

Alternative Tenure and Enterprises in Ghana

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KEY FINDINGS

- Ghana's forest policies and legal framework have not been revised to address the changed nature of the forest industry and its resource base. The export timber sector is stagnant and does not supply wood to the domestic market, which results in 70 percent of forest extraction and processing being illegal and creates strong incentives for continued deforestation by farmers and cash-crop interests. Off-reserve areas are not sustainably managed, which jeopardizes informal enterprises that are an important source of revenue, income and employment opportunities, and that have potential for growth.

- While local landowners and chiefs retain strong rights over forests, the dominant control of government agencies and the unwieldy amount of plans, permits, and other regulations encourage deforestation and hamper the strengthening of local enterprises.

- In spite of much more limited available capital, the informal sector generates 70 percent of the formal sector's export earnings and could grow significantly if it had technical and capacity-building support and adequate financing opportunities.

- NTFPs (Non-Timber Forest Products) could play an important role in the country's economy, if they were appropriately managed. Seven selected NTFPs generated \$50 million worth of household consumption in 2007, yet were not accounted for in forestry's 4 percent contribution to GDP; their processing contributes an additional 2 percent. To secure supply of these products, the

government needs to reform plantation policies and secure tenure and access of forest fringe communities to create adequate incentives for responsible management of NTFPs.

- Public institutions continue to have greater access to funds for forest development which discourages forest communities to favor forestry over agriculture or other land uses.

- Revenue collection and appropriations at district and local council levels lack transparency, a situation that can only be improved by strong civil society oversight and through lobbying by farmer owners.

Background

The present country context study¹ is part of a larger body of research on alternative tenure and enterprise models for Central and West Africa which includes case studies from seven countries and two country context studies. As such, it provides a broader context for the individual case studies, as it analyzes the current status of small and medium enterprises (SMEs) at national level and considers their opportunities in domestic as well as regional or international markets.

Forest policy in Ghana is marked by the acknowledgement of local rights over forest resources, while the state retains control over timber exploitation, sharing benefits with local landowners and their chiefs or local councils, but



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1. Gene Birikorang et al. 2008. "Alternative Tenure and Enterprises: Ghana Country Context Study." <http://www.rightsandresources.org>.

limiting access to timber and fuel extraction rights.

During the colonial period, traditional chiefs were recognized as the local authority with rights over resources until 1951 when the Local Government Ordinance mandated the election of local councils; as a result, chiefs and traditional authorities as well as forest owners were excluded from any consultative processes about forests. Concessions were granted which limited access to timber for subsistence uses, but post-1951 there was an emergence of “patronage” systems defining timber commercialization. A collaboration policy which allowed for informed consent and benefit-sharing with local chiefs and councils was established in 1994, but forest owners do not see this being implemented yet.

The Forestry Commission (FC) as a policy-making and oversight body within the Ministry of Forests, Lands, and Mines has the mandate to regulate management of forest resources, with other implementation functions divided among other departments of the Ministry. An institutional framework has been designed for forestry, and legislative and institutional reforms have been undertaken to support, among other things, recognition and safeguarding of resource owners’ rights and access to the very resources they depend, and also to work with communities on forest management plans and practices. Policies relating to these roles are implemented through the Forest Service Division (FSD) of the FC. The Division also collects

stumpage fees as forest revenues and concession rents which are paid to landowners through the Administrator of Stool Lands (AOSL). The Timber Industry Development Division of the FC regulates the timber and wood product trade through inspection and grading.

A focus on maximizing commercial timber trade had brought the industry’s technical capacity to 5 million m³ by the end of the last century, compared to an annual supportable resource limit of 1 million m³ (per government estimate). Industrial-sale concessions comprise a limited share of the productive forest area, and the number of legal extraction and processing operations are now much lower than when timber was abundant. Despite a timber export ban to promote domestic value addition, the industry faces a growing resource scarcity, and traditional exporters avoid sale to domestic markets because of lower prices. Both the reserved forests and off-reserve resources that supported a significant volume of NTFP activities and trade are heavily depleted. There is competition for land among political actors for cash crop expansion and forests. In the 1990s, procedures for prior consent of farmers and



BOTH THE RESERVED FORESTS AND OFF-RESERVE RESOURCES THAT SUPPORTED A SIGNIFICANT VOLUME OF NTFP ACTIVITIES AND TRADE ARE HEAVILY DEPLETED.

landowners for felling trees and granting compensations to farmers for tree tenure existed, but were never institutionalized. Together, these developments explain why illegal chain-sawing began to thrive initially in off-reserves. It provided instant payments to farmers, while landowners sometime turned a blind eye to its occurrence because they had been sidelined in control measures for off-reserves.

Meanwhile, the Forestry Commission has failed to meet even 20 percent of its plantation development target of 15,000 ha per annum. Its plantation system failed because it did not recognize farmers' rights to benefits from plantations, and farmers had no incentives to plant trees. Reform initiatives seeking to give local communities control over off-reserve areas are still a work in progress and agricultural and multiple land-use is not being encouraged, so that forest reserves continue to be exploited.

About 70 percent of the current national harvest is illegal and the informal sector contributes two-thirds of this harvest in order to meet domestic market needs. In addition, between 1975 and 2002, Ghana accelerated its saw-milling capacity and is now facing an acute scarcity of resources. In light of natural forest timber scarcity and poor future prospects, the state has divested most of its interests in commercial forestry to the private sector and promotes a consolidation of the industry, conceding the control of the log market to large-scale formal businesses and, by omission, excluding communities and SMFEs (small and medium forest enterprises).

As a result, in the last two decades, Ghana's economy has seen a shift from small traditional loggers to big industries; these, however, have wasted more than half of the potential revenue through inefficient processing and export of minimally processed wood, and forest owners are unable to benefit from domestic economic activity of the industry or capture any significant government investment from the taxes collected from the industry against the productive value of their resources.

While the industry has expanded in the last 20 years, it still remains largely inefficient by international standards. Its biggest problem is that it must raise and sustain throughput in order to break even while facing a resource scarcity that emerged 10 years ago. The total annual harvest currently is over 3 million m³ while it has been established that only 600-800,000 m³ can be sustainably removed (per estimate by the research community). By contrast, small forest operators, including communities and SMEs who operate almost wholly in the informal sector, receive little support. The potential these enterprises can play in the national economy has been severely underestimated as their activities are either non-monetized or not recorded in national statistics.

The Informal Forest Economy

An overview of Ghana's forestry industry shows that most of the enterprises depending on illegally harvested products and most jobs are concentrated in the informal sector, albeit illegally. The role this informal sector plays in Ghana's forest industry is expanding. Table 1 shows a concentration of export industry in logging and primary processing, with fewer processing units than historically and many informal small-scale wood producers.

The informal wood sector owns 75 percent of the wood-processing entities and in 2007 had a

TABLE 1. SIZE OF THE GHANA FOREST INDUSTRY, 2006

Logging Operations	511
Saw-milling Operations	190
Ply-milling Operations	15
Veneering Operations	23
Lumber-processing Operations	36
Furniture-parts Companies	40
Small-scale Carpenters (Association)	40,000

Source: TIDD/FC.

turnover that was on par with the formal sector. Turnover from lumber processing is about 20 percent higher than the formal sector export trade, while the formal sector's tertiary processing for export only amounts to 40 percent of the informal sector estimate. Thus, the informal sector with its "small capital" is generating a turnover that equals 70 percent of the formal sector's total export earnings. Studies show that an investment of US\$100,000 in informal SMEs could generate high value-addition with a high return.

THUS, THE INFORMAL SECTOR WITH ITS "SMALL CAPITAL" IS GENERATING A TURNOVER THAT EQUALS 70 PERCENT OF THE FORMAL SECTOR'S TOTAL EXPORT EARNINGS.

Although small and medium forest enterprises (SMFEs) are somewhat hindered by technical inefficiencies, consuming almost as much timber as the formal sector, and although they do not contribute as much in tax payments as the formal sector, the difference in turnover opportunities makes up for these shortcomings. In addition, the informal sector adapts more easily to new species as traditional ones become scarce. The challenge is

to adjust the policy, regulatory, and support environments to make these enterprises more sustainable and build their long-term competitiveness and capacity.

There is an informal production sector that is as large as the formal, in terms of roundwood consumption. It accounts for 50% of the national harvest and largely operates on the consent of land owners and farmers in off-reserves, and in the case of forest reserves, sometimes with the consent of technical (junior) forestry officials. To a significant extent too, they have involved "poaching." This informal operation evolves around urban elite businessmen who engage rural-based operators to process logs at forest stumps by inefficient methods (chain sawing). Direct payments are made to landowners or farmers for trees, rural youths engaged to transport processed beams by head-loads to road sides for transportation to markets. Informal payments are made along transport routes and to other 'state agents.' In 1999, such informal payments amounted to US\$ 4.5 million, or 80% of official forest stumpage fees collected by the State (Birikorang et al., 2001). This informal production chain is criminalized under Forest Resources Management Act (1997), Act 547 that prohibits the use of chain saw to produce lumber for commercial sale.

Non-Timber Forest Products

NTFPs are an integral part of Ghanaian society's livelihoods. They encompass a wide range of products and are used both within local communities but also in urban areas where they are often processed and sold. Generally, the following NTFPs are most widely traded, subject to seasonality: Akpeteshie (local dry gin), palm wine, bush meat, firewood, charcoal, wrapping leaves, cane and rattan, chew-sponge, sponge, snails, pestles and mortars, mushroom and carving. Based on a 1995 survey, some 420,000 people are estimated to be involved in the primary stages of

TABLE 2. HOUSEHOLD EXPENDITURE ON SELECTED NTFPS
(1995; IN MILLION GHC)

Akpeteshie (Local dry gin)	26
Charcoal	24
Firewood	8
Bushmeat	7
Household furniture	5.6
Palm wine	2.7
Snails	1.5
Honey	0.6
Total	75.4

NTFP gathering and sales, but only about 10 percent of these are full-time employees. Since the late 1990s, NTFP resources in off-reserve areas have become severely depleted and many of these NTFPs have largely been sourced from forest reserves.

In terms of 2007 prices, a 1995 survey on national household consumption of only eight selected NTFPs – all involving myriad small-scale actors – amounted to US\$50 million. This suggests a potential consumption tax contribution from these NTFPs equivalent to 80 percent of stumpage fees paid by the formal sector forest industry. Existing studies estimate NTFPs generate more value per ha than timber – the market values of 10 threatened NTFPs and bush meat together are estimated at US\$100 million, about 50 percent of the value of timber and wood products – but this is hardly captured in the 4 percent the forestry industry is said to contribute to GDP. If NTFPs were regulated, they could substantially enable community enterprises to improve livelihoods and could also contribute to state revenues in a way that is comparable to the formal sector.

THERE IS AN INFORMAL PRODUCTION SECTOR THAT IS AS LARGE AS THE FORMAL, IN TERMS OF ROUNDWOOD CONSUMPTION.

The cases of cane and rattan are illustrative examples of the potential economic importance of NTFPs. A rattan or cane harvester earns on average approximately GH¢200 (US\$200) per month. This is equivalent to US\$7 per day, which is three and a half times the statutory minimum wage in Ghana.

The Brotherhood Cane and Rattan Weavers Association (BCRWA) estimates that the cane and rattan weaving industry itself currently employs about 2,000 people. The industry is mainly concentrated in Accra, Kumasi, and Sekondi-Takoradi – the three largest cities in Ghana. BCRWA reckons that its approximately 150 members are capable of managing and training 50 apprentices per enterprise. About 30 trained hands would be capable of setting up their businesses after 5 years, if they had access to soft loans; the cycle could then be repeated. According to BCRWA, at least a third of its members have the potential to become parent trainers for new business owners. As a result, in 10 years, this sector could generate close to 60,000 employment opportunities, about twice as many as the formal wood sector generated in 1999.

The permit systems for harvesting cane and rattan are extremely time-consuming for harvesters. A cutting permit is required to have access to the forest and approval for specified volumes of materials. The permit issued is in the form of a receipt covering the number of bundles the prospective permit holder applied for. The above procedures lend themselves to a wide discretion of administering FSD staff. Pre-inspection is done by the applicant because the Technical Officer (TO) in charge is not informed on location of harvesting sites, nor does he have an impression on stocks. Post-inspection, however, must be done by the TO, which takes about 2 weeks, because the TO is always on errands and is not easy to locate. This increases the bush expenses of the harvester-suppliers. In all it could take 30-40 days for a cane and rattan dealer to

complete one business cycle (from harvesting to delivery to markets). According to harvesters, the authorization process, harvesting and transportation of cane and rattan under the current tenure system, dominated by Forestry Commission's "right to hold, regulate and manage" are both frustrating, put a strain on harvesters and involve costly procedures. Transaction costs alone could approximate the whole margin of one business cycle, or 25% of harvester's annual income.



owners' rights and also the possibility to combine these with rights to manage shares of Taungya; SMFE tertiary processing and small plantations demonstrate potential profits, and an equity stake in these can be traded-off in joint ventures and hence present an opportunity for equity financing without state capital.

A NUMBER OF LEADING THINKERS FAVOR SHIFTING GHANA'S CURRENT TENURE AND BUSINESS STRATEGIES TO ALTERNATIVES THAT ENHANCE THE ROLE OF COMMUNITIES AND SMFES.

Strengthening of Small and Medium Enterprises and Community Enterprises

Opportunities to support small forest enterprises in their efforts to contribute to growth and reduce poverty exist in the form of tenure and business propositions: The Forestry Commission's FC revision of the Taungya System (Modified Taungya System or MTS) represents a recognition of forest

A number of leading thinkers favor shifting Ghana's current tenure and business strategies to alternatives that enhance the role of communities and SMFEs. Studies of the African Tropical Forest Region suggest that generally there is a favorable balance between population and forest resources. Taking advantage of the multiple functions of the tropical natural forest means for Ghana to improve and develop the competitiveness of the tertiary wood-processing and NTFP industries while involving community and SMFE ventures. This can be enhanced by collective ownership of forests, a phenomenon that is fast emerging in other developing countries, but not in Africa. Fiscal policies can be adjusted so that big logging companies have incentives to partner with

communities and SMFEs and operate in compliance with high forest standards and forest working plans in both timber and non-timber forest product ventures.

Frequently, policies and practices of the formal wood industry have excluded forest communities – a missed opportunity, considering that 1) globally 50 percent of industrial round wood in the United States, China, and Northern Europe come from small family and community forests, 2) 25 percent of world's forests are owned or managed by developing country communities, a number that has doubled in the last 15 years, and 3) small forest enterprises generate \$130 billion in traded value globally. Case studies show returns from plantation lands and SMFE wood processing to be higher than those from financial bonds. All this indicates that concentrating attention on big business whose growth will have a trickle-down effect to reduce poverty through tax payments is misguided. By contrast, small forestry enterprises have been shown to contribute to the well-being of local

communities, while generating important incomes and economic returns.

However, communities and SMFEs face a number of challenges and constraints when it comes to access to forests and markets. Access to wood supply is one of them. Currently, communities living on the forest edges must purchase sawn lumber from timber coming from locations 100 km or more away. Timber from nearby forests, available through informal chain sawing, is considered illegal. SMFEs are also challenged to generate and maintain local employment opportunities in cases where they have to compete with nearby larger companies, even though these large-scale operations are based on unsustainable methods.

The government can support SMEs and local wood supply by removing barriers, developing policies that include SMFEs, and by improving overall governance of the forest sector so that it enables the growth of these enterprises. Policies that legitimate forest owners and budget allocations need to be implemented, i.e. the institutional framework that would support private plantation

initiatives and give them the same access to the Plantation Development Fund that public agents have that create state-owned or -managed plantations.

The Modified Taungya System (MTS) should guarantee planters' property rights and sustainability of the system. Farmers need to feel confident that their rights will not be taken away in the medium or long term. Land tenure arrangements should provide sufficient security for sustainable tree plantation investments. In addition, SMFEs would benefit from support programs in capacity-building, as well as access to adequate financing measures, including micro-financing.



Poverty reduction does not come merely by generating revenue flows to communities. There must be local transparency in financial appropriations, higher levels of consultation, and increased accountability of the district assemblies that receive 55 percent of forest revenues meant for forest owners but do not invest in the forest communities that were intended to benefit from these revenues.

A wide range of recommendations emerge from this contextual study that can progressively be developed into negotiating elements between policy makers, civil society, and forest owners with the overarching objective of enabling community and SMFE participation in forest management, business and conservation, and averting discriminatory tendencies of forest and financial policies.

Reference

See Alternative Tenure and Enterprise Models: “A Ghana Cane and Rattan Weaving Case study;” Study Prepared By Hamilton Resources and Consulting for Rights and Resources Initiative, Washington; 2008

LEARN MORE

This is part of Rights and Resources Initiative’s work on Alternative Tenure and Enterprise Models (ATEMs) program, which aims to identify and promote alternative models to forest ownership and management that alleviate poverty among forest peoples in Central and West Africa. More information is available at www.rightsandresources.org.

Photo credit: Hamilton Resources and Consulting, Accra

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