



**New Partnership for
Africa's Development (NEPAD)
Comprehensive Africa Agriculture
Development Programme (CAADP)**



**Food and Agriculture Organization
of the United Nations
Investment Centre Division**

GOVERNMENT OF THE UNITED REPUBLIC OF TANZANIA

SUPPORT TO NEPAD–CAADP IMPLEMENTATION

**TCP/URT/2908 (I)
(NEPAD Ref. 05/28 E)**

Volume V of VII

BANKABLE INVESTMENT PROFILE

**Small and Medium Enterprises in Support
of Participatory Forest Management (Mainland)**

April 2005

UNITED REPUBLIC OF TANZANIA:
Support to NEPAD–CAADP Implementation

Volume I: National Medium–Term Investment Programme (NMTIP)

Bankable Investment Profiles (BIPs)

Volume II: Phase II of Madibira Rural Development (Mainland)

Volume III: District Irrigation and Water Harvesting Support (Mainland)

Volume IV: Crop and Livestock Private Sector Development (Mainland)

Volume V: Small and Medium Enterprises in support of Participatory Forest Management (Mainland)

Volume VI: Land Management and Development of Irrigation Schemes (Zanzibar)

Volume VII: Private Sector Development for Agriculture, Forestry and Fisheries (Zanzibar)

NEPAD–CAADP BANKABLE INVESTMENT PROFILE

Country: Tanzania – Mainland

Sector of Activities: Forestry

Proposed Name: **Small and Medium Enterprises in Support of Participatory Forest Management**

Project Area: South and Eastern Tanzania

Duration of Project: 5 years

Estimated Cost: Foreign Exchange US\$1.6 million
Local Cost..... US\$6.7 million
Total US\$8.3 million

Suggested Financing:

<i>Source</i>	<i>US\$ million</i>	<i>% of total</i>
<i>Government</i>	0.50 ^(a)	6
<i>Financing institution(s)</i>	6.57 ^(b)	80
<i>Beneficiaries</i>	0.20 ^(c)	2
<i>Private sector</i>	1.00 ^(d)	12
<i>Total</i>	8.27	100

(a) Input from central and local government personnel.

(b) NEPAD Secretariat to be asked to help identify investment funding source.

(c) Input in kind through progressive participation.

(d) Investment in processing and marketing.

UNITED REPUBLIC OF TANZANIA:
NEPAD–CAADP Bankable Investment Profile
*“Small and Medium Enterprises in Support
of Participatory Forest Management”*

Table of Contents

Abbreviations.....	iii
I. BACKGROUND	5
A. Programme Origin	5
B. General Information.....	5
II. OPERATIONAL AREA	7
III. PROGRAMME RATIONALE.....	8
IV. PROGRAMME OBJECTIVES.....	10
V. PROGRAMME DESCRIPTION	10
A. Improved Extraction and Marketing of Timber Products from Village– managed Forest Areas.....	11
B. Marketing of Non–wood Forest Products from Village–managed Areas.....	12
C. Sustainable Charcoal Production.....	13
D. Delivering PFM Services through Alternative Service Providers	13
E. Timing and Phasing of Activities.....	13
VI. INDICATIVE PROGRAMME COSTS.....	14
VII. PROPOSED SOURCES OF FINANCING	15
VIII. PROGRAMME BENEFITS	15
IX. IMPLEMENTATION ARRANGEMENTS	16
X. TECHNICAL ASSISTANCE REQUIREMENTS	17
XI. ISSUES AND PROPOSED ACTIONS	17
XII. POSSIBLE RISKS	18
Appendix 1: Map of Tanzania Showing the Project Regions.....	21
Appendix 2: List of References	23

Abbreviations

ASDP	Agricultural Sector Development Programme
ASDS	Agricultural Sector Development Strategy
CAADP	Comprehensive Africa Agriculture Development Plan
CBFM	Community–Based Forest Management
DANIDA	Danish International Development Assistance
FINNIDA	Finnish International Development Agency
FBD	Forestry and Beekeeping Division
IDA	International Development Assistance
JFM	Joint Forest Management
KVTC	Kilombero Valley Teak Company
LGA	Local Government Authorities
MNRT	Ministry of Natural Resources and Tourism
NGO	Non Governmental Organisation
NFP	National Forest Programme
NMTIP	National Medium–Term Investment Programme
NORAD	Norwegian Agency for Development Cooperation
NTFP	Non–Timber Forest Products
PRS	Poverty Reduction Strategy
SACCO	Savings and Credit Co–operative Organisation
SUA	Sokoine University of Agriculture
TFCMP	Tanzania Forest Conservation and Management Project
TFS	Tanzania Forest Service
VPO	Vice Presidents Office
PFM	Participatory Forest Management

I. BACKGROUND

A. Programme Origin

I.1. This profile describes a proposal that has been derived from the *National Forest Programme* (NFP), a ten-year strategic implementation framework for the forest sector in Tanzania. Specifically, it is derived from the first objective of the NFP which emphasizes participatory management of forest resources and the third objective which emphasizes the contribution of forest based industries to sustainable livelihoods. Sub-objectives include supporting the establishment of participatory forest management at village level, supporting the marketing of timber and non-timber forest products by rural communities, the creation of linkages between producers and consumers of forest products and building the capacity of service providers to deliver rural forest services to rural communities. Many of these objectives are currently being supported by the Government of Tanzania and with support from bilateral and multilateral donors (most notably the World Bank under an IDA Credit and the Danish, Finnish and the Norwegian governments). Much of the work being supported by donors relates to the establishment of *Participatory Forest Management* (PFM) processes and structures at village level. However, little attention has been given to “adding value” to these investments — by engaging villagers in more focused marketing initiatives and providing concrete economic benefits from the sale and use of forest products.

B. General Information

I.2. Forests and woodlands in Tanzania are estimated to cover about 35.5 million hectares, and constitute about 38% of the total area of the country. Of this 13.5 million ha are gazetted as national forests or local government forests and the remaining 25.5 million ha are on village or general land. Tanzania has 600 government forest reserves, covering about 13% of the total land area. The reserved area includes 1.6 million ha that are managed as catchment forests and 80,000 ha of government plantations. In addition there are 80,000 ha of private forest plantations.

I.3. Forests and woodlands play an important role in the livelihood of rural and urban population in Tanzania. Approximately 90% of the population depends directly on bio-energy for heating and cooking. Timber provides a vital source of revenue for rural communities, traders, saw-millers and exporters, while a wide range of non-timber forest products are used for both subsistence and cash purposes, such as honey, mushrooms, medicinal products, oils, fruits, resins, gums, and tannins. It is estimated that forests provide water catchment for over 80% of Tanzania’s water supplies, and accounts for over 60% of Tanzania’s generated electricity through hydro-power.

I.4. Forest can be classified into three main types in Tanzania:

- ***Miombo woodlands*** cover much of south-western half of Tanzania and extend to the neighbouring countries to the south and west. There are also small patches of miombo woodland found in northern-central Tanzania on elevated hillsides. Miombo woodlands develop in an area with annual rainfall of 650–1,400 mm. Soils are poor in nutrients and strongly leached. Thick-stemmed deciduous trees have dense leaves forming almost closed canopies during the rain season.
- ***Acacia savannah*** covers much of northern Tanzania, but can also be found in the deeper valleys and rifts further south. Rainfall is low less than 650 mm per annum and comes in two seasons. Soils are more nutrient-rich than miombo.

- **Highland evergreen forests.** Occurring in upland areas, these forests contain much of Tanzania’s biodiversity. Many of these areas have been heavily encroached due to high population pressures and heavy logging in the past, but more recent efforts have focused on conserving these forest patches as well as their important water catchment’s functions.

I.5. The *Forest Act* (No.14 of June 2002) provides the legal framework to implement the *National Forest Policy*. The Act aims to encourage and facilitate the active involvement of Tanzanian citizens in the sustainable planning, management, use and conservation of forest resources. Of particular importance in this Act is the focus on community involvement in forest management, commonly known as Participatory Forest Management. Specifically, the Forest Act enables communities to declare village, group or private forest reserves. There are three categories of *Community-Based Forest Management* (CBFM).

- **Village Land Forest Reserve**, managed by the entire community on village land;
- **Community Forest Reserve** managed by a particular designated group in the community and;
- **Private forests** managed by individual designated households.

I.6. One of the objectives of Forest Act is to delegate responsibility for management of forest resources to the lowest possible level of local management consistent with national policies.

I.7. Policy Statement No.6 of the *National Forest Policy* opens ways for forest-adjacent communities to become co-managers of both central and local government forest reserves through *Joint Forest Management* (JFM). The *Village Land Act* (1999) has given the link between village and its land, a legal foundation by the introduction into the law of the “village land” as one of the three land management categories — the other two being general and reserve land.

I.8. Both JFM and CBFM support and reinforce a wider process being spearheaded by the Tanzanian government for decentralization and devolution of national responsibilities down to elected district and village councils. The *Forestry and Beekeeping Division* (FBD), of the *Ministry of Natural Resources and Tourism* (MNRT) — the government agency responsible for forest management in Tanzania — is currently redefining its role in support of forest activities at the local level. Whereas previously FBD were direct implementers, they are increasingly playing the role of facilitator — providing the skills, legal framework and financial resources to lower level stakeholders to enable them to implement local level forestry activities.

I.9. There are however, some constraints to effective forest management and the establishment of small and medium enterprises in Tanzania.

I.10. Firstly, the forest resources under village management are not always amenable to commercial exploitation. This is due to two main reasons. On occasions the nature of the resource precludes heavy utilisation due to the fact that it is heavily degraded or undergoing restoration/regeneration. Alternatively, under some JFM arrangements around important “catchment forests”, options for utilisation are heavily restricted due to the sensitive nature of the resource and its importance to water retention and catchment.

I.11. Also, due to inadequate resources and skills there is limited capacity to monitor effectively what happens in forest areas. In addition, the environment for private sector engagement in Tanzania is still struggling to emerge from a long period of stagnation due to the socialist system practiced

during the 1970s to late 1980s. Small-scale producers also need support to have access to information on product market and prices and to learn how to manage market risks. Despite the constraints there is great potential to move forward to more profitable and sustainable use of forest resources by local communities.

II. OPERATIONAL AREA

II.1. This profile proposes to focus efforts mainly in four regions of Tanzania, namely Iringa, Mbeya, Morogoro and Lindi, which are currently being supported under a US\$8 million programme for establishing participatory forest management under DANIDA (see map in Appendix 1). These four regions capture the wide social, institutional and environmental diversity of Tanzania and positive experiences gained here can subsequently be scaled up to other parts of the country. There is however a need for incremental investment in enterprise development to add value to the benefit of the basic PFM work. Work in two additional regions, Dodoma and Tabora, will also be considered.

II.2. The wide variety inherent in these four regions makes them suitable for piloting a system that can be replicated elsewhere in the country. These variations are presented below:

- **Forest resources:** The four regions contain a wide range of forest resources, from the highland, evergreen forests of the Eastern Arc Mountains (such as the Udzungwas, Ulugurus), down to the extensive miombo woodlands of Iringa and Mbeya regions mostly occurring on village or general lands, and the extensive and highly valued coastal forests of Lindi Region, which provide exciting opportunities for villagers to access sustainable sources of income from the controlled harvesting of forest resources. In addition, there is a softwood plantation in Iringa, forest plantations in Morogoro Region — such as the state managed and pine plantations in Kilosa district, and the teak plantations in Kilombero and Mvomero Districts managed by the state and private sector.
- **Institutional capacity:** The 21 districts in these four regions vary enormously in their ability to meet the service delivery needs of their populations. Some districts (such as Iringa and Mufindi) have received support for forestry for many years and have consequently developed significant capacity in financial management, delivering results in the field and reporting on progress. Others, however, lag far behind, have received little funding over the years and are staffed by poorly motivated staff.
- **Development and poverty levels:** Again, there are large variations between regions and districts within the proposed working area. To the south, in the so-called southern highlands (Iringa and Mbeya regions), incomes are relatively high compared to other parts of the country — due in large part to higher levels of rainfall and relatively fertile soils coupled with good accessibility and market access. This contrasts with Lindi region which has poorer soils, poor communication and consequently is the second poorest region in the country. Throughout all regions livelihoods vary — from settled agriculture, to slash and burn rotational agriculture, to agro-pastoralism.
- **Donor commitments to date:** DANIDA has been active in all four of these regions for a number of years, and in 2003 began a five year initiative to support PFM activities. Activities focus mainly on establishment of village land forest reserves (under CBFM) and development of Joint Forest Management agreements under JFM arrangements.

III. PROGRAMME RATIONALE

III.1. Over 80% of population in Tanzania lives in the rural areas, and agriculture and natural resources is crucial to their livelihoods. For many more, profitable and sustainable agricultural production and natural resources, offer the only possible way to reduce poverty and improve food security over the medium term.

III.2. Tanzania has vast forests resources. Local exploitation is important for the majority of rural farmers. Although forestry is not recognized as a priority sector under Poverty Reduction Strategy, there is a growing understanding of the important role forests and woodland resources play in supporting livelihoods, providing income for rural poor and in sustaining important ecological services. Furthermore Tanzania’s *Poverty Reduction Strategy (PRS)*, recognises that “*the poor in Tanzania are heavily dependent on the environment*”. Currently the PRS is under review and specific efforts are being made by *Vice Presidents Office (VPO)* to mainstream environmental issues and, in addition, a process is underway to identify poverty–environment indicators in the national *Poverty Monitoring System*.

III.3. The *Rural Development Strategy* of 2001 accords high priority to poverty reduction, and emphasises that rural poverty has a major impact on the sustainable utilisation of natural resources. Two main constraints are considered to compromise the implementation of the sustainable development strategy. The first is a weak institutional framework for coordination; the second is limited governmental capacity for environmental management. They are both important.

III.4. The strategy proposes four focus areas to promote sustainable utilisation of natural resources:

- Environment and economic opportunity;
- Environment and vulnerability;
- Environment and empowerment;
- Environment and health.

III.5. Natural resource management is identified as a *Strategic Priority Area*, with the development objective of ensuring “*sustainable utilisation of natural resources for the benefit of the rural and urban population*”. The link between rural and urban interests in sustainable natural resource management is important. The strategy also identifies quick, medium–term and long–term opportunities for developing the positive aspects of the poverty/environment linkages. Specifically, these include:

- Creating a conducive framework for the sustainable development of natural resources;
- Enhancing security of natural resources ownership to the state, communities and private individuals;
- Improving land use planning as a basis for improved environmental management;
- Extending and developing the community–based management approach to all districts.

III.6. Positive approaches are also adapted to pro–poor tourism development, the sustained management and utilisation of fish and forest resources for the benefit of the majority of the rural and urban people, and the exploitation of wildlife to contribute to the welfare of the surrounding

communities. The concept of benefiting the majority is critical. The strategy recognises the linkage between poverty and vulnerability to adverse shocks, most of which are environmentally related. It consequently proposes interventions to diversify income generating activities, to protect the rights of vulnerable groups (particularly women, orphans, disabled and the aged) and to assist to reduce the impact of disasters. The strategy is clear on two additional points. First, no progress will be possible without improved social justice, good governance and transparency. Second, sustainable rural development will depend on the development of effective ties between rural areas and urban centres. This is critical in the development of short-term enterprises and establishing value-added processes and effective market chains.

III.7. The importance of sustainable natural resource management is specifically acknowledged in the *Agricultural Sector Development Strategy (ASDS)* and the *Agricultural Sector Development Programme (ASDP)*, and environmental management is identified as an important crosscutting issue at national and local government levels. Interventions with neutral or positive environmental impact will be given higher priority investment than environmentally damaging activities; as will activities that have a positive impact on growth and poverty reduction.

III.8. The ASDP is the operational instrument for the ASDS, and outlines a five-year, public investment programme for the sector. The programme focuses on the mobilisation of the agricultural sector for growth. The objective is to create an enabling framework for improving agricultural productivity and profitability, improving farm incomes, reducing rural poverty and ensuring household food security. The links with poverty reduction are evident, and *Sector Growth Targets* are taken directly from the *Poverty Reduction Strategy Paper*. The programme importantly recognises that support for subsistence agriculture is support for sustainable poverty, and the only way out of the poverty cycle is to develop profitable agriculture, and profitable and sustainable natural resource management.

III.9. The key elements of the *National Forest Programme*, (the strategic plan to implement the *National Forest Policy*), are in line with other related sectors and macro-economic policies focused towards this primary objective of poverty reduction.

III.10. Under efforts spearheaded by government, great progress has been made in recent years in transferring forest ownership and user rights from general land (under the stewardship of national government) to village level. Through application of the *Village Land Act* and the *Forest Act*, villagers have the right to register forest land within their boundaries. This gives communities the right to issue permits for forest use, levy fines on illegal users, undertake patrol and arrest those who infringe management agreements. Currently, over one million hectares of forest land are under village ownership and management in over 300 villages. Once rights have been transferred and secured by villagers, great opportunities emerge for rural households to add value to the forest resources now under their control. However, to date, little progress has been made in this area — and in many cases, the full potential of participatory forest management has yet to be realised.

III.11. Great opportunities exist in the establishment and improvement of links between the processors and retailers of forest products and their suppliers who reside in the forest adjacent communities. There is an urgent need to establish, expand, and improve those enterprises that depend on production emanating from PFM activities at the local level. This includes the promotion of enterprise development to enable on-site processing that can in turn encourage local employment, improving working environment conditions and developing direct supplier contracts that eliminate unnecessary middlemen and generate enhanced revenues to forest adjacent forest produce supplier. Addition opportunities exist for bringing local communities together with larger scale private sector investors with respect to the sustainable use and management of forest resources on village land.

Tender agreements can be developed for “forest leases”, which if effectively managed reduce the workload of communities and increase income from forest production.

III.12. Tanzania is committed to the objectives of NEPAD and is in good position to participate effectively and gainfully in all aspects of the partnership. Currently, Tanzania is in the process of formulating a Programme Action for NEPAD and has drafted a *National Medium–Term Investment Programme* (NMTIP) for the *Comprehensive Africa Agriculture Development Programme* (CAADP). Special emphasis would be placed on, among others incremental programme with critical bearing on poverty eradication. The plan will also aim at promotion regional and continental linkages, the involvement of the private sector, export to the regions and beyond, and facilitate cross–border movement of goods and services. The CAADP has five “pillars” on which action at national level will be built. The fifth pillar, (identified in June 2003) will focus attention on the livestock, forestry and fisheries sub–sector development.

IV. PROGRAMME OBJECTIVES

IV.1. The *overall objective* of the work proposed in this Profile is to increase economic opportunities for small and medium enterprises in support of *Participatory Forest Management*.

IV.2. *Immediate objectives* are:

- To identify and support forest users, and to identify and establish small and medium enterprises that support PFM;
- To link local communities and their enterprises to markets for forest products locally, nationally and internationally;
- To improve quality and efficiency of production and processing of forest based products harvested by rural small holders;
- To work with higher level private sector enterprises to achieve more effective marketing and to link down to rural farmers and forest users;
- To assist rural farmers and forest users to link up with micro–finance institutions and sources of credit;
- To develop collaborative and mutually beneficial ventures between the private sector and Forest and Beekeeping Division and/or *Tanzania Forest Service*¹ regarding sustainable forest management.

V. PROGRAMME DESCRIPTION

V.1. The activities and investments in this profile would comprise a sub–set of the *National Forest Programme* and complement the ongoing PFM activities supported by the government and other donors. The work will be located primarily in those villages across the four regions which already have or plan to establish participatory forest management regimes. In this way the incremental

¹ Much of the work currently carried out by the *Tanzanian Forest and Beekeeping Division* will soon be divested to an executive agency — the *Tanzania Forest Service*.

investment will be focused on those communities where there will be the structure and capacity needed to develop enterprises to add value to forest products. This will cover at least 200 villages covering a minimum of 150,000 hectares of forest land. The exact focus of the Programme will be worked out during technical appraisal, but illustrative areas are listed below that the Programme could focus on. Selection of the final sub-sectors for support will be made according to assessments against the three criteria of sustainability — social, economic and environmental viability.

A. Improved Extraction and Marketing of Timber Products from Village-managed Forest Areas

V.2. For many villages, very real opportunities exist for sustainable management and harvesting of timber resources in miombo areas under their management, following the establishment of PFM. Current systems of timber extraction are characterised by high levels of waste, low levels of timber recovery, low levels of returns to villagers, and lucrative returns for timber traders. Poorly regulated timber harvesting is leading to unsustainable extraction. Potential interventions to reverse this trend which could form the focus of this sub component of the programme include:

- ***Assisting villagers to develop sustainable management plans and then tender forest harvesting plans out to commercial timber merchants and sawmill operators.*** Following research funded by the European Union and undertaken by The *Kilombero Valley Teak Company* (KVTC), and *Sokoine University of Agriculture* (SUA), simple tools for assessing sustainable management options for miombo woodland have now been developed. These tools could potentially be applied to village forest reserves to develop forest management plans and assess potential annual off-take rates. This annual harvest or off-take could be tendered to private sector forest operators who would be granted forest management, rights and responsibilities in return for agreed rents and royalties to the village natural resource management committee. KVTC and SUA are further investigating the possibilities of developing such a leasing system which could be subject to certification by international agencies such as the *Forest Stewardship Council* or *Woodmark*, further increasing returns to both investors and villagers alike.
- ***Improving recovery rates of timber harvesting and milling operations.*** Due to the very low levels of mechanisation in much of the timber harvesting operations, rates of timber recovery across Tanzania are extremely poor when compared to international norms. In many cases it is simply the trunk of the tree that is harvested and the bowl of the tree and all additional branches are left to waste. Also, when the timber is milled, poor milling technology, further reduces the amount of timber that finally reaches the customer. Finally, due to poor treatment of timber between harvest and milling, wood that is milled often warps or cracks due to poor seasoning. There exist a whole range of potential interventions within the timber harvesting, storing and drying, marketing and retailing chain that could increase returns to forest owning communities and contracted private sector operators as well as reduce wastage, thereby increasing efficiency. Opportunities will be developed by the programme for working with up to 50 timber traders and millers, assisting them to link to sources of credit and develop more efficient timber harvesting and utilisation operations. In addition, skills will be improved through a concentrated training programme for labourers working in the businesses.
- ***Facilitating the establishment of small scale sawmillers at village and community level to increase market share and add-value locally.*** Village-level entrepreneurs will be assisted to establish small-scale timber operations enabling villagers to undertake their own processing operations and add value locally, rather than selling either logs or

standing trees. While not all communities can be expected to establish small scale sawmills — only those already involved in harvesting may have the capacity to do so — efforts would be made to facilitate the emergence of a range of community harvesting and processing activities. Many of these could be contracted out to private operators with villages and communities exercising management authority.

- **Identifying and developing markets for alternative timber species.** Currently, timber extraction takes place for a few, well known but highly demanded tree species such as Mninga (*Pterocarpus angolensis*), Mpingo (*Dalbergia melanoxylon*) and Mvule (*Milicia excelsa*). The programme will work with forest researchers locally and internationally to identify and test promising new species in the miombo woodland areas.

B. Marketing of Non-wood Forest Products from Village-managed Areas

V.3. Forests provide a wide range of non-timber forest products for both domestic and commercial use. This operation will identify profitable non-wood forest products and assist villagers with operational PFM plans to increase returns and boost production and product quality. Strategies to be adopted here will include:

- **Increasing local levels of production through expanding production and increasing efficiency.** Honey is currently widely produced across Tanzania, but production methods are rudimentary and result in low levels of output. Through simple technology and application of modern handling techniques farmers can boost production levels two to three times.
- **Improving marketing of produce.** Although significant amounts of forest produce are harvested, poor packaging and marketing often leads to low levels of profit. The programme will assist farmers in improving quality of produce, to undertake collective marketing and to link them to lucrative markets in urban centres such as Iringa, Morogoro, Dar es Salaam, and possible international markets.
- **Improving local processing of specific products.** Almost all non-wood forest products are processed before use, but this processing usually takes place far from the point of harvest. Simple techniques have been developed for extracting oils, and processing raw materials (such as filtration of honey, or drying of mushrooms). This results in reduced bulk, lower transport costs and therefore higher prices profit for the seller. The programme will identify and introduce appropriate processing technologies for testing and wider dissemination.
- **Identifying new or emerging markets.** Internationally there is a strong market for natural products such as oils, resins, waxes, pharmaceuticals and other extracts — that originate from natural forest areas and which are collected by local people. The cosmetic industry has a huge demand on such products (such as the oil collected from Baobab (*Adonsonia digitata*) or the Sausage tree (*Kigelia africana*) fruits and seeds. Traders and exporters in Dar es Salaam will be assisted to identify and penetrate these new markets, and to link downwards to villagers operating PFM plans, to facilitate local collection and sustainable harvesting. In many cases there are strong markets within Tanzania for such products — which are currently being met by imports of cheap oils (such as palm oil from West Africa and Southeast Asia). Initially the programme will target these markets with a view to import substitution. Later on, possibilities for exporting products to European cosmetic markets will be investigated.

C. Sustainable Charcoal Production

V.4. Charcoal represents a huge source of income for tens of thousands of Tanzanians, from the point of production, through to transport, trade and finally to point of sale. However, the fact that almost all charcoal trade is done without paying levies or taxes means that the state captures almost no income. Harvesting is usually done on general land without licenses, transport is often undertaken at night when the police are not there to collect taxes: sales are frequently made through the informal sector without the payment of sales tax or market levies. The total absence of regulation means that harvesting is often done in an inefficient manner, with minimal investment in technology, very low levels of efficiency and high levels of environmental destruction. To date, most of the externally driven interventions in charcoal have tended to focus on production and increasing the level of efficiency by producers, through the development of more efficient kilns, or through substituting alternative fuel sources (such as sawdust waste or coffee husks). Most of these ventures have failed, due to a failure to appreciate the market conditions and economic forces at work.

V.5. Clearly a new approach is needed. This programme will work with three selected districts with a clear commitment to investing in revenue collection and market regulation. A system will be introduced that reduces tariffs, taxes and levies for charcoal traders whose charcoal originates in sustainably managed areas. Villagers who have established PFM and who have demonstrated willingness to enforce sustainable management will be given the option to issue charcoal production permits that are cheaper than those currently available. Collection of charcoal from areas without a management plan will be discouraged through proportionally higher levies and taxes. Districts will be encouraged to “outsource” the collection of forest revenues (as they have now done in at least three districts in the Programme working area) through private sector contractors. Through such a pricing mechanism, it is hoped that traders will be progressively encouraged to obtain charcoal from areas under sustainable management. In addition, it will increase incentives for villages outside the PFM operational area, to establish PFM in their villages, thereby qualifying for this scheme.

D. Delivering PFM Services through Alternative Service Providers

V.6. A pre-condition for much of what has appeared in the above three sections is that forests are under village management and that legal rights have been transferred through the establishment of Village Land Forest Reserves. This requires a considerable investment of time and effort by the villagers — through the elaboration of a detailed management plan, a forest survey and the establishment of legally binding bylaws. Currently, the major service provider in this respect are *Local Government Authorities* (LGA) — who receive block grants from *Ministry of Natural Resources and Tourism* specifically for that purpose. Alternative opportunities exist for both private sector and NGO service providers to fill this niche, but the rather limited supply of competent institutions means that this has yet to take off in any substantial way.

V.7. To address this problem, the programme will identify and train a group of five local NGOs and five private sector service providers in facilitation of PFM services at village level. They will then be encouraged to apply for central government funding from the programme for the provision of local PFM service provision. The contract would be reviewed and approved by the target districts.

E. Timing and Phasing of Activities

V.8. The work proposed by this Profile will last for five years and the main focus will be on identifying both products or sub-sectors and establishing early demonstrable results as a means of

raising the profile of the programme, demonstrating success and building confidence in both the potential of enterprise development and the potential role of the private sector.

V.9. Initially, the operation will develop criteria for selecting suitable districts and sub-sectors for programme support. These will include the existence of an established PFM programme, economic viability (an ability eventually, to sustain itself as a free standing enterprise), social viability (working within existing social and institutional structures without increasing social differentiation) and environmental sustainability (contributing to, or at least not conflicting with, the maintenance of ecological and biodiversity values). Additional criteria such as the ability to achieve early impact or results, the presence of local markets and the availability of reasonable basic infrastructure, so on will also be developed.

V.10. Following this, potential sub-sectors will be identified and then subjected to assessment against the identified criteria for ranking purposes. A final shortlist of districts and sub-sectors will then be identified and programme support targeted accordingly. Because of the complexity of some programme activities, particularly those relating to developing community capacity for harvesting and management, a second phase could be pursued.

V.11. This will be followed by a range of activities such as:

- Market research and identification;
- Participatory forest management capacity development at district and village level;
- Supporting producers, traders, retailers, exporters and sellers to improve market chain;
- Developing markets for potential new products;
- Forming partnerships with private sector to build up production capacity among producers at village level;
- Identifying and supporting links to credit/micro-financing institutions;
- Scaling up lessons learned to other regions and sub-sectors.

VI. INDICATIVE PROGRAMME COSTS

VI.1. Presented in the table below are the estimated costs:

Cost Summary per Component per Year						
Component	Year 1	Year 2	Year 3	Year 4	Year 5	Total (US\$)
1. Training and capacity building	250,000	250,000	250,000	200,000	150,000	1,100,000
2. Micro-projects and local investments	100,000	150,000	150,000	100,000	50,000	550,000
3. Loan guarantee funds		350,000		250,000		600,000
4. Consultancies, market surveys, sub-sector analyses, monitoring and evaluation	250,000	250,000	150,000	100,000	100,000	850,000
5. Contracts to specialist service providers/NGOs	300,000	350,000	400,000	250,000	200,000	1,500,000
6. Programme coordination (*)	750,000	630,000	650,000	670,000	650,000	3,350,000
Total Baseline Costs						7,950,000
Physical Contingencies (2%)						159,000
Price Contingencies (2%)						159,000
Total Programme Costs (US\$)						8,268,000
<i>Foreign Exchange (**)</i>						<i>1,620,000</i>

NEPAD – Comprehensive Africa Agriculture Development Programme
United Republic of Tanzania: Investment Profile
“Small and Medium Enterprises in Support of Participatory Forest Management”

(*) To include transport costs and other investments/equipment.	
(**) Foreign exchange: 10 percent of training and capacity building	US\$110,000
20 percent of consultancies	US\$170,000
<u>40 percent of programme co-ordination.....</u>	<u>US\$1,340,000</u>
Total.....	US\$1,620,000 (20 percent)

VII. PROPOSED SOURCES OF FINANCING

VII.1. Funding for the basic PFM work is currently provided under DANIDA and World Bank support to the forest sector through the *Tanzanian Forest Conservation and Management Project* (TFCMP) in 37 districts in Tanzania. The Government of Tanzania is also committed to providing additional funding for PFM through its own forest retention fund (funds which are retained from collection of forest royalties and levies). Programme partners will also contribute to the cost of programme implementation: the communities by directly participating in the activities (and contributing time, labour and local materials), and the private sector through local investment in processing, microfinance and marketing activities.

VII.2. Additional incremental funding amounting to US\$6.57 million will be required to support implementation of the work outlined in this Profile. The support of the NEPAD Secretariat to the Tanzanian Government is required to identify a suitable source for this incremental finance.

VIII. PROGRAMME BENEFITS

VIII.1. The following three areas of impacts are anticipated from this work:

- Firstly, the establishment of local forest based enterprises will lead to ***increased incomes to rural households***. This is particularly important as many of these communities are remote and currently outside the mainstream of poverty reduction efforts. Where small enterprises and businesses are established, this focus will lead to additional rural employment (for example in processing of honey, harvesting of timber, patrolling of forest areas, collection of seeds and fruits). All of these contribute directly to the governments stated aim of reducing income poverty among rural populations.
- Secondly, the development of economic incentives for sustainable management of forests will lead to an overall ***improvement in forest management***. Currently, as has been described above, forests outside forest reserves are subject to “open access” management, leading to rapid degradation and deforestation and eventual conversion to agricultural land or degraded bush. By placing forests under local management, and by creating economic benefits which depend upon long term forest management, this trend can be reversed. This will lead to maintenance of forest cover and in some cases a recovery of forest and woodland on previously degraded areas.
- Third, improved management of forest resources will in turn lead to an overall ***improvement in the supply of subsistence forest produce for rural householders***, such as firewood, building poles, medicinal plants and honey. The PFM process emphasises, during the preparation of village forest management plans that both commercial and domestic forest uses must be catered for — to avoid the marginalisation of the poorer members of the community who depend most on forest resources.

VIII.2. At the output level, the following benefits are anticipated:

- ***The establishment of sustainable rural enterprises and increased local capacity to engage with the private sector.*** As a means to the above three impacts, the programme will facilitate and encourage the establishment of sustainable rural enterprises — at village levels and above.
- ***Improved links between private sector, local and national government and rural households.*** Currently, a certain level of mistrust exists between national/local government actors and the private sector players in the forestry sector. In addition, the interaction of commercial private sector operations with rural households to date in forestry has largely been exploitative — with villagers either being cheated out of their rightful returns, or simply being co-opted as low paid manual labourers. This programme will attempt to identify “win-win” relationships between these three sectors — which will result in benefits all round, and gradually change perceptions about the potential role of responsible private sector players can play in improving forest management.

IX. IMPLEMENTATION ARRANGEMENTS

IX.1. The operation will be led by either the *Ministry of Natural Resources and Tourism, Forest and Beekeeping Division*, or the *Tanzania Forest Service (TFS)* depending on the current institutional reorganisation within the sector. Daily work programme co-ordination duties will be contracted out to an external consulting firm which would be required to provide staff with hands-on experience from the forestry private sector, as well as specialists with an in-depth understanding of how to support small and medium enterprises (SMEs) in rural areas. While the programme team will report either to FBD or TFS, it will establish close links to private sector players such as saw-millers, forest management and harvesting concessions, beekeepers associations and co-operatives, traders and exporters of forest produce as well as micro-finance institutions (MFIs) and rural banks. It will develop collaborative relationships to specialist organisations and NGOs with experience in developing small scale savings and credit schemes, and with a track record in training rural communities in business development skills, micro-enterprise and business planning and so on. Finally, it will build links to *Tanzania Chamber of Commerce and Industry, Tanzania Investment Centre* as well as other projects working in the promotion of private sector interests in Tanzania. As well as supporting the implementation of project activities, this project unit will strengthen links between private sector and government players.

IX.2. The operation will assist with the development of sustainable sources of financing for SMEs working in the forest sector, through the development of the National Forest Fund. This fund, provided for under the Forest Act, will be financed from all royalties on timber or forest produce harvested in the country, whether on general land, village land or reserved land and used to further support forest management in the country.

IX.3. At the District level, local government will co-ordinate and supervise much of the work, but as with the national level, implementation will be sub contracted to local NGOs or service providers with relevant expertise and experience.

IX.4. At the community level, the operation will work with existing entrepreneurs, established small scale enterprises or local self help groups, savings associations or *Savings and Credit Co-operatives (SACCOs)*. It will not be possible to build completely new enterprises from the ground level up — and the emphasis will be on supporting existing or emerging enterprises. Services will be

delivered at this level through a range of local and national service providers drawn from NGO, private sector and in some cases government sectors.

X. TECHNICAL ASSISTANCE REQUIREMENTS

X.1. The operation proposed in this Profile will entail activities that are new to the forestry sector in Tanzania. In addition to the contractor recruited to coordinate the overall work programme, additional technical assistance, some of it international, will be required. Short term technical assistance (national and international) will be required to provide specialist input for a range of activities, including;

- Market studies and sub–sector analyses for particular products;
- Market development options for particular products and market niches;
- Training in specialist areas such as marketing, processing, packaging, publicity and production technologies;
- Identifying and developing partnership agreements with specialist service providers with proven track record and experience in Tanzania.

XI. ISSUES AND PROPOSED ACTIONS

XI.1. The *Bankable Investment Profile* (BIP) presented here requires further analysis and preparation work before it can be finalised into a detailed proposal. The following areas require further detailed investigation:

- ***Review of potential service providers.*** The programme will need to develop an extensive network of government, non–government and private sector partners if it is to be effective in reaching its goals. Specialist service providers with experience in supporting rural enterprises and developing market strategies will need to be identified and engaged to extend the reach and impact of this programme. However, before doing this, there is a need to undertake a national assessment of potential partner institutions, their current activities and plans, and their capacity and willingness to collaborate.
- ***Current markets and markets trends for forest products.*** A wide variety of forest products are currently traded locally, nationally, regionally and internationally, but knowledge of these existing and potential market opportunities remains patchy, limited and in the hands of a few. There is a need to assess markets for a wide range of forest products harvested from natural woodlands and forests and based on this to direct programme interventions accordingly.
- ***Implementation structure and options.*** There is a need to further understand how the programme can best be managed and institutionalised within the changing structure of the public sector institutions leading the forestry sector. Leadership and overall control will need to be retained within the Ministry of Natural Resources and Tourism but must also adopt a flexible and responsive approach to engaging with the private sector and other actors

- ***Integrating communities into the productive forestry chain.*** As the programme is developed, greater understanding is needed on the constraints to community participation in forestry production. Establishing community based harvesting and processing activities will involve a number of complex technical and financial issues involving acquisition of appropriate technology, establishment of operations and maintenance regimes, financial management systems and technical skills in forestry and timber management. It will take time before full fledged community harvesting and processing activities will emerge and it is likely that only a few communities will be able to move into processing or sawmilling within the next few years. A gradual, phased approach is needed and should be based on an assessment of community capacity. Those communities who already sell standing trees or are involved in harvesting will likely move faster into PFM than those who have little experience managing forests resources.

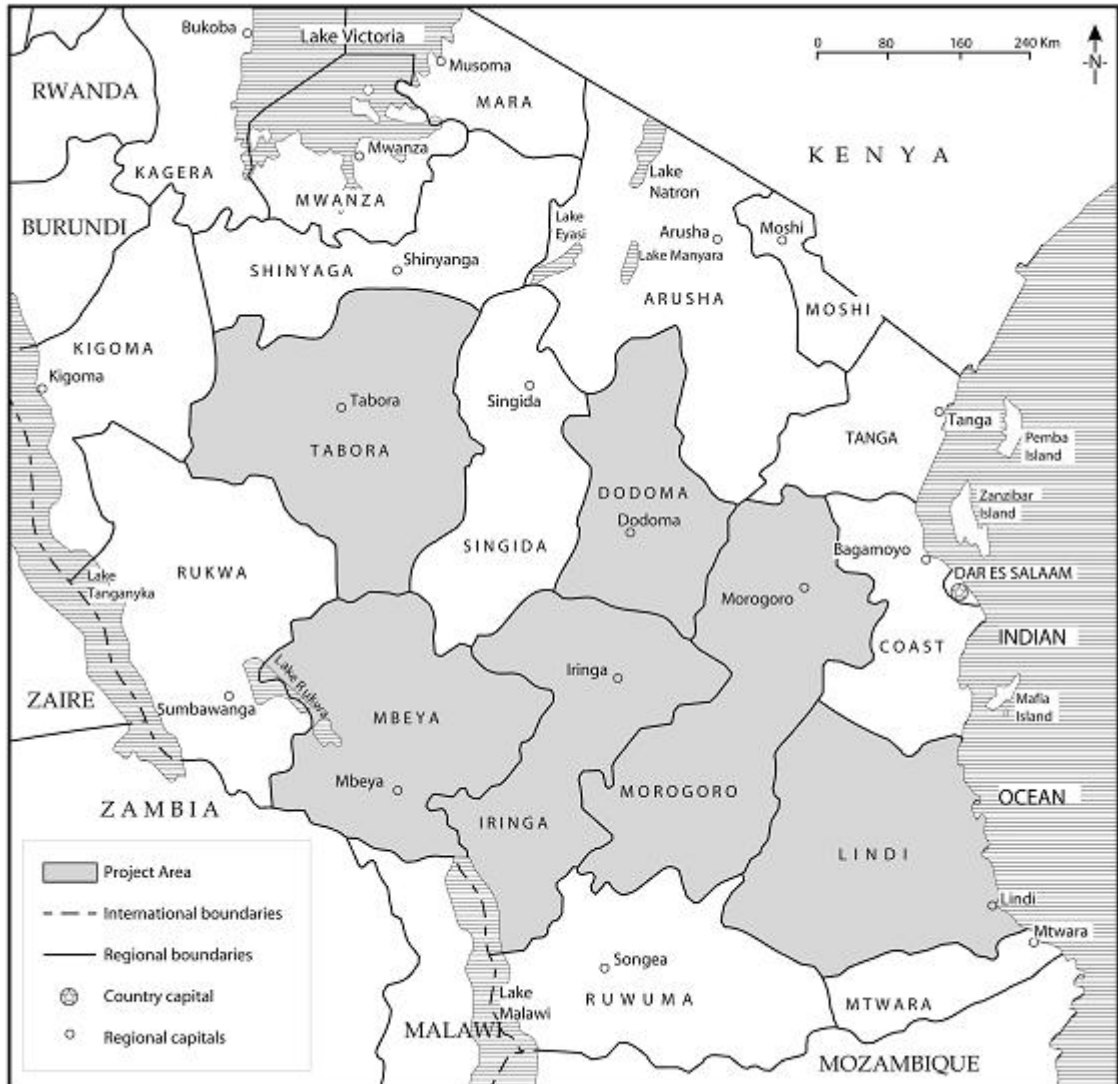
XII. POSSIBLE RISKS

XII.1. The possible risks associated with this operation include:

- The HIV/AIDS pandemic which may result in high staff turn-over, the loss of professional or trained staff and reduced livelihood opportunities amongst resource users
- The current restructuring and multiple “transitions” confronting the GoT at all levels will necessitate flexibility and a revision of the proposed institutional arrangements for implementation. The current status and structure of the proposed *Tanzania Forest Service* remains unclear and as a result implementation responsibilities will need to respond to institutional realities.
- The possible conflicts of interest between the *Forestry and Beekeeping Division* which is responsible for coordination of the PFM Component, and the broad array of partners at national, Regional, District, Division, Ward and Village levels resulting in a delay of the devolution
- The potential reticence of government to embrace and work with a private sector institution may cause delay and obstacles to programme development. The “clash of cultures” between the private sector and central and local government may also cause friction.
- The continued expropriation of forest and woodland areas outside the network of PFM areas by new land-owners, traders and tobacco farmers.
- The vagaries of climate may influence the productivity of local agricultural production systems and hence, greater seasonal dependence on natural resources
- Benefits from PFM may be unequally distributed and may not contribute to poverty alleviation, within poor communities, as they get kidnapped by a few influential people in the village.
- The *Forest, Lands and Village Lands Acts* are not yet fully implemented and have inadequate arrangements for widespread application, or there is a certain level of resistance by civil servants which sometimes constrains implementation.

- Communication and infrastructure levels are inadequate in many remote rural communities where PFM is operational. This may reduce interest of private sector to engage in these areas or make their operational costs prohibitive
- Failure to balance business objectives with those of environmental and social sustainability. Certain activities may have great potential to generate revenue for emerging businesses, but effective social and environmental impact assessments reveal that this may not be compatible with wider sustainability objectives. The need for ensuring these other considerations will be critical during the selection phase.
- The remoteness of many communities living near to or in potential forest areas may mean that potential investment from the private sector may be limited. In addition, their remoteness and poor infrastructure means that their own potential to engage meaningfully in marketing is limited.

Appendix 1: Map of Tanzania Showing the Project Regions



TCI-TCP/URT/2908-3/05-05

Appendix 2: List of References

1. **Alcorn, A.; Kajuni, A. and Winterbottom, B.** 2002. Assessment of CBNRM Best Practices in Tanzania. Final Report to USAID/Tanzania and USAID/Africa Bureau–Office of Sustainable Development, 49 pages.
2. **Danish Ministry of Foreign Affairs and DANIDA.** 2002. Tanzania Participatory Forest Management Component Document 2003–2007. Environment, Peace and Stability Facility – Environment Support Programme Tanzania. 104.10. Tans 1. Mika 22. Copenhagen.
3. **FORCONSULT.** 2003. *Participatory Forest Management in Tanzania.* Baseline District Studies. Draft ms, Sokoine University of Agriculture, Morogoro.
4. **Havnevik, K.J.; Monela, G.; Jingo, R.; Rugumayo, C.R. and Roskaft, E.** 2000. Mid-term Review of Management of Natural Resources Programme, Tanzania, Phase II 1998–2002.
5. **Havnevik, K.J.; Rwebangira, M. and Tivell, A.** 2000. Land Management Programme in Tanzania. SIDA Evaluation 00/4, Department for Natural Resources and the Environment, Stockholm. 65 pages.
6. **INDUFOR.** 2003. *Evaluation of three decades of Swedish support to the Tanzania Forest Sector: 1969–2002.* Final Report submitted to Swedish International Development Agency, Stockholm and Ministry of Natural Resources and Tourism, Tanzania. 2 Volumes, Helsinki.
7. **John, P. and Hamerlynck, O.** 2003. *Collaborative Forest Management: The Rufiji District Experience.* Paper presented at the Participatory Forest Management Practitioners and Facilitators’ Meeting Morogoro, July, ms 18 pages.
8. **Kahemela, A.** 2003. *Linking and Learning from other people’s perspectives in participatory forest management in Tanzania.* A paper presented to PFM practitioners and facilitators meeting on 8th to 10th July 2003 at Oasis hotel in Morogoro. Community Forestry Network – TFCG. Unpublished.
9. **Milledge, S.A.H. and Kaale, B.K.** 2003. *Bridging the Gap: Linking timber trade with infrastructural development and poverty eradication efforts in Southern Tanzania.* A TRAFFIC East/Southern Africa Report, 128 pages, Dar es Salaam.
10. **Moffat, D.; Ngoile, M.; Linden, O.; and Francis, J.** 1998. *The Reality of the Stomach: coastal land management at the local level in Eastern Africa.* Ambio; Vol. 27, No 8.
11. **URT.** 1998. *National Forest Policy.* Ministry of Natural Resources and Tourism. Dar es Salaam, 59 pages.
12. **URT.** 2000. *A review of participatory local level consultative processes in forestry best practices and lessons of experience for designing the National Forest Programme.* Proceedings for the Workshop held at Kurasini, Dar es Salaam, 9th to 10th August, 2000. Ministry of Natural Resources and Tourism, Dar es Salaam. 2 Volumes.
13. **URT.** 2001a. *Community-based Forest Management Guidelines.* Forest and Beekeeping Division, Ministry of Natural Resources and Tourism, Dar es Salaam, 86 pages.
14. **URT.** 2001b. *National Forest Programme in Tanzania 2001–2010.* Ministry of Natural Resources and Tourism, 141 pages.

Internet sites:

www.tic.co.tz

www.tawiri.org/researchreporting.html

www.nfp.co.tz/newsletter/newsletter.htm

www.undp.org/business/gsb/doc