Challenges of mobilizing forest finance in a heavily indebted poor country: case study of Uganda

J. Kamugisha-Ruhombe

An examination of planning, budgeting and fiscal resource allocation in Uganda demonstrates a disconnect between the global discussion on forest finance and national realities in heavily indebted poor countries.

Jones Kamugisha-Ruhombe is Coordinator of the Forest Finance Programme of the Global Mechanism of the United Nations Convention to Combat Desertification (UNCCD), Rome, Italy.

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International forest-related discussions emphasize that implementation of sustainable forest management depends on mobilizing adequate financial resources. In adopting the Non-Legally Binding Instrument on All Types of Forests, the United Nations Forum on Forests (UNFF) agreed to reverse the decline in official development assistance (ODA) for sustainable forest management, to mobilize significantly increased, new and additional financial resources from all sources and to take action to raise the priority of sustainable forest management in national development plans and poverty reduction strategies.

The Paris Declaration on Aid Effectiveness, endorsed at the Paris High-Level Forum in 2005, commits donors and recipients to harmonize, align and manage results-based aid and to improve the quality of aid and its impact on development (OECD, 2008). The governments and development institutions adhering to the declaration commit themselves to, among others:

- strengthen partner countries' development strategies and associated operational frameworks;
- increase alignment of aid with partner countries' priorities, systems and procedures and help to strengthen their capacities;
- enhance donors' and partner countries' accountability to their citizens and parliaments;
- define measures and standards of performance and accountability of partner country systems.

With changes in civic governance, domestic public budget is increasingly allocated through sector-wide approaches (SWAPs), basket funding and medium-term expenditure frameworks (MTEFs), and in alignment with national poverty reduction strategies.

One of the major instruments influencing financial allocation in Uganda is the Heavily Indebted Poor Countries (HIPC) Initiative, launched in 1996 by the International Monetary Fund (IMF) and the World Bank to ensure deep, broad and fast debt relief to contribute towards growth, poverty reduction and debt sustainability in the poorest, most indebted countries. To qualify for debt relief, HIPCs must maintain macroeconomic stability, carry out key structural reforms and satisfactorily implement a poverty reduction strategy. Uganda has satisfied these provisions and consequently received "irrevocable" debt relief amounting to about US$2 billion (World Bank, 2009). However, the required fiscal reforms also limit the funding available to sectors that are not considered high priority.

The Paris Declaration opens up new opportunities for countries to secure increased ODA for sustainable forest management, but only if forestry is included as a priority in national development. This has not happened in Uganda. Under the Poverty Action Fund, which uses the money saved under the HIPC Initiative, environment and natural resources (excluding lands) management is allocated only 0.06 to 0.11 percent of the budget for 2006/07 to 2009/10 (Table 1) – and this entire allocation goes to wetlands management; nothing goes to forestry.

This article examines planning, bud-

TABLE 1. Poverty Action Fund (PAF) resources combined with medium-term expenditure framework (MTEF) (billion U Sh)

Sector	2006/07 (approved)			2007/08 (projected)			2008/09 (projected)			2009/10 (projected)		
	PAF	MTEF	Total	PAF	MTEF	Total	PAF	MTEF	Total	PAF	MTEF	Total
Agriculture	67.48	146.58	214.06	79.49	184.86	264.35	85.18	350	434.71	107.48	542	649.67
Environment and natural resources (excluding lands)	**0.72**	**22.54**	**23.26**	**0.72**	**29.73**	**30.45**	**1.29**	**32**	**33.03**	**1.57**	**35**	**36.17**
Security	0.00	377.27	377.27	0.00	396.90	396.90	0.00	397	396.90	0.00	397	396.90
Works and transport	40.99	464.88	505.87	40.99	563.70	604.69	40.99	646	686.67	56.99	744	800.65
Education	585.86	720.81	1306.67	600.83	752.34	1 353.17	621.55	1 975	2 596.27	673.90	3 270	3 944.07
Health	206.01	381.85	587.86	206.36	386.45	592.81	223.81	817	1 040.43	242.51	1 283	1 525.45
Water	62.35	99.23	161.58	83.14	128.32	211.46	80.98	292	373.42	121.98	495	617.38
Justice, law and order	20.88	195.75	216.63	20.88	201.78	222.66	21.68	244	266.02	23.48	290	312.98
Accountability	38.56	197.11	235.67	38.61	216.58	255.19	40.78	296	336.75	41.87	379	420.49
Economic functions and social services	18.46	670.84	689.3	31.88	720.25	752.13	36.32	788	824.77	57.38	882	939.53
Public-sector management	77.28	258.26	335.54	77.28	288.25	365.53	77.28	443	520.09	77.28	597	674.65
Public administration		318.42	318.42		307.66	307.66		308	307.66		308	307.66
Interest payment due		253.90	253.9		300.02	300.02		300	300.02		300	300.02
Total	**1 118.59**	**4 107.44**	**5 226**	**1 180.18**	**4 476.84**	**5 657.02**	**1 229.86**	**6 887**	**8 116.74**	**1 404.44**	**9 521**	**10 925.62**
% share of environment and natural resources	0.06		0.45	0.06		0.54	0.10		0.41	0.11		0.33

Source: MoFPED, 2007.
1 US$ = 1730 U Sh (December 2007).

geting and fiscal resource allocation in Uganda, demonstrating a disconnect between the global discussion on forest finance and national realities in heavily indebted poor countries.

FOREST GOVERNANCE IN UGANDA

In 2005, 17 percent of the total land and swamp area of Uganda was forested and 41 percent of the forested area was in protected areas, conservation areas under the management of the Uganda Wildlife Authority or forest reserves under the management of the National Forestry Authority (NFA) and district forestry services (NFA, 2007). The rest is on private land and managed with the technical support of district forestry services. Many areas also feature various forms of farm forestry, and the district forestry services provide advisory services on their management. Constitutional provisions commit the State to sustainable forest management, and the government approved a National Forestry Plan in 2000, a new Forestry Policy in 2001 and a National Forestry and Tree Planting Act in 2003. These instruments commit government to implement sustainable forest management and set aside the permanent forest estate for sustained provision of forest goods and services.

DEVELOPMENT PLANNING

The National Planning Authority prepares the National Development Plan, drawing on Uganda's poverty reduction strategy (the Poverty Eradication Action Plan), the anchor of the country's development. The National Development Plan is implemented through a rolling three-year MTEF, which is reviewed and extended during the annual budgeting cycle. The budgeting process, based on a National Budget Framework Paper, involves consultation with all stakeholders and approval by Parliament.

At the subnational level, District Councils prepare comprehensive and integrated development plans. The District Councils develop the annual workplan and budget through a conference of all stakeholders. The Local Governments Act of 1997 obliges District Councils to formulate, approve and execute their plans and budgets in accordance with national priorities.

FISCAL ARRANGEMENTS AND FLOWS

The Government of Uganda funds local governments via three kinds of grants.

- ***Unconditional grants*** are paid annually from the Consolidated Fund for decentralized services and are calculated on the basis of the human population in the district. They are part of District Council revenue and are integrated in its budget.
- ***Conditional grants*** are provided to finance specific programmes. They are separate from district government revenue, budgeted for separately and appended to the main budget.
- ***Equalization grants*** are paid from the Consolidated Fund to districts that lag behind the average national standard for a particular service.

SECTOR-WIDE APPROACH IN ENVIRONMENT AND NATURAL RESOURCES

The SWAP shifts focus from institutional to sector-wide interests within a given sector, promoting shared management and implementation systems and emphasizing common vision, priorities, objectives and goals. Areas for support are no longer defined based on institutional priorities and plans. Stakeholders engage in a participatory process to define sectoral priorities and plan institutional contributions to realize them. This approach is intended to provide greater efficiency and equity in the distribution of resources, more flexibility in the use of funds and more effective partnerships among stakeholders. The SWAP in environment and natural resources includes all stakeholders in forestry, fisheries, wetlands, climate, wildlife and environment and is implemented through a sectoral working group led by the Ministry of Water and Environment.

FORESTRY IN NATIONAL PLANNING

The theme of the National Development Plan is "Growth, Employment and Prosperity for Socio-Economic Transformation". The development scenario focuses spending on the sectors with the greatest potential to contribute to economic growth. It curtails spending in non-priority sectors and supports development in priority sectors through increased aid. Forestry is among the primary growth sectors (those that directly produce goods and services), but forest-related objectives are also included in complementary sectors such as energy, land, water and environment. The National Development Plan provides for, among others:

- increasing State investment in reforestation, afforestation and forest restoration;
- increasing private investment in forestry and promotion of agroforestry;
- instituting a policy, legal and institutional framework for governing privately owned forests.

The MTEF for 2009/10 to 2013/14 (MoFPED, 2009) has the following forestry priorities:

- strengthening institutional and community capacity and regulatory and fiscal framework for forest and watershed management;
- providing operational resources and in-service training for national and subnational teams;
- supporting district and other subnational natural resource planning processes;
- developing participatory plantation plans and promoting tree planting in private lands, local forest reserves and degraded areas;
- mobilizing farmers into tree planting groups;
- forming and training field teams and carrying out boundary surveying and demarcation of forest reserves;
- controlling illegal activities in central forest reserves and systematically removing encroachers;
- training and sensitizing timber traders and sawmillers;
- developing and implementing forest management plans;
- monitoring production, processing and movement of timber products;
- adjusting the size of the NFA payroll;
- identifying seed sources/stands and producing seedlings for sale to the public.

The Sector Investment Plan for environment and natural resources covers ten

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More than 40 percent of Uganda's forest area is in government-managed protected areas, conservation areas or forest reserves

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Much of Uganda's forest area is on private land, and family and farm forestry are common years (2008/09 to 2017/18) (Ministry of Water and Environment, 2007). Within this plan, strategic objectives for forestry include:

- improving the ability of forests and trees to yield increased benefits (economic, social and environmental) for all people;
- conserving and managing wildlife and protected areas;
- establishing laws, policies, regulations, standards and guidelines;
- strengthening the capacity of lead agencies and other institutions to implement programmes on environmental management;
- restoring degraded forest ecosystems;
- promoting research.

The budget for forestry constitutes 46 percent of the Sector Investment Plan budget. This makes forestry a very high priority. However, the key determinants regarding the financing actually allocated to a given sector are budget ceilings which are set by the Ministry of Finance, Planning and Economic Development on the basis of resource envelopes available for fiscal control to ensure macro-economic stability to qualify for debt relief. Thus, while the forestry subsector has the lion's share of the budget allocation in the Sector Investment Plan and could actually mobilize the recommended funding from willing donors, MTEF ceilings hinder it from accessing the funding (Figure 1).

So despite strong positive statements, the environment and natural resources sector in general and forestry in particular are not given a corresponding priority in national and subnational budget allocation (Table 1). It is clear that the priorities in the MTEF could never be achieved with the budgeted funding, even if all the money were released (which is often not the case).

REVENUE RETENTION

NFA is a self-accounting statutory body with its own planning and budgeting

Restoration of degraded forest ecosystems is one of the objectives of the Sector Investment Plan for environment and natural resources

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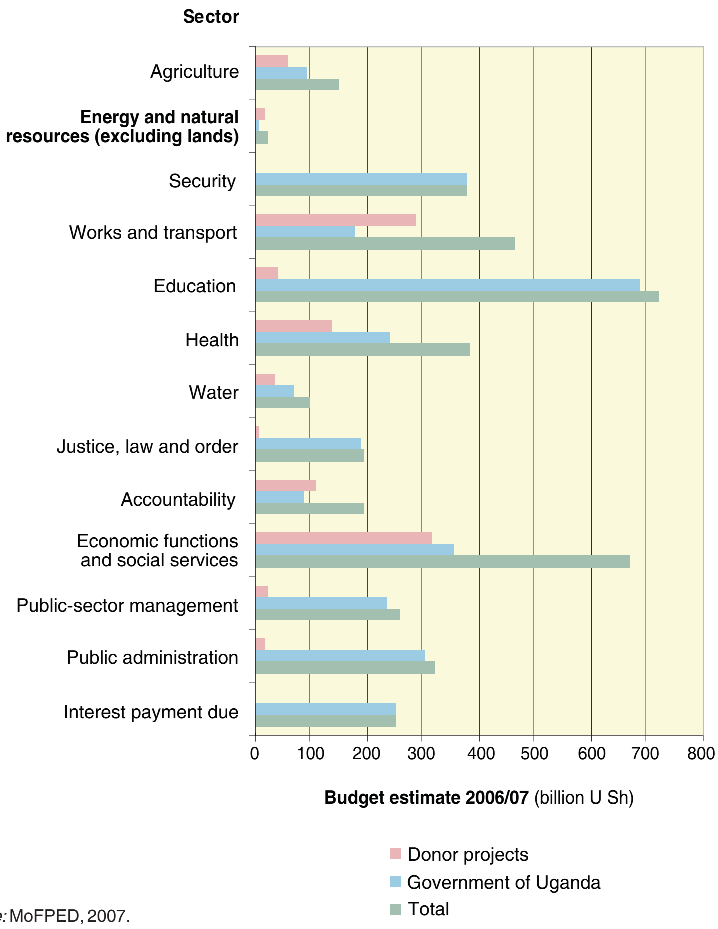
1
Environment and natural resources in Uganda's medium-term expenditure framework (MTEF)



Source: MoFPED, 2007.
Note: US$1 = U Sh1 730 (December 2007).

TABLE 2. National Forestry Authority (NFA) income statements (million U Sh)

Source of revenue	2004/05	2005/06	2006/07
Own revenue	5 420.08	6 438.91	8 262.84
Government subsidy	163.94	194.16	23.97
ODA	6 679.43	7 281.31	6 012.61
Subtotal	12 263.45	13 914.37	14 299.41
Own revenue as % of total	44	46	58

Source: NFA Annual Report, 2006/07.
Note: US$1 = U Sh1 730 (December 2007).

TABLE 3. Impact of timber monitoring systems on revenue

Year	Total revenue		Impounded timber revenue		Impounded timber revenue as % of total
	Million U Sh	US$[a]	Million U Sh	US$	
1995/96	148.2	142 475	36.8	35 378	24.8
1996/97	602.8	566 290	33.6	31 565	5.6
1997/98	760.4	656 015	111.2	95 935	14.6
1998/99	812.9	594 732	78.9	57 725	9.7
1999/2000	1 044.7	680 498	134.1	87 350	12.8
2000/01	1 518.0	842 197	57.2	31 735	3.8
2001/02	1 159.5	675 898	18.9	11 017	1.6
2002/03	1 408.6	768 405	3.7	2 018	0.3
2003/04	2 563.0	1 294 514	184.7	93 288	7.2
2004/05	3 075.0	1 810 560	247.9	145 964	8.1
2005/06	4 223.0	2 300 858	317.8	173 150	7.5

Source: National Forestry Authority databases, 2007.
[a] US$ values are based on mid-year exchange rates.

process. At establishment, the bulk of its budget was funded through ODA as up-front investment for the first four years. Although the agency's own revenue has increased over the years, a substantial proportion of its funding still comes from ODA (Table 2). The progressive increase in NFA's revenue (Table 3) can be attributed to its businesslike approach, robust law enforcement, good governance and initial strong support from government. For example:

- the Law Enforcement Section monitors the movement of forest products and publicly auctions all illegal forest produce impounded, for transparency and to generate the best prices the market can offer;
- competitive bidding limits corruption and creates realistic market prices – raising the average price of 1 m^3 of pine roundwood from 28 100 shillings (U Sh) (US$15.7) in 2004/05 to U Sh70 000 (US$38.3) in 2005/06;
- revenue collection has been decentralized and expenditure tied to it as an incentive for staff to develop mechanisms for generating revenue.

It is clear that law enforcement and governance can generate substantial forest finance.

BUDGETING THROUGH SPECIFIC PROJECTS

Experience of using ODA for budget support increasingly shows that it is difficult to guarantee concrete results, although the attributes of a holistic approach to development are theoretically attractive, particularly in sectors like environment and natural resources that are not politically vote-winning. However, although the Government of Uganda encourages budget support funding, some donors are still funding projects. Projects funded by ODA are required to remain within the MTEF ceilings and must address priorities in the National Budget Framework Paper. In contrast, forestry projects implemented by civil society organizations have no standard planning and budgeting procedure and are immune to MTEF ceilings.

PRIVATE-SECTOR FOREST FINANCE

Private-sector funds have an important role in financing forestry nationally and locally, but these sources are largely undocumented, and therefore their importance often goes unnoticed. Investment from private sources is increasing (Figure 2), even as public-sector funding decreases (Figure 3). A stimulus to private investment is the Sawlog Production Grant Scheme, a €2 million (US$2.7 million) up-front grant from the European Union (EU) that refunds 50 percent of tree farmers' costs, provided certain technical standards are followed. In 2009 an additional €10 million (about US$14 million) was approved by the EU, as well as another 36 million Norwegian kroner (about US$6 million) to take this scheme to 2013. The funds are part of ODA although the activities funded are carried out by private tree farmers. These grants are outside MTEF ceilings. Another factor in the growth of private investment is the Ugandan Government's decision to rent forest reserve land to tree farmers on flexible terms.

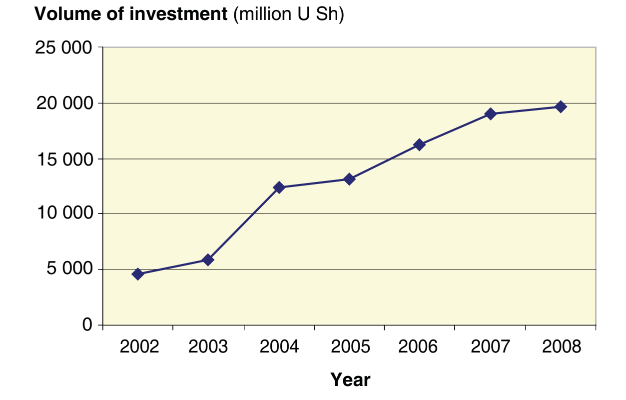
A recent survey (Global Mechanism, unpublished, 2009) estimated that from 2002 to 2008, private sources contributed over US$41 million to development of forest plantations in Uganda. Small- to medium-scale tree growers (with up to 500 ha) accounted for 99.8 percent of the investors in commercial forest plantations and 69 percent of the planted area (15 104 ha), which indicates that tree growing is becoming an attractive small- to medium-scale enterprise even if the payback is long term. Almost half of the investors (48 percent) used personal savings, followed by 27 percent using funds from trading or business, 12 percent using personal loans from financial institutions and 8 percent using grants from donors. Not one respondent had received a loan earmarked for forestry by a financial institution.

Of the private-sector investment in commercial forestry operations, 71 percent went to tree growing and management. Natural forest management accounted for 4 percent. Ecotourism and production of medicinal plants accounted for 1 percent each. Forest-based enterprises such as beekeeping, ecotourism and medicinal plants, often touted for their importance in forest management, do not seem to have interested many private owners of natural forests as yet.

The survey results suggest that people are investing in forest management for profit, motivated by the low risk they associate with tree growing, the promise of future income and the availability of land in central forest reserves under licence. Financial gain and security are the driving forces behind their investment in forest management rather than environmental protection *per se*; however, responsible management of forests for financial gain should also help conserve the environment. The innovative sources of funding that have become popular at the international level (carbon, payment for environmental services, corporate social responsibility) are virtually unknown at the forest management level. Since 2003/04, the gap between donor funding for environment (which includes forestry) and domestic investment in commercial timber plantations has been closing (Figure 4).

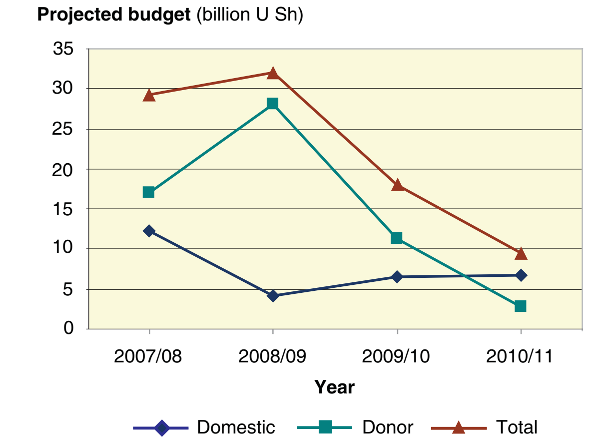
As observed above, public financing for environment is expected to continue declining from 2009/10 to 2011/12 (Figure 3). The MTEF estimates a drop of nearly 62 percent in public-sector funding (donor and domestic) over those three years. On the other hand, investment in forest management from domestic private-sector sources has grown by nearly 330 percent. Given the interest in commercial tree growing generated since 2002, it is likely that funding from

2
Private-sector funding from domestic sources, Uganda (2002–2008)



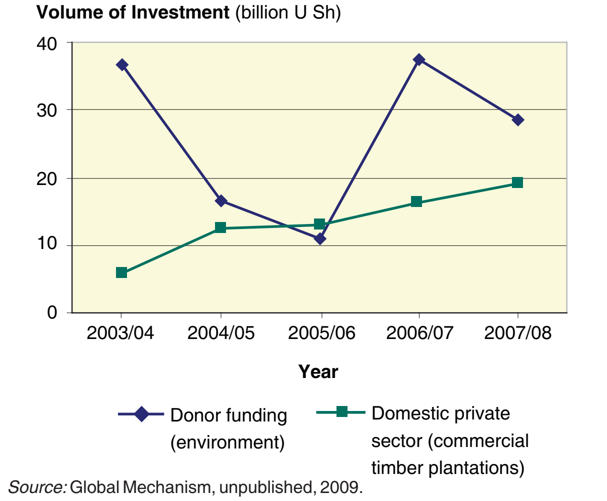
Source: Global Mechanism, unpublished, 2009.
Note: US$1 = U Sh1 988 (December 2008).

3
Public funding (domestic and donor) for environment (including forestry) for the period 2007/08–2010/11, Uganda



Source: Global Mechanism, unpublished, 2009.
Note: US$1 = U Sh1 927 (December 2009).

4
Trends in financing forest management in Uganda



Source: Global Mechanism, unpublished, 2009.
Note: US$1 = U Sh1 927 (December 2009).

domestic private-sector sources will continue to increase.

CONCLUSIONS

Uganda has a new forest policy and new forestry legislation, has restructured forestry governance and has developed a National Forestry Plan, which has been mainstreamed into the poverty reduction strategy. Uganda has decentralized governance, elaborate planning and budgeting procedures and impressive fiscal transfers. To the extent possible, the country has implemented all the key outcomes of the global forest dialogue and the tenets of the Paris Declaration. Despite this effort, forestry is still not a priority in terms of budget allocation; there is a mismatch between the poverty reduction strategy, Sector Investment Plan and MTEF targets and the eventual financial allocations, which severely hampers implementation. Reasons for the scantness of forestry funding may include the following.

- Forestry has a major role in supporting the development of other sectors of the economy (agriculture, construction, health, water, energy, industry and environment) but this link is difficult to demonstrate, mainly because it takes a long time for the impact of forests (or their absence) to show.
- Forestry in Uganda is dominated by an informal sector which lacks institutional visibility, record-keeping and regulatory and organizational structure, leading to huge losses in forest revenues for government.
- Political commitment in favour of forestry is inconsistent at both the national and subnational levels. Many political actors recognize the socio-economic and environmental value of forests but have little courage to support investment in the sector.
- With the advent of electoral democracy, the average politician's immediate interest is to be elected. Politicians will allocate resources to projects that will easily garner votes (roads, schools, hospitals).

Above all, however, budget ceilings are the main cause of low financial allocations to forestry. Herein rests an apparent contradiction in international support: While the Paris Declaration embraces respect for country priorities, the budget ceilings established by Uganda are in practice a conditionality under the HIPC Initiative, since heavily indebted poor countries must have a poverty reduction strategy and MTEF with ceilings to qualify for debt relief.

The current global debate on forest finance revolves around whether "increased new and additional financial resources from all sources" should be provided through a global forest fund or a facilitative mechanism. The question is, if either of these were established tomorrow with billions of dollars, how would a highly indebted poor country like Uganda access the resources for forestry in view of the budget ceilings? There are 40 such countries, a number of them in the "highly forested low deforestation" category. The question of budget ceilings is therefore a pertinent one. The debate also appears to assume that the new and additional resources must be provided by developed countries to developing countries. This attitude not only contradicts other agreed recommendations, but also ignores the key clause "from all sources". Forest law enforcement and governance can yield substantial resources as shown in Table 3, and a simple stimulus can evoke an enormous private-sector response as shown in Figure 2.

There is still work to be done at the national level to unleash the full

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Financial gain and security are the driving forces behind private investment in forest management, but responsible management of forests for financial gain should also help conserve the environment

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While public-sector investment in forestry is declining, private-sector investment in commercial tree growing is increasing, especially on a small to medium scale potential for domestic forest finance, and global dialogue needs to focus on this. Poor policies and laws, indirect subsidies, poor law enforcement, weak institutions, excessive and/or inadequate regulation, corruption, low absorption capacities, unstable macroeconomic regimes, budget ceilings and local politics are but a few of the issues that need urgent attention. If these were dealt with, domestically generated public and private-sector funds, supported by ODA, would fulfil an important leveraging function to boost the quality and quantity of forest finance at the national level, hence paving the way towards sustainable forest management. ◆

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