



# New Trends in Ghana's Domestic & International Timber Trade:

Some Implications for Local Livelihoods and Sustainable Forest Management

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## Outline:

- Introduction
- Structural Adjustment, The Forestry Sector and some New Trends in the Timber Trade
- Implications of The New Trends
- Conclusions and Policy Recommendations



## Introduction:

- Paper examines the implications of new trends in Ghana's international timber trade from 1983 relative to:
  - A. Traditional interdependent relationship between the formal & informal wood sectors
  - B. Livelihood of the forest communities
  - C. Forest management
- Trends considered in terms of volume, content and markets resulting from Ghana's 1983 landmark Structural Adjustment Program
- Outline Policy recommendations to address the resulting problems from the program



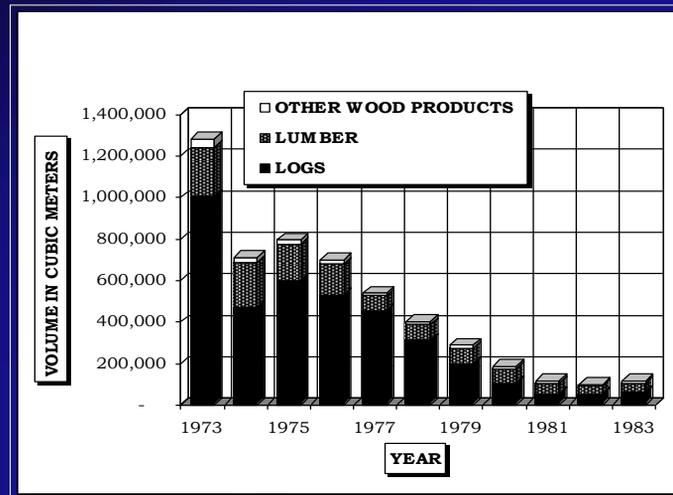
## Structural Adjustment, The Forestry Sector and the New Trends in the Timber Trade

- Pre-1983 (1973-83) international timber trade:
  - dominated by logs export (74%);
  - Smaller volume of processed wood:
    - lumber (23%),
    - plywood & veneer (3%).
- Europe constituted the principal market, consuming at least 50% of total volume exported.
- Relatively easy access to lumber on the domestic market.
- Deterioration of the economy in the '70s and '80s along with a decline in timber export volumes, bottoming out in 1982.



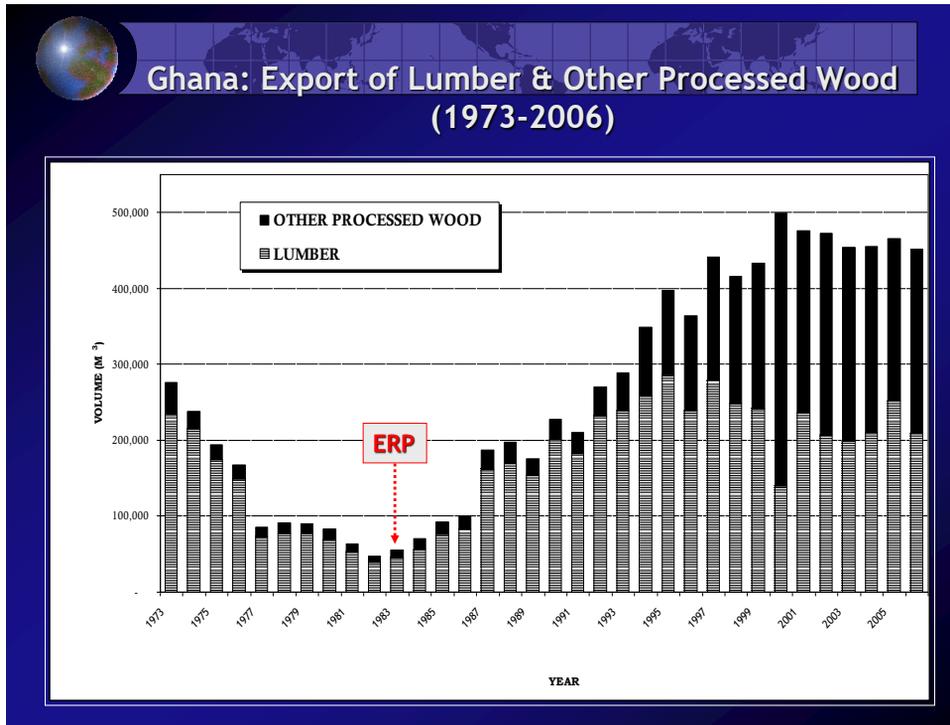
## Volume of Timber & Wood Products Exported

(1973-1983)



## Structural Adjustment & The Forestry Sector

- 1983 marked a watershed in Ghana's international timber trade:
  - Implementation of a World Bank - IMF free-market based Structural Adjustment Program to resuscitate the economy.
- The forestry sector identified as having
  - *"the greatest immediate potential for growth and foreign exchange earnings"* (World Bank)
  - Infused with the second highest sector adjustment loan of \$157m
  - Reorganized and centralized to generate needed foreign exchange
  - Dramatic turn-around with increased exports in processed wood, particularly lumber:



### The New Trends in the Timber Trade:

1. Expanding processed wood exports, particularly lumber;
  - Assisted by the log export ban in the mid-1990s.
  - Increased milling overcapacities
  - Illegal logging & chainsaw lumber production
2. Continued European market domination albeit waning;
  - An average annual consumption of about 89.9% of wood and wood products exports between 1984 and 1990
3. A more diversified market;
  - Relatively new markets like Mexico, Taiwan, Kuwait, United Arab Emirates, and Qatar.



## The New Trends in the Timber Trade (contd):

### 4. Emerging markets in W. Africa

- Niger, Sudan, Gambia, Nigeria and Senegal

→ All with some negative implications for the sector, beyond deforestation:

- A. Marginalization of the Forest Communities
- B. Domestic Lumber Shortage & Constricted Traditional Linkages
- C. Convenience Subcontracting & Export of Wood Processing Jobs



## Implications of The New Trends:

### A. Marginalization of the Forest Communities

- *“Over the years an imbalance has crept in whereby the industrial and national interests have taken precedence over the local community interest”*
  - E. Koffi Smith, TD (Min. of Lands & Forestry)
- Forest communities’ very livelihoods depend on the source of the exported timber but:
  - Receive negligible returns from the destruction of their resources in the generation of foreign exchange
  - Criminalized for use of the resources, and representatives get less than 5% of their royalty entitlements;
  - Receive virtually none of their entitlements to timber rights fees, etc.



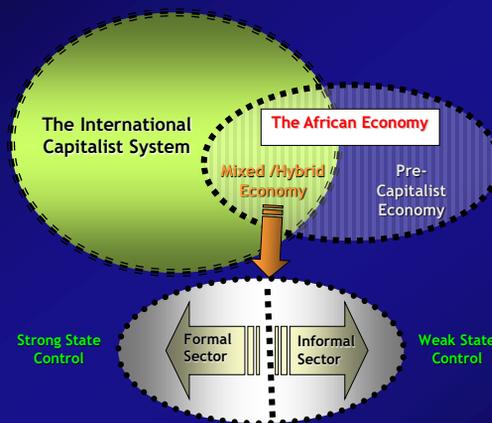
## Implications of The New Trends:

### A. Marginalization of the Forest Communities (contd.)

- Forest communities, largely situated in the sector's informal sector
  - High levels of Poverty and Unemployment
- Local communities own the forests, vested in traditional authorities and managed by the Government. ... BUT are generally discriminated against in benefits sharing:
  - Income generated from international trade does not reflect the real economic, environmental and social value of the resources destroyed to supply the wood;
  - Benefits tend to be enjoyed by the industry's formal sector and international consumers.



## The Formal & Informal Sectors of the African Economy





## Marginalization of the Forest Communities (contd.)

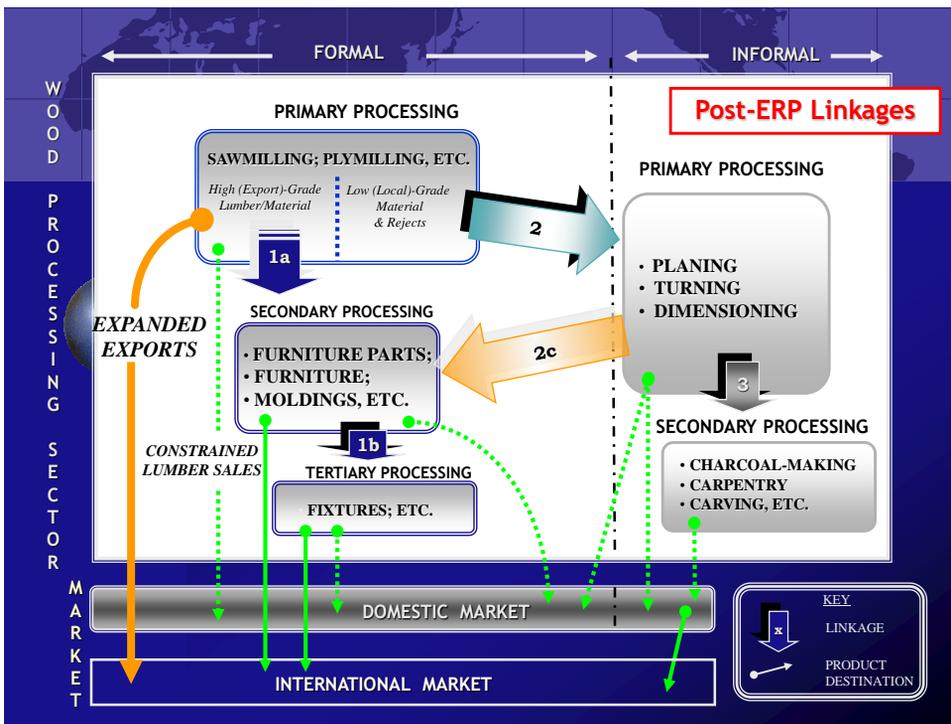
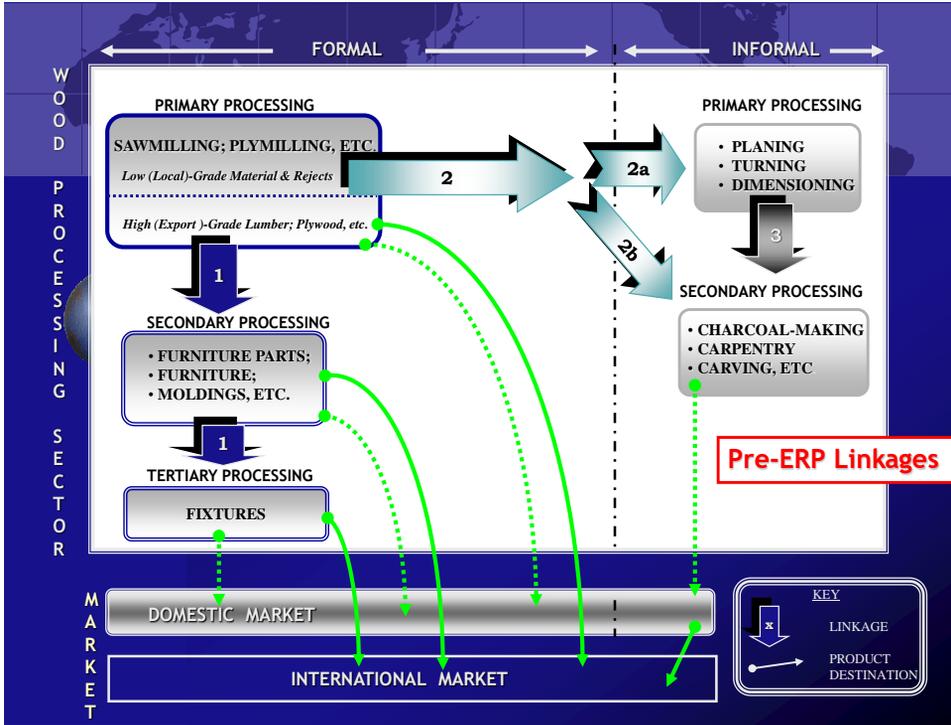
- Centralized approach to benefits sharing:
    - Revenues like timber rights, stumpage fees, income tax & export levy collected by the state
    - Elite appropriation of the forestry-related revenue captured by the state (FERN, 2006)
      - 10% of revenue/royalties from stool lands used for administration of stool lands stipulated in the Constitution (Article 267, sec.6)
      - 20% of remainder to the traditional authority
      - 25% of remainder for the exclusive maintenance of the stool
      - 55% of remainder to the District Assembly of the area of authority where the stool land is situated
- Little or No community vested interest / stake in forest management.



## Implications of The New Trends (contd.):

### B. Domestic Lumber Shortage & Constricted Traditional Linkages

- Emerging forward linkages between sawmills and downstream processors in the formal sector with links to the informal in the Pre-ERP years --
  - Linkages - a basic element in any production network, and a critical element in any regional development equation (Fik 1999):
  - the stronger and more numerous the linkages in an economy, the more likely the economy is to experience and sustain growth:
- Major difference in Pre- & Post-ERP linkage structures:





## *Implications of The New Trends (contd.):*

### **Domestic Lumber Shortage & Constricted Traditional Linkages (contd.)**

- The dramatic expansion in lumber exports to generate foreign exchange, creates a major shortfall on the domestic market, which needs to be met somehow.
- Sawmills are characterized by an overcapacity of outdated and inefficient equipment (ITTO 2005):
  - Increasing overcapacity largely from new investments taking advantage of the relatively cheap raw material and the existing loopholes in investment incentive provisions (Domson et al., 2007).
  - The processing overcapacities contribute to illegal logging and other predatory forestry-related behavior (IUCN, 2006).



## *Implications of The New Trends (contd.):*

### **Domestic Lumber Shortage & Constricted Traditional Linkages (contd.)**

- The informal sector, the locus of the forest communities, is now dominant in meeting the expanding needs of the local market (Birikorang et al., 2001).
  - Chainsaw operators provide 70% - 80% of lumber needs on the domestic market (TBI-Ghana 2003)
- The destruction of the traditional sawmills - downstream processors forward linkage has been detrimental to the forestry sector, -- and the Ghanaian economy.



## *Implications of The New Trends (contd.):*

### **Domestic Lumber Shortage & Constricted Traditional Linkages (contd.)**

- Constrained the crucial integration of the informal sector with the formal.
  - Because the development of an industry's production network entails the creation of jobs as linkages are established intra- and inter-sectorally:
    - jobs that could benefit some members of the forest communities, cutting down the high unemployment rates.
    - Potential jobs are however exported overseas:



## *Implications of The New Trends (contd.):*

### **C. Convenience Subcontracting & Export of Wood Processing Jobs**

- Post-ERP Emergence of an intensified international forward linkage system with the sustained and dramatic increase in wood exports:
  - Firms are vulnerable to external shocks from “just-in-case” strategies of overstocking by buyers and principal firms abroad;
  - Lumber (the major component of the exports) undergoes further processing and furniture parts are assembled, etc., off-shore;
    - Such further processing represent potential jobs that could have been created -- with new investments -- for Ghanaians,
      - particularly members of the forest communities whose natural resources are being exported.



## Conclusions and Policy Recommendations

- Generally, progress made in the government's effort to address the disconnect between the actors and the stakeholders including:
  - New decentralization and forest management measures (ITTO, 2000; and complementary forest policy reforms (ITTO, 2000; Bamfo, 2003, 6-7; Sasu, 2004):
    - A Decentralization law - the 1993 Local Government Act
    - Validation of Legal Timber Program ---- aimed at improving the monitoring of tree harvesting and capturing every single tree in a database for verification;
    - A Timber Utilization Contract system for social responsibility of Concessionaires,
    - Commitment to a voluntary partnership agreement with the EU to improve its trade and production of legal timber
  - Ensuring further progress is needed to give the communities an abiding stake in the process of sustaining the industry & the associated domestic and international trade:



## Policy Recommendations:

1. Dedicated government effort to involve and cooperate with forest communities to combat deforestation and degradation:
  - Formal & informal education encouraging the forest communities to seriously engage in replanting and participate in forest management
    - An adaptable and transparent Decentralization approach via such community participation contributes to the formalization of the informal sector:
      - This requires an empathetic understanding of the informal sector
2. Give the forest communities some formal access to timber for home construction and other basic needs
  - Achieved through agreements among traditional authorities, District Assemblies and other actors and stakeholders,
  - Coupled with a review of revenue sharing to ensure an equitable distribution of royalties and other benefits



## Policy Recommendations

3. A significant proportion of trade revenue expressly set aside to help forest communities exclusively in the form of social and economic infrastructure, and scholarships or financial aid for education for the youth:
  - Executed with the intensity of the PNDC government's unflinching commitment in mobilizing the forestry sector under the ERP to defuse the domestic political and economic crisis it initially faced;
  - Such rural poverty alleviation arrangements could be supported with agreements with major consuming countries to set up special funds to help the forest communities and for forest management.
    - E.g., E.U. countries, China and oil-rich ones like Saudi Arabia and Kuwait.



## Policy Recommendations

4. Develop a well integrated production network in terms of forward and backward linkages, to address the processing overcapacities and provide more jobs:
  - Executed by providing tax and levy incentives to encourage new investments in downstream processing and recovery rates;
  - Integrate the rural folks into wood-processing activities to provide unemployed youth or engaged in informal activities, with jobs.
  - Support financially struggling sawmills to voluntarily leave the industry to reduce the level of processing capacity.

Thank You.