, while private sector finance (mainly industrial forest plantations) has been growing. The
government of Uganda is addressing this trend by increasing the role of civil society organisations and the private sector, largely in the form of community-based organisations (CBOs) that engage in rural agroforestry.

The Uganda Forestry Working Group was formed in 2001 to provide a platform for stakeholders in forestry to deliberate and influence developments in the sector, as well as independently monitor the implementation of forest policy, legislation and the National Forest Programme. The private sector, together with the District Local Governments (DLGs), is responsible for management of 70% of Uganda’s permanent forest estate. Despite strong laws on “conflicts of interest”, local government officials have often allocated licenses to themselves, to gain not only from doing business, but also from under-declaration of timber produced and from defaulting on payment of dues. This happened especially during the transition period, where with executive authority nearly absent, the staff of the Forest Department allegedly became involved in illegal forest harvesting. DLGs currently can only access ODA via the GoU.

There is also the serious problem of low absorption capacity on the local government level. Issues of governance and accountability in ODA recipient institutions, a lack of transparency, and an inadequate commitment to the sector by the Government of Uganda have caused a decline in ODA. In the meantime, donors have shifted towards more topical global themes such as carbon sequestration, climate change and fighting poverty.