WORKSHOP ON FOREST PLANTATION DEVELOPMENT IN GHANA

FEBRUARY, 1996

THEME:

FOREST PLANTATIONS, THE KEY TO RESTORING GHANA'S FOREST HERITAGE AND ENVIRONMENT

SUBJECT:

INVESTMENT POLICY IN THE FORESTRY SECTOR AND ITS IMPLICATIONS FOR PLANTATION DEVELOPMENT

BY

S. K. APPIAH
MANAGING DIRECTOR
TIMBER EXPORT DEVELOPMENT BOARD

INVESTMENT POLICY IN THE FORESTRY SECTOR AND ITS IMPLICATIONS FOR PLANTATION DEVELOPMENT

BY

MR. S. K. APPIAH, MANAGING DIRECTOR OF TIMBER EXPORT DEVELOPMENT BOARD

The subject of deforestation and degradation of tropical forests has attracted a lot of attention in the last two decades culminating in the Rio Declaration on Forests and Environment in 1992.

This morning we have been told of the extent of deforestation in Ghana and its impact on the sustainable development of both the resource and the industry. Admittedly, no matter how we perceive the problem the future looks gloomy unless corrective measures are put in place soonest.

The main thrust of our forest policy is that our nation's viability is dependent on the wise use of forest and wildlife resources which are vital in maintaining ecological and life-sustaining processes. One major area which has been highlighted in the policy is the development of the artificial silvicultural industry to supplement resources from the natural forest to address the imbalance between supply and demand for the resource. The ultimate objective is to achieve a balance between utilization and conservation of the resource.

Commercial tree planting in Ghana has fallen short of our expectations. The nation can only boast of about 15,000 hectares of plantation established by the Forestry Department in the 60's. The private sector in recent times has shown some interest in plantation development.

At this juncture, I want to cite some of the reasons why investment in commercial tree planting has not been forthcoming.

The long gestation period of growing trees, the insecurity in our land tenure system, unwillingness of the financial institutions to lend money for such ventures and even when they have done it interest rates applicable are non-concessionary, are responsible for some of the causes of low investment in plantation. Uncertainties in marketing, our own cultural attitudes, lack of education on the prospects of commercial tree cropping and the lack of safeguards for full user-right of the product are also responsible for the current situation.

Public policy in most developing world has also aggravated the situation for not given much attention to commercial tree planting partly due to budgetary constraints and partly due to the belief that the natural forest has the capability to sustain the wood requirements of the society and also maintain environmental stability. Recent events have cast doubts on the ability of the natural forest to perform these multiple functions.

This situation calls for the application of fiscal, monetary and other non fiscal and monetary instruments to promote and accelerate tree crop farming in this country. This paper looks at the existing investment incentives as they relate to plantation development and additional proposals by the Forestry Commission to accelerate investments in plantation.
One short-coming in the existing code is that it adopts a laissez-faire approach to investments in the forestry sector. Under the current investment code one only requires approval for investments in mining and petroleum sectors. This in a way has led to over investment in the primary wood processing sector with its attendant strain on the sustainable management of the resource. Although this anomaly is being addressed by the Government, it has serious implications for the supply side of our resource equation.

I wish now to mention incentives in the present code for plantation development.

1. Depreciation allowance of 10% for plantations.
2. Income tax rebate on workers accommodation on the provision of accommodation for employees on farms.
3. Capital expenditure for research and development is fully deductible.

4. Withholding tax rate on dividends is 10%, withholding tax on royalties, management and technology fees is 15% and withholding tax rate on interest has been reduced from 30% to 10%.

5. All machinery and equipment imported for plantation establishment are duty exempt.

Even though these are laudable, exigencies of the present situation have made the Forestry Commission to re-examine the existing code to address some of the short comings in particular as it relates to the forestry sector. In doing this, the commission has been guided by the following principles; that the private sector should be the engine of growth in the sector just like all the other sectors of the economy and that there is the need for economic, development incentives and appropriate fiscal reforms to stimulate private enterprise.
It recognises multiple land use as a way of encouraging joint utilization of land by investors and communities who own the land. Recognition is also given for the need to transform the industry from a high volume, low value business to a low volume, high value trade based on sustainable forest management.

It might be of interest to look at the highlights of the Forestry Commission's proposals and then I will zero in on those areas relevant to plantation development.
The following areas are considered as priority areas for investment in the Forestry sector and have been given pioneer status with all its attendant benefits:

1. Establishment of industrial plantations and farm forestry
2. Establishment of Nurseries for seedling production
3. Rattan/Cane/Bamboo industries
4. Kiln drying and wood treatment
5. Wood Machinery and Furniture Production
6. Processing of plantation timbers
7. Industries based on wood residues
8. Establishment of complementary industries like Glue manufacturing
9. Rehabilitation of existing primary wood processing mills to improve efficiency and rates

e.g. by the addition of finger jointers and laminators.

The commission further proposes zero investment in the primary wood processing sector. The current state of the industry demands that there should be no new investments in Sawmills and Veneer slicers.

With regard to plantation development we have sought to address the land acquisition problem, introduce new fiscal measures and have proposed a funding mechanism to make available soft credit for investments into industrial plantation.

On land acquisition, the key elements are as follows:

a. Joint ventures between landowners and investors should be encouraged.

b. It is proposed that the Government should conduct critical examination of forest reserves that are quite depleted and lease these reserves to private investors who can either enter into joint ventureship with the stools involved or otherwise. In all cases the stools should be adequately rewarded for maximum co-operation and thereby minimize encroachment, other illegal activities and litigation. We are informed that there are thousands of hectors of land which are available and can be released for this purpose. This option if carefully pursued could solve the land acquisition problem and would accelerate investments in commercial tree planting.

c. It is further proposed that existing legislation which limit the lease period for investments in projects which have long gestation periods should be re-examined. The maximum lease period currently is 40 years and there is therefore the need to lengthen this period to give adequate security of tenure to would-be investors.

Additional fiscal incentives which have been proposed with the view to improving the viability of commercial tree cropping are as follows:

It is proposed that income from thinning of industrial plantations should be exempted from income tax. It is also proposed that corporate tax of 8% for industrial plantations as in the case of non-traditional products. It is further proposed that investors in industrial plantations should have income tax relief of 100% for five years from start of production. There is also a tax rebate of 50% of capital expenditure on re-investment for companies involved in modernization of existing production process.

To tackle the funding problem it is proposed to set-up a Forest Development Fund from which investors could have access to credit on concessionary terms. Part of this fund could also be used to support research in tree breeding. It is on the agenda of the Forestry Commission to look into the modalities for the setting up of this fund, however I am sure the Commission would very much welcome inputs and ideas from this workshop.

In conclusion I wish to state that investment incentives per se cannot make the desired impact if the other 'push' factors are not in place. I am specifically talking of technical support and education and making available scientifically produced seed stock to investors.