



Business Environment Reform Facility

A Diagnostic Assessment of Business Environment Constraints Facing Mozambique's Forestry Sector

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About Business Environment Reform Facility (BERF)

BERF is funded by the UK Department for International Development (DFID) under the Business Environment for Economic Development (BEED) Programme. BERF is a central facility responding to demand from the DFID's priority Country Offices and stakeholders to initiate, improve and scale up business environment reform programmes. BERF is managed by a consortium led by KPMG LLP. The programme started in January 2016 and will finish in January 2019.

We provide expert advice, analysis of lessons learned, policy research about what works and what doesn't and develop innovative new approaches to involving businesses and consumers in investment climate reform.

BERF has a strong emphasis on strengthening the Business Environment for women and girls, as well as for young adults more generally. It is also aiming to improve the relationship between business and the physical environment including where relevant through linkage to climate change analysis. BERF recognises the need for appropriate political economy analysis in order to underpin business environment reform processes and interventions.

About this Report

Research for this study was conducted by Caronwen Davies between September and December 2016. Additional documentary research was conducted by Rosta Mate in January 2017.

The views contained in this report are those of the authors and do not necessarily represent the views of KPMG LLP, any other BERF consortium member or DFID.

This is a working paper shared for discussion purposes only. No reliance should be placed upon this report.



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Acronyms and Abbreviations

AAC	Annual Allowable Cut
ACIS	Commercial, Industrial & Services Association
AEO	Authorised Economic Operator
AQUA	Agency for the control of Environment Quality
BI	Identity Card
CACM	Arbitration, Conciliation and Mediation Centre
CCT	Consultative Labour Commission
CIP	Centre for Public Integrity
CoC	Chain of Custody
CPI	Investment Promotion Centre
CSO	Civil Society Organisation
CSR	Corporate Social Responsibility
CTA	Confederation of Business Associations of Mozambique
DFID	UK Department for International Development
DINAT	National Directorate of Land
DINAF	National Directorate of Forests
DNAS	Directorate of Agriculture and Silviculture
DUAT	Acquired land use right
EIA	Environmental Impact Assessment
EMAN	National Business Environment Improvement Strategy
FAO-TCI	Food and Agriculture Organisation of the United Nations- Investment Centre Division
FDI	Foreign Direct Investment
FIP	Forest Investment Program
FLEGT	Forest Law Enforcement, Governance and Trade



FSC	Forest Stewardship Council
GAZEDA	Zambezi Valley Development Office
GDP	Gross Domestic Product
GoM	Government of Mozambique
GTZ/GIZ	German Technical development aid agency
HCV	High Conservation Value
ITC	Community Land Initiative
IFC	International Finance Corporation
IIAM	Mozambique Agrarian Research Institute
ILO/OIT	International Labour Organisation
INDC	Intended Nationally Determined Contributions
INE	National Statistical Institute
INEFP	National Employment and Vocational Training Institute
INNOQ	National Quality Standards Institute
ITTO	International Tropical Timber Organisation
IUCN	International Union for Conservation of Nature
LWP	Let's Work Programme
MASA	Ministry of Agriculture and Food Security
MASC	Civil Society Support Movement
MCC	Millennium Challenge Corporation
MEF	Ministry of Economy and Finance
MITADER	Ministry of Land, Environment and Rural Development
MITESS	Ministry of Labour, Employment and Social Security
MOLA	Mozambique Land Action Programme
MSME	Micro, small and medium enterprises



NGO	Non-Governmental Organisations
OAM	Mozambican Bar Association
OCAM	Mozambican Auditors and Accountants Organisation
ORAM	Organisation for Refuge, Asylum & Migration
PEA	Political Economy Analysis
PPD	Public Private Dialogue
PIREP	Technical and professional training programme
PPP	Private Public Partnerships
PROFOR	Program on Forests
R&D	Research & Development
REDD+	Reducing Emission from Deforestation and Degradation
S4E	Skills for Employment
SADC	Southern African Development Community
SDAE	District Economic Activities Service
SIDA	Swedish International Development Agency
SME	Small and Medium Enterprises
SMFE	Small and Medium Forest Enterprises
SPFFB	Provincial Forest and Wildlife Services
TVET	Technical Vocational Education and Training
USAID	United States development aid agency
VAT	Value Added Tax
WTO	World Trade Organisation
WWF	World Wide Fund for Nature



Executive Summary

Mozambique's forestry sector is not meeting its potential to contribute to GDP growth and rural incomes. Harvesting is not being sustainably managed and value addition to forest products is low. This report examines the business environment (BE) constraints facing Mozambique's forestry sector, including forest sector governance and the legal, regulatory and institutional conditions that govern business activities in log harvesting and downstream wood processing. Before analysing specific constraints, an overview of the sector and its contribution to Mozambique's economy is provided, as well as a discussion of governance structures and key stakeholders.

The constraints affecting natural forest timber harvesting, transport and export are then discussed. This report's key priority recommendations relate to overall forestry sector governance, policy-making and enforcement. These include supporting the national forestry inventory process, establishing a more accurate annual allowable cut (AAC), spatial planning, and enforcement at the national, provincial and district levels. Given challenges relating to transparency and illegal logging, careful political economy analysis (PEA) and public-private dialogue will be critical to the design of donor partner interventions.

Constraints to downstream wood processing industries include the focus on exports of logs and roughly-sawn wood, lack of investment and poor policies. Key recommendations include strengthening policies to promote the development of a value added wood processing, including most urgently the implementation of the 1 January 2017 log export ban, and the development of construction materials standards. Lower priority reforms include improving access to markets and addressing regulatory constraints on trade.

Moving to the plantation forestry subsector, this report examines some of the key legal, regulatory and institutional constraints on plantation forestry, which has a long history in Mozambique and has the potential to create jobs, engage local communities and support downstream economic activities. Critical support to policy-making for this subsector is recommended, including strengthening key institutions and developing appropriate laws and regulations.

The last three sections examine constraints in several cross-sectoral areas of regulation, including land access and administration, tax policy and access to information, along with specific reform recommendations.

Key cross-cutting issues, including deforestation, climate change, informality, forest community participation in the sector and gender are discussed throughout the report and inform many of the recommendations.

1. Introduction

1.1 Objectives

The objectives of this diagnostic study are to:

- 1) Identify sector-specific business environment (BE) constraints faced by enterprises in the forestry sector in Mozambique, and
- 2) Make workable recommendations to the Government of Mozambique, DFID and the World Bank for possible forestry sector-specific BE reform interventions that can mitigate binding constraints, promote inclusive growth and sustainable management of forest resources.

1.2 Scope

This report uses the Donor Committee for Enterprise Development (DCED) definition of the BE: the complex of policy, legal, institutional, and regulatory conditions that govern business activities, which includes administration and enforcement mechanisms established to implement government policy and institutional arrangements that influence the way key actors operate (White, 2015). This definition does not include broader investment climate factors such as political stability, economic predictability, the openness of financial and labour markets, the broader rule of law, infrastructure or workforce skills. The forestry sector is defined here as including log harvesting, transport and export, downstream wood processing such as sawmilling, log export, and tertiary wood processing such as kiln drying, veneer, plywood, mouldings, joinery and furniture. Policies and laws affecting both the natural forestry and plantation forestry subsectors are covered. Many formal and informal entrepreneurs and Micro, Small and Medium Enterprises (MSMEs) in rural communities in Mozambique depend on the forest for their livelihoods; both formal and informal actors are considered as stakeholders. The scope of this study does not include detailed analysis of BE constraints at the value-chain level, nor does it separately examine non-timber product (NTFPs) value chains such as honey, handicrafts, charcoal and firewood or “roadside” carpentry. Environmentally sustainable management of natural resources and climate change resilience, as well as gender are considered as crosscutting issues.

1.3 Method

Mozambique is ranked 137th out of 190 economies in the World Bank's Doing Business survey¹ and 133rd out of 138 economies in the Global Competitiveness Index for 2016-2017.² Such general BE and competitiveness surveys provide only a broad economy-wide snapshot of the BE and are of limited use in identifying sector-specific BE constraints. In the case of the forestry sector, a number of diagnostic tools have been developed, including the Forest

¹ <http://www.doingbusiness.org>

² <https://www.weforum.org/reports/the-global-competitiveness-report-2016-2017-1>



Investment Attractiveness Index (earlier at the IDB, but now in the non-profit organisation Sustainable Forest Business) and DANA/RISI Tree Farm Investment Attractiveness Ranking. For a number of reasons, including the high cost of using these tools and limited demand from investors, neither has been used extensively and there is little country coverage—and in any case there are no reports from either on Mozambique (Castrén, Katila and Lehtonen, PROFOR, 2014).

This report is based on a desk review of journal and newspaper articles, research papers, donor-funded studies and government policies, and laws and regulations. A number of studies on the forestry sector in Mozambique have recently been funded by the World Bank; these were provided to the BERF team. In-country stakeholder consultations in late 2016 validated findings and identified undocumented constraints; a list of persons contacted is set out in Appendix 2. This report provides an overview of the sector, analyses the issues identified, and provides recommendations for reform.

2. Overview of the forestry sector

2.1 Overview of forestry sector and contribution to economy.

Mozambique is endowed with extensive natural forest areas and other vegetation types covering around 70% of the country's land surface, of which around 50% are considered productive forests with potential for commercial timber production (Marzoli, 2007). The provinces with the greatest extent of productive forest are Niassa, Zambézia, Tete, Cabo Delgado and Nampula. There are over 120 commercial species in these forests, which have been classified into five grades: Precious, Class 1, 2, 3 and 4. These grades generally reflect the current demand and commercial value of the timber and each grade has different taxes and export regulations. Mozambique is estimated to have approximately total commercial reserves of 1.74 billion m³, of which 4% is precious, 21% is Class 1, 44% is Class 2, 14% is Class 3 and 17 is Class 4. (Mackenzie, 2014). The volume of high-value hardwood timber is only about 7% of total reserves and is rapidly declining.

The forestry sector dates back to colonial times, but collapsed during the civil war. It has been slowly rebuilding, but industrial logging over the last fifteen years has been primarily for export to the Chinese market, where there is strong demand for several species of hardwood logs. There is a high rate of illegal logging and export of high value precious and Class 1 hardwood timber to China. Downstream processing industries, such as sawmilling, remain underdeveloped and focus primarily on low-added value milling to produce rough-sawn green timber. There is little investment in modern tertiary wood processing (e.g. kiln drying, veneer, plywood, moldings, joinery and furniture), and few exports of such value added products. The forestry sector is largely dominated by small and medium scale timber processing industries, providing formal and informal employment to around 600,000 people (Fath, 2001; Nhancale et al, 2009).

The forestry sector is estimated to constitute only 1.5% of legal exports by value and between 5% to 9% of the country's GDP but the data is unreliable (IPEX, 2003; Nhancale et al., 2009, www.indexmundi.com). At the same time, about 80% of the Mozambican population relies heavily on forests to secure their livelihood including as a source of employment, income, food, construction material, medicine and other services (Campbell et al, 2007). Forests contribute to around 82% of total domestic energy supply in the form of firewood and charcoal (Ministry of Energy, 2012). Firewood is mostly used in rural areas and small-medium scale industries, while charcoal is the main fuel for the urban population (Falcão, 2008). The fuel woods supply chain is informal and largely uncontrolled, it is a serious contributor to loss of forest cover (Pereira et al, 2002). The forest sector plays a role in the provision of other forest services such as eco-tourism, biodiversity conservation and carbon sequestration schemes (Nhancale et al, 2009).

2.2 Governance of the forestry sector

2.2.1 Government policies and priorities

Mozambique's National Government Programme (2015-2019) has as its central objective to improve the livelihood of the Mozambicans, increase employment, increase productivity and competitiveness, and promote sustainable as well as inclusive development.

The Policy for the Development of the Forestry and Wildlife Sector (1997) establishes four main objectives: economic, social, ecological, and institutional.

- The economic objective is to promote the engagement of the private sector in sustainable management and generation of income by adding value to forest products;
- The social objective aims to encourage communities to participate in the sustainable management of forest resources through the adoption of good practices and derivation of tangible benefits;
- The ecological objective is to conserve a forest resource rich in biodiversity and provide environmental services such as watershed and soil protection; and
- The institutional objective aims to equip all levels of forest administration with the capacity to formulate policy and ensure its implementation through monitoring.

The forestry and wildlife policy is based on the assumption that forest resources should be managed to contribute to economic development, and therefore poverty alleviation, while ensuring sustainability and the supply of goods and services.

2.2.2 Legal and regulatory framework

The principles of the Forest and Wildlife Law of 1999 are preventing damage, establishing responsibilities for remedying the degradation of resources, collaboration between communities and local government institutions, and research and participation by the private sector in value addition as well as local economic development. A list of key laws and regulations is set out in Appendix 3. We note that legal and regulatory amendments are being developed at the time of writing, in part due to the announcement of a ban on the export of all unprocessed timber as of 1 January 2017.

Overall most observers agree that the current policy and legal framework is adequate but implementation and law enforcement remain problematic. For example, the activities of simple licence and concession holders are not monitored closely, illegal logging and export of valuable species is widespread and legislated benefits are often not delivered to communities (Mackenzie, 2014; Ogle and Nhandumbo, 2006). Similarly there is a lack of transparency and insufficient public private dialogue (PPD) in policy and legislative activity.



2.2.3 Institutional framework

The forestry sector can be divided into two broad sub-sectors: natural forest and plantation forest. Until 2015, both sub-sectors were overseen by the former Ministry of Agriculture, but several other ministries and agencies were also involved in forestry. The new government established a new Ministry of Land, Environment and Rural Development (MITADER) to consolidate natural forestry governance. Publicly acknowledging challenges in forest sector governance and problems with illegal logging, MITADER has announced a number of initiatives to address these problems, including a review of existing forest concessions, a review and update of laws and regulations, a ban on all log exports and a number of other programmes, which are discussed below.

MITADER's oversight of the natural forestry sector takes place primarily through two key departments: National Directorate of Land (DINAT) and the National Directorate of Forests (DINAF). DINAF is responsible for policymaking and legal and regulatory reforms, establishing norms for licensing, promotion of forest resource processing and community participation in the management of natural resources.

MITADER has set out its natural forestry sector policy in the Integrated Sustainable Rural Development Programme 2015–2019 (Programa Estrela). A key part of this programme is the *Floresta em Pé* (Standing Forests) initiative, which aims to promote sustainable forest management (including forest management certification) and prevent illegal logging.

The regulation of the plantation forest subsector, however, remains under the new Ministry of Agriculture and Food Security (MASA). MASA's mandate comprises policymaking for agro-forestry plantations, including commercial and energy plantations. A more detailed discussion of MASA's mandate and institutional capacity is set out in Section 5 (Plantation Subsector). MITADER remains involved in the supervision of reforestation activities and certain plantations, including community-based and conservation plantations.

Figure 1: Key Actors (Adapted from Mackenzie, 2004)

Simple Logging Licence Holders (Mozambican nationals, with a quota limited to 500 m3 per year). The DNTF (now DINAF) has stopped reporting the number of annual simple licensees but in 2009, there were 479. This is far more than the provincial services are able to monitor and control. Some of the licensees are professional loggers, but many are individuals attracted into forestry by the possibility of high profits. Increasingly in recent years, licences are obtained with the intention of selling them on to a professional logger or to a trader.

Industrial Operators are companies, mostly foreign-owned (traditionally from Europe and South Africa), with an established processing industry, and history of supplying sawn timber and finished products to the domestic, regional and international markets. Most also have

concessions now, but some buy logs from other operators. When the Chinese traders arrived, some moved into selling logs, as payment was on a cash basis and more profitable.

Concession Operators are companies with long-term logging concessions. Under the law, they are required to have an associated lumber processing activity, but many maintain their concession applications “in process” and are still allowed to log in their proposed areas under simple licences without establishing an industry, even if they are not Mozambican nationals. In 2009, there were 92 active concessions, and a further 75 “in process”.

Trade Associations: Various forest operators have national and provincial trade associations, typically separate for simple licence and industrial/ concession operators, lobby for their members with provincial and national authorities.

“**Furtivos**” are unlicensed loggers or timber buyers who take timber wherever they can find it, and typically sell them on to exporters. Some furtivos supply the domestic market.

Traders/exporters have been the single most important actors in the sector. The Asian buyers, in particular, created a cash market for raw logs primarily to supply the Chinese market, and provided finance for people to obtain simple licences. Over time, their investment in the sector increased, first importing trucks to expand into the lucrative log transport business, and finally into the more complex business of concession management.

Many have established their own simple sawmills to carry out the rudimentary processing required for export, creating a false impression of an expanded forest industrial sector. There is considerable turnover of small Asian timber traders in Mozambique, with a core of companies, including Chinese state-owned enterprises with longer-term interests.

Forest- adjacent or forest-resident communities are involved in the sector in various ways. Men are often employed as manual labourers by forest operators, women sometimes support the logging camps. In some communities, groups of men, often under the direction of the local leader, cut the timber on their own initiative and then try to sell it, or respond to log orders from illegal buyers. Since 2006, the government has been implementing the requirement to pay 20% of licence fees to local forest adjacent communities’ local development projects and as an incentive for communities to protect their forest resources from illegal logging. Payments are being made, but there have been problems with transparency and accountability by government, and governance of the funds at the community level.

Mozambican branches of international NGOs, such as World Wide Fund for Nature (WWF) and International Union for Conservation of Nature (IUCN), have been working on forestry issues for a number of years, but many are unable to take up positions critical to the government. A small number of national NGOs, such as Centro Terra Viva, Centro de Integridade Publica, Justica Ambiental, Organisation for Refuge, Asylum & Migration (ORAM), and their coalition “Amigos da Floresta”, have taken roles that are more active, advocating improved forest governance and exposing illegal logging and corruption (Mosse, 2008; Mackenzie with Ribeiro, 2009; Ribeiro and Nhabanga, 2009).

Foreign investors seeking large tracts of land for agricultural or forestry development are increasingly influential in Mozambique. Plantation developers are being encouraged to adopt a mosaic approach, avoiding the clearance of natural forest and promoting out grower schemes with local households, but a few reports are emerging of villagers being removed from their land to make way for private planting (Overbeek, 2010).

(Adapted from FLEGT, 2014)

2.3 Development partner initiatives to strengthen forestry sector

The World Bank is working on the design of the Agriculture and Natural Resources Landscape Management Project, which may support reforms to the forest concession system and assist concession holders to implement management plans, as well as assistance to develop a forest information system and digitalise the licensing process.

The World Bank's Mozambique Forest Investment Project (FIP) is also in design phase and will work to enhance forest sector governance at the national level and promote climate-smart agriculture. FIP will seek to take pressure off forests and reserves and to support communities in establishing land rights based on the theory that the more secure land tenure people have, the less likely they are to move to, and deforest, other areas.

The World Bank is also supporting Mozambique's Reducing Emissions from Deforestation and Forest Degradation (REDD+) programme.

A number of development partner initiatives are supporting broader BE reforms as well as sector-specific initiatives in other areas, including the USAID-funded Supporting the Policy Environment for Economic Development (SPEED+). A list of recently completed or terminated programmes in the forestry sector is attached as Appendix 4.

2.4 Cross cutting issue: Deforestation and climate change

Mozambique loses an estimated 219,000 ha of forest cover annually, corresponding to annual deforestation rate of 0.58% (Marzoli, 2007). The main drivers of deforestation are both direct and indirect, and are closely interlinked. Forest conversion to agriculture (slash and burn, livestock and commercial agriculture) is the main driver of forest loss, responsible for 65% of total deforestation, followed by urban expansion and infrastructure development sharing 12% of total deforestation. Other significant drivers are commercial timber exploration (8% of total deforestation) and unsustainable extraction of wood for firewood and charcoal (7% of total deforestation) (Ceagre & WinRock International, 2016). Demographic

factors such as population growth and migration from rural to urban areas increase the pressure over resources to meet livelihood needs.

As result of its geographic location, Mozambique is exposed to climate hazards such as drought, floods and tropical cyclones, occurring with increasing frequency resulting in devastating impact on a population that is heavily dependent on natural resources for their livelihood. Poverty and weak preparation of both institutions and population exacerbate the country's vulnerability to climate change. Climate change may affect the sustainability of natural resources threatening people's livelihoods and country's economy. Ecological services such as erosion control, water for irrigation and stable soils threatened by climate change may affect the performance of agriculture undermining its role for securing food essential for living. Measures to improve resilience of forest ecosystems and encourage sustainable management of forest resources will help mitigate the effects of climate change and contribute to securing the population's livelihood.

3. Constraints on natural timber harvesting, transport and export

3.1 Forest inventory and allowable annual cut

Mozambique does not have an accurate, nation-wide inventory of its commercial timber stock. The available commercial timber stock is estimated at around 1.74 billion m³ and the government has set an allowable annual cut (AAC) of between 516,000 - 640,000 m³. While the DINAF Inventory Unit has received technical assistance and is working to improve its data systems, a number of factors are likely resulting in an overestimate of available stock and an excessively high AAC. First, an unknown percentage, perhaps as high as 60%, of the annual harvest is unlicensed; one study concluded that 60% of timber from 2007 to 2012 was unlicensed (Egas et al, 2013). Timber wood extraction for energy purposes is almost entirely harvested informally without a licence and thus not taken into consideration in the AAC. The AAC calculation is based on two different growth assumptions over a generalised mixed stand comprising 25% of Miombo forest (Mackenzie, 2014). Because there is limited data regarding species growth rate in Mozambique, this generalised approach for the ACC determination has also likely resulted in unreliable estimates. DINAF uses inventory data from individual concession management plans, but there are few reputable experts and a strong incentive for concession holders and their consultants to overestimate stock. (USAID, 2006). Having accurate data is essential for the planning, monitoring and supervision of the natural forestry sector and affect the potential for downstream value added activities.

3.2 Licensing and concession of natural forests

Timber logging regimes under the forest regulation (GoM, 2002; GoM, 2012) include the simple licence or forest concession regime.

Simple licence. The simple licence consists of a short-term contract awarded for a period of 5 years in a specific defined forest area, with fixed AAC. The simple licence is only awarded to individual or collective Mozambican citizens as well as local communities (GoM, 2002). Limited precision in the delimitation of the exploitation area, short duration and limited incentives to sustainably manage the resources make the simple licence regime hard to control. (Pereira et al., 2002; Johnstone et al., 2004). Simple licences have the advantage of being cheaper and easier to obtain, encouraging development of the national forestry private sector and SMEs in particular (Reyes, 2003; Johnstone et al. 2004).

Forest concession. The forest concession regime consists of a 50-year contract, which is awarded to a specific forest operator for timber production for wood industry supply in a defined area, where the allowable cut is defined by previously approved management plan. Individuals or collective, nationals or foreigners, including local communities are eligible for concessions area, pursuant to the conditions defined by the forest regulations. The forest concession regime is the recommended model for achieving sustainable forest management goals. (Chitará, 2003; Siteo, Bila et al. 2003). However, the system in Mozambique faces many shortcomings. For example, many concessions are not establishing the required management and harvesting (Fath, 2001). Other BE constraints include the highly bureaucratic process to

apply for a forest concession or licence, approval of which is dependent upon approval of a management plan in both cases. The elaboration of the management plan requires a forest inventory, which is costly and requires skilled personnel. As consequence, forest inventory reports are often of poor quality with unreliable estimates.

Data on licensing statistics was published regularly until 2009, when it was abruptly stopped. Data from 2009 shows 479 simple licences and 98 forest concessions (Mackenzie, 2014). A draft report for the first quarter of 2016 reported that up to March 2016 about 259 operators renewed their simple licences and 198 remained under forest concessions (DINAF, 2016).

3.3 Tracking, export and law enforcement

As set out above, MITADER, through DINAF and its other departments, is responsible for the overall natural forest sector governance and policymaking. A new enforcement agency under MITADER, the National Agency for the control of Environment Quality (AQUA), was recently established to monitor the utilisation of land, the implementation of procedures for territorial planning, the exploitation of forest resources and control of environmental quality. As a relatively new institution, AQUA still lacks capacity and staff with technical knowhow.

At the provincial level, the implementation of policies and licensing is undertaken by the Provincial Forest and Wildlife Services (SPFFB). At the district level, forestry enforcement is provided by the District Services for Economic Activities, which is under the local government as well as DINAF. The lack of presence, or capacity, of government at local district levels leads to delays in procedures and ineffective enforcement. This includes delays in land titling, concession titling, management plan approval, environmental licensing and is exacerbated by the “absence” of government in land negotiations with local communities, including mediation and, if necessary, law enforcement.

Pursuant to the forest regulations, enforcement officers or community members involved in detection and arresting of illegal operator are entitled to 50% of the fine as an incentive. While the number of arrests and fines have grown in recent years, there are anecdotal reports that the 50% incentive has often simply increased the size of bribes (Mackenzie, 2014).

The tracking and control of the movement of timber is weak in Mozambique, particularly when loads cross provincial borders (Mackenzie, 2014). The supervision of the export of timber is undertaken by several different institutions including the Department of Industry and Commerce, SPFFB of the Department of Agriculture, Customs, the police and the port authorities. The prevailing lack of institutional coordination and limited capacity contribute to the illegal timber trade (Mackenzie, 2014). Better communication and information sharing between involved institutions is needed for effective control of timber resources.

3.4 Illegal logging and export of high value hardwood timber from Mozambique to China

Illegal logging and export of high value hardwood timber to China is a significant constraint on Mozambique's forestry sector. It has become a crisis, steadily increasing over the last fifteen years, but its real extent is unknown. One study found that the amount of timber officially



exported to China was 5.7 times greater than the volume declared by Mozambique's forest department as having been exported to China. Between 2005 and 2013, Mozambique is estimated to have lost royalty revenues of around US\$540 million to illegal timber exports to China (Falcao et al, 2015). Chinese traders provide easy credit to small-scale loggers to produce timber and a cash market for the logs of larger independent operators (Mackenzie, 2014). Law enforcement at the provincial level is limited and these traders are able to illegally transport and export logs from the provinces for shipment to China. Over the last decade there has been widespread public outcry, press and television reports and campaigns from NGOs, including a 2013 report entitled "First Class Connections" from the NGO Environmental Investigation Agency (EIA)³ which alleges that a former and a then-current minister of agriculture were directly involved in facilitating the illegal export of logs by powerful Chinese traders. Mozambique's ranking in Transparency International's Corruption Perception Index is 112th out of 168 countries and its score in terms of perceptions of public sector corruption on a scale of 0 (highly corrupt) to 100 (highly clean) is 31 out of 100.⁴ Even without exact figures on illegal logging and the associated petty and grand corruption, most observers agree that the challenge for Mozambique's forestry governance and law enforcement institutions is enormous (Mackenzie, 2014). The demand from China, which has protected its own hardwood forest reserves, is high, so prices offered by traders are also high. China has close political, economic and trade ties with Mozambique, and Chinese state owned enterprises are involved in the timber trade.

Any development partner support to the forestry sector in Mozambique will clearly need to conduct very careful Political Economy Analysis (PEA) and risk assessment before proceeding. Given the economic and political context, and the rule of law dimension of the problem, BE reform interventions cannot realistically set goals of eliminating illegal logging and export or the corruption associated with it. At the same time, the extent and visibility of the problem should not necessarily preclude future support to BE reforms in the forestry sector. As noted in Section 2, the valuable hardwood species demanded by the Chinese market constitute a small percentage of the overall timber stocks and will likely be exhausted in a few years unless something changes. There are many other commercially viable timber resources and potential wood processing industries. The environmental and social stakes are enormous for the country. Many government officials, forestry experts, civil society activists and private sector stakeholders are not involved in the illegal logging crisis and are working hard to develop their businesses or to improve forest sector governance.

3.5 Cross-cutting issue: Participation of local communities in forestry sector

Community participation in forest resource harvesting and management is a key social objective outlined in the Policy for the Development of the Forestry and Wildlife Sector (GoM, 1997). Local communities are acknowledged as important stakeholders rather than only forest

³ <https://eia-international.org/report/first-class-connections>

⁴ <https://www.transparency.org/country/MOZ>



users, which ultimately should be engagement in forest resource management through shared benefits and responsibilities. For instance, local communities living adjacent to or inside the forest where commercial logging takes place are entitled to a 20% annual royalty from logging licensing fees as an incentive to participate in the management of those resources. This royalty is intended to fund community projects or investments. For a number of reasons, such as a lack of knowledge of their rights, and absence of banking services, the royalty is not always paid. One result is that members of forest adjacent communities do participate in illegal activities. Information and training should be provided to local communities to empower them to access royalties and guide the negotiation process with forest operators (Siteo and Guedes, 2015). Alongside these, support mechanisms assistance should be designed for local communities to sustainably exploit natural resources for commercial purposes to reduce dependency on external funding.

3.6 Recommendations

All of the recommendations set out below are high priority:

- National forestry inventory and AAC: Support MITADER (and other stakeholders and development partners) to complete a comprehensive national forestry inventory and adjust the AAC. Support the planned review of all existing concession management plans and inform operators about simple inventory tools such as those developed in Sofala province. The results of the inventory should be widely disseminated to the private sector and civil society, available online, included as maps and in formats that concession-holders can use for management plans. Along with the inventory, support a comprehensive economic assessment of the country's forests with the Ministry of Economy and Finance, including the environmental and food security implications of the loss of forest area.
- Concessions: Regulatory reforms and institutional strengthening initiatives to strengthen forestry licensing and concessions, with a focus on concessions. For example: improve the verification of management plans, support training and professionalisation of technicians available to carry out management planning; develop reforestation guidelines and training on best practice that have already been tried and tested in country, so that they may be incorporated into management plans.
- Revisit the spatial planning activities that have already been undertaken, and develop a wider strategy like that supported by the World Bank in the Congo Basin. Support MITADER and other stakeholders in balancing trade-offs between economic growth and protection of natural resources. Consider likely impacts of future major investments in the north, such as gas exploration, on land and forest resources. Support improved zoning

decision-making relating to areas for plantations, concessions or conservation. Donors can then place market mechanisms such as REDD+ and FIP within a strategic context.

- **Enforcement:** In coordination with other development partners, and only after very careful PEA, provide MITADER, AQUA and selected provincial and district level agencies with support to improve law enforcement and administration. Revisit the joint International Tropical Timber Organisation (ITTO) and government proposal for independent, third-party track and trace technology for timber. As part of enforcement efforts, support government and private sector stakeholders in enhancing collaboration with communities to develop alternate sources of income. Focus on preventing slash and burn through improved farming methods.

4. Constraints on wood processing industries

As discussed above, industrial logging over the last fifteen years has been primarily for (legal and illegal) export to the Chinese market, where there is high demand for several species of hardwood. The Chinese market prefers unprocessed logs, and profit margins from the export of hardwood logs is higher than for processed timber products. As a result downstream processing industries, such as sawmilling, remain underdeveloped and focus primarily on low-added value milling to produce rough-sawn green timber for high value species. There are approximately 100 registered sawmills in Mozambique but very little investment in modern tertiary wood processing (e.g. kiln drying, veneer, plywood, mouldings, joinery and furniture), and few exports of such value added products (USAID, 2006).

The major timber products traded in the domestic market are logs or round wood, sawn timber, railway sleepers, poles, parquet blanks (DNTF, 2011) furniture, boxes, doors and window frames, construction materials and crafted products (Nhancale et al., 2009). However, overall, Mozambique's imports of paper and timber sector products actually exceed exports. The forestry sector is estimated to constitute only 1.5% of exports by value and between 5% to 9% of the country's GDP but the data is unreliable (IPEX, 2003; Nhancale et al., 2009, www.indexmundi.com).

The Food and Agriculture Organisation of the United Nations- Investment Centre Division Policy Note on Natural Forest Value Chains (Machado-Mendes, 2015) provides an in-depth analysis of constraints at the value chain level, including BE constraints. The value chains examined include concession holders, furniture, railway sleepers, builders joinery and carpentry, as well as non-timber products such as natural oils and honey.

4.1 Key constraints to the growth of value added wood processing industry

While the unhealthy dependence on log exports has resulted in underinvestment and low capacity in the downstream wood industries, firms also face additional constraints, including high operational costs, limited infrastructure, high costs of capital, costly and lengthy administrative procedures and limited access to technology and qualified labor (Taquidir and Falcão, 2012). For example, research on potential new species and how they can be processed and local production of wood products is urgently needed, especially as the best known hardwoods species are disappearing.

4.2 Log export ban from 1 January 2017

A complete ban on export of logs from January 2017 is now in place for all native species. The goal is to stimulate the processing of timber within the country and combat illegal log exports (Frey, 2016). A package of tax and customs incentives will likely need to accompany this policy, as well as rigorous enforcement of the log export ban. Similar efforts to promote the domestic processing industry through log export bans have failed in the past in Mozambique, most infamously after the 2007 regulation requiring the processing of all Class 1 timber before export. The ban was immediately undermined through a Ministerial diploma



which changed the specifications for “processed timber” to include roughly sawed timber or *pranchas* (which often coincidentally pass Chinese customs as “unprocessed timber” with lower duties) (Mackenzie, 2014).

As noted above, currently the local processing industry has limited capacity to absorb and process virtually all types of harvested timber species in the country. Therefore, until the wood domestic industry is revitalised and a proper package of incentives are put in place, the effectiveness of the export ban measure would be limited. Some possible incentives and BE reforms are set out below.

4.3 Access to markets

The wood processing industry does not have the capacity to meet current local market demand for wood products. Supplying the local market is a vital learning and testing ground for companies seeking to access export markets in the future. Access to export to niche markets and import substitution are both important. If firms in the timber and wood processing sector are to compete in the domestic market, some level of protection will be required as envisaged in the new national Industrial Strategy. However, government should use import protection carefully and only for a limited time, weighing protection against impact on consumers, otherwise the industry will become uncompetitive globally. As discussed below, a first step would be to reduce Investment Promotion Centre (CPI) duty exemptions on imported wood products such as furniture.

Public procurement: The InBid procurement system data shows that the state is the largest procurer in Mozambique. However, the state procurement system is arcane, lacks transparency and does not take into account the needs of local producers. The supply of school desks is an example of a low-tech start point for local producers. The state requires that items are produced using specific, normally first-class, timber species and suppliers of the timber component of the furniture must also supply all other components such as metal brackets and legs. Suppliers must deliver and assemble desks on site, often in remote parts of the country. Each of these requirements is prohibitive to local producers and limits their availability to supply what should be one of the most basic items that the government could source from local producers.

Construction materials and joinery products (doors, windows) are a potential source of import substitution, but demand for sustainably produced joinery is low to non-existent. This is because the main domestic producers tend to be roadside carpenters who source illegal timber and are therefore able to sell their products at lower prices. CPI exemptions on imports and lack of commitment to procure local sustainable items limits the market.

Standards. Joinery products must be shaped and dried according to standard specifications, but there is no construction measurement standard and capacity for kiln drying in the country is limited. Joinery products must be manufactured separately for each building depending on the measurements provided. If a standard sizing existed then producers could develop economies of scale. Few companies have the facilities necessary to dry timber, a prerequisite



for any form of value-added production beyond that of rough sawn plank. The sector can only really develop if it can find affordable drying solutions. In South Africa for example, there are companies which just run kilns.

4.4 Constraints relating to customs policy and implementation

Export procedures involve a wide range of agencies, and a complicated procedure of forms, inspections as well as payments takes place. Despite the introduction of the Janela Unica (Single Electronic Window Customs System) exports remain problematic. The multiple, duplicate inspections and documents do not provide security for the government or guarantee revenue; instead they simply hamper legitimate firms. Systems are not interlinked and some require entire lists of export items to be retyped by functionaries. Government should remove extraneous documents that are not required by the importer to whom the exports are destined such as Certificate of Origin, Certificate of Quality and Phytosanitary certificate.

The government gives certain imports duty exemption, so there is disincentive for local production. The CPI grants import duty exemptions to approved investment projects, including for example for the import of furniture and timber building products that the local market could supply.

Inspections at the District level. The law requires concession-holders to establish sawmills in concessions but the conditions necessary to export directly from the districts do not exist. There are no qualified inspectors or customs officials in the districts. Exporters must bring inspectors to the export goods and since it is not possible to take the inspectors to the districts because they insist that they are not permitted to travel, companies that follow the law must therefore have facility in the city from which they export. Inspectors will not inspect loaded timber so companies have to transport and off load, have inspectors verify the timber and then reload it. The costs from the double handling and transportation discourage investment.

4.5 International certification and access to international markets

International certification (such as by the Forest Stewardship Council (FSC)) has been seen by some as a necessary step for market access, but there is no market incentive for companies to assume the cost of any form of certification. Certified companies should benefit from special treatment. Certification and sustainable management can result in more jobs because of the need to protect the resource with guards, employment in reforestation activities and so on. However, lack of understanding and trust on the part of government means that certification offers no benefits locally. A precedent exists, under the Authorised Economic Operators (AEO) system, for differentiated treatment of business that has undergone extensive audit. Donors should explicitly raise this precedent.

In Mozambique and the Southern African Development Community (SADC) region there is no price premium for certified timber, meaning that there is no cost-benefit to certification. However, overseas markets outside Asia do demand certification.

It is unlikely that in the natural timber sector many companies will automatically move towards certification in the short-term due to the cost, partly due to lack of local certifiers, and complexity. Timber tracing and monitoring are interim solutions. The government needs to accept its current position and be prepared to trust third party monitoring. Experiences with the National Quality Standards Institute (INNOQ) and National Technical and Vocational Training system (TVET) clearly demonstrate that businesses do not consider national standards that have no link to international certification, credible and note that they merely add cost and complexity. It would be preferable to use existing international standards to improve the credibility of the national forestry sector.

4.6 Cross-cutting issue: Informality and forest MSMEs

In general, the barriers to entry to the formal forestry sector are too high for forest SMEs, just as the barriers to formalisation raised by the overall BE are too high for SMEs in Mozambique (USAID, 2009). Most downstream value chains using timber and non-timber forest products (honey, crafts, charcoal, firewood and local roadside carpentry) (Machado Mendes, GDS) use unlicensed resources and are thus illegal. As noted above, extraction of fuel wood, which represents up to 80% of national household energy supplies, is among the major causes of deforestation. Fire affects 40% of forests, and this number increases to 74% in the centre and north (World Bank, 2016). Charcoal extraction is informal and leads to massive revenue losses. To curb environmental destruction and create formal sector jobs, government must address the problem of informal charcoal extraction, and provide alternative forms of energy and employment opportunities for those who currently make their livings from these products. Until the forestry sector is managed properly upstream, stakeholders can do little to promote downstream value addition, because this would use resources that are not harvested legally and sustainably, and would further exacerbate environmental damage. Brown's (2016) analysis of balancing mining development and forest conservation in the Congo Basin, for the World Bank, provides a useful roadmap for strategy development in the forestry sector. Stakeholders must consciously balance trade-offs between economic growth and protection of natural resources.

4.7 Recommendations

High-priority recommendations:

- Strengthen policymaking and implementation promote the development of a value added wood processing, taking into consideration the wide range of challenges. The most urgent priority is likely to support the implementation and enforcement of the 1 January 2017 log export ban.
- Establish national construction standards, based on those from South Africa, since most competing imports come from there. If construction materials and particularly joinery items were of a standard size in all authorised building projects, companies could introduce production line processing of ready-made joinery products.



Lower priority / cross-sectoral recommendations:

- **Customs reform:** Consider removal of CPI exemptions to stimulate local market for quality value-added timber products; document all procedures, fees, costs and time associated with the export of forestry products and the import of inputs. Undertake a comprehensive streamlining and cost-reduction exercise involving all government agencies involved in trade.
- **Moving towards Certification:** Support the expansion of the Authorised Economic Operator (AEO) system to help all businesses, not only the forestry sector, and would build capacity in financial auditors (for example through OCAM – the Mozambique Chartered Accountants Association) as well as at the MEF. This could comprise a useful first step towards certification. Revise the public procurement system to simplify it and reduce corruption. Integrate this with support for the online procurement database, InBid, to facilitate access to market information and transparency in both public and private procurement. Continue efforts to build local skills in natural and plantation forestry management to ensure that there is a pool of recognised local expertise for certification bodies to use, thus reducing costs. If companies have access to quality business services such as accounting, and are able to rely on an independently verified tracking and tracing mechanism in place for timber throughout the country, certification becomes easier.
- **Support reforms to public procurement system to simplify it and reduce corruption.** Integrate this with support for the online procurement database, InBid, to facilitate access to market information and transparency in both public and private procurement.

5. Plantation forestry sub-sector

5.1 Overview of plantation forestry subsector

The history of forest plantation in Mozambique dates back to the colonial period when plantations of exotic species (*Eucalyptus*, *Pinus*, and *Casuarina*) were introduced for several purposes, such as drying wetlands and sand dune protection. In the late 1970s energy plantations were established in major cities; during and immediately after the civil war people were forced to move closer to these cities, increasing the pressure for land for settlements or agriculture. As a result there was a drop in investment in the forest plantation sector due to lack of secure access to land (Chitara, 2003).

In 2004, with the government's support for biofuel industry development and new opportunities in the carbon trade, new investment in the plantation forest sector involving small and large-scale investments projects were started. Problems encountered included the failure by many operators to comply with the law and contractual agreements, lack of security of land access, land disputes involving forest plantation operators (Overbeek, 2010).

Mozambique has around 7 million ha available for establishment of forest plantation. However, if accessibility criteria, other land uses (for example, small farmer or commercial agriculture), rights and needs of local communities or fulfilling the criteria for forest certification are considered, land availability for forest plantations drops to around 3.5 million ha (MINAG, 2007).

In 2010 the area of plantations had reached 62,000 ha (Mackenzie, 2014) and 75,000 ha in 2015 (FAO, 2015). Currently most plantations are located in the central and north regions of the country particularly in Manica, Niassa, and Zambézia provinces. These are mainly *Eucalyptus* and *Pinus* species plantations (Ministry of Agriculture, 2015) established in the central and north regions. Although the forest plantation sub-sector in Mozambique is playing a role in supplying construction materials, there is a still high dependency on softwood imports.

There is interest from foreign investors in large-scale agriculture and forest projects in Mozambique (Norfolk and Hanlon, 2012) since 2005. These include Green Resources, Portucel and the Global Solidarity Forestry Fund, all of which have applied to obtain a total of 2.1 million ha of land for tree plantations, with the intention of incorporating carbon offsets (Mackenzie, 2014).

There is potential for forest plantations to supply the growing domestic and global demand for wood and wood products (World Bank, 2016). Forest plantations can foster the development of domestic enterprises, SMEs, and smallholders if conditions are right and appropriate support services and incentives were available (Ogle and Nhantumbo, 2006).

5.2 Policy and Regulatory Framework

The plantation forestry sector policy is set out in the National Reforestation Strategy (MINAG, 2009); the vision of the strategy is to develop sustainable forest plantations to obtain



economic, social and environmental that benefit the communities, public and private sector interests. This strategy also states the ambitious goal of planting up to 1 million ha of forest by 2030. This goal is considered by informants to be too ambitious in the current context in Mozambique. Measures should be put in place to create better investment and operating environment for both large investors and smallholders to enable sustainable development of the forest plantation sector. There are few regulatory provisions directly addressing forest plantation; these provisions are set out in Appendix 5.

5.3 Institutional framework

As noted above, responsibility for the administration of the forest plantation sector was split between MASA and MITADER. Commercial plantations are under the National Directorate of Agriculture and Silviculture (DNAS) within MASA and reforestation, energy and conservation plantations under MITADER (DINAF). Unfortunately no technical personnel has been moved from MITADER to MASA yet. Therefore, limited technical expertise and unclear responsibility over issues around forest plantation may be an issue until these staffing issues are addressed. Another serious concern is that it does not appear that there is agreement at the provincial level of government as to which entities have responsibility over plantation forestry regulation. The development of the forest plantation subsector in Mozambique will depend on clear institutional setup, appropriate incentives and risk allocation, a conducive legal framework and improved governance.

5.4 Key Constraints

Past challenges. The past challenges encountered in the forestry plantation initiatives in Mozambique include: lack of adequate territorial planning to guide government management of land for plantation forestry investments, failure to comply with the land law requirements by investors, establishment of plantations in agriculture lands and nearby local communities settlements, weak community consultation process, non-fulfillment of the promised benefits by investors resulting in bad relations between investors and local communities, low understanding of the processes, lack of clear roles and responsibilities between investors and government representatives in the investment and negotiation process, and lack of knowledge and weak negotiation skills of local communities (Ministério de Agricultura, 2010). Weak and sometimes non-existent government intervention in the negotiation process was also identified as key constraints (Norfolk and Hanlon, 2012).

Access to land. One critical issue for the development of forest plantation that will demand high level of institutional coordination is land access and tenure. Availability and low cost of land is key aspect that has attracted investment in Mozambique. However, the measure drawback is the complexity of land acquisition and licensing processes with unpredictable land costs (World Bank, 2016). The same report suggested that alternative solution to improve the situation is the creation of an independent institution to facilitate company-community negotiations and establishing clear land acquisition procedures. Improvement in flexibility of the “Right of use and Exploitation of land” (DUAT) acquisition process, effectiveness of

community consultation process and emitted DUATs can benefit the forest plantation sector in Mozambique.

Factors increasing production costs. Production costs are higher in Mozambique than in competing countries, as a result of high input costs, relatively low growth rates, inadequate silvicultural knowledge and technology (for example lack of information about the species being planted and how it will fare under the local conditions), and the shortage of skilled labor. Establishing public and private investment is a suggested measure to contribute to the reduction of production costs and promote planted forests sector in the country (World Bank, 2016).

Natural forest definition. There is a lack of clarity on the definition of natural forest, which exposes forest plantation companies to criticisms when complying with forest conversion and forest certification standards (World Bank, 2016). Certification of sustainable forest management is an important precondition for accessing international markets especially Europe, as it adds business competitiveness. The key preconditions that need to be tackled in the short-term for both large and small investors includes a clear definition of natural forest, improvement in the process of obtaining licences as well as improvement in company-community negotiations capacity on land allocations.

Non-native species. There is a need to update forest legislation to include non-native species (World Bank, 2016). Forest legislation and its regulation are mainly centered on natural forests and there are few details regarding planted forests. To answer to that limitation, the policy, strategy and forest law is under ongoing review in Mozambique.

5.5 Cross-cutting issue: Plantation forestry sector, inclusive growth and gender

The majority (68.4%) of the population in Mozambique lives in rural areas (INE, 2015), which have very high poverty rates. The development of forest plantation constitutes an opportunity for SMEs and community-private partnerships to develop, for diversification, and for the local economy to develop. Apart from employment benefits from forest plantation companies, local communities can also benefit from business partnerships ranging from the establishment of SMEs to provide for services such as road maintenance, silvicultural and harvesting, apiculture development, and fire protection to companies.

Other possibilities are under the outgrower schemes being considered by large investors such as Green Resources and Portucel. Outgrower schemes are opportunities to provide for new or additional secure sources of income, as wood purchases are guaranteed by promoters of an outgrower scheme's sales contracts. Outgrower schemes are advantageous from the company's point of view as it may reduce the land access problem significantly, since land would be under the responsibility of the outgrower, and not the company itself. If the outgrower system was operationalised, it could improve the attractiveness of the plantation sector. Smallholders under outgrower schemes if integrated in the large supply chain will contribute to more efficient timber logistics, and reduce overall timber supply cost. However, smallholders and communities are challenged by limited technical capacity and limited capital inputs (World

Bank, 2016). An alternative option discussed in a recent report on improving competitiveness of the plantation sector is to set up of an independent forestry incentive scheme by the State to attract MSMEs. The source of funding for the incentive could be the reforestation tax from logging operations in natural forest or mobilisation of external funds from donors. To guide effective establishment of the outgrower scheme, there would be a need to include relevant provisions in the on-going revision of the Forestry Law, the requirements and conditions for operationalisation of such schemes.

Although there is no data and much of the sector is informal, the forestry sector has long been dominated in Mozambique by men. Another factor that should be considered in terms of the plantation forestry subsector's contribution to inclusive growth is the gender dimension. Some regions, particularly in the north of the country, have matrilinear social systems, and efforts to increase employment by women in the forestry sector have been more successful than in areas with patrilinear social systems.

5.6 Recommendations

High priority recommendations:

- Policymaking for the plantation forestry subsector: Support policy making and legal and regulatory reform for the plantation forestry sub-sector and institutional capacity at MASA, which is an urgent priority given that MASA is not fully staffed and lacks technical experts in particular. Key legal and regulatory reforms include natural forest definition, inclusion of non-native species, and setting out the requirements and conditions for the operationalisation of outgrower schemes and company-community partnerships. This work should be closely coordinated with local and international private sector stakeholders other development partners focusing on the plantation forestry subsector and should reflect value chain analysis as well as efforts to formalise the wood supply chain. A key issue is the need to avoid legal and regulatory reforms that add unnecessary burdens on investors in the plantation forestry subsector.
- Land access and tenure: The other key area for BE reform to address constraints to the growth of the plantation forestry subsector is land access and tenure; specific recommendations are set out in Section 6 below.

6. Improving land access and administration

6.1 Land Use

As noted above, land in Mozambique is owned by the State and cannot be sold, or by otherwise alienated, mortgaged or pledged (Land law). Access to land is obtained through a request of DUAT. Individuals and communities have the right to occupy land. Areas subject to forest plantation investment need a previously approved DUAT. The land policy in Mozambique is considered to be sound, however, its implementation is problematic. Institutional arrangements are not clear and lead to duplication in land use registration, and land administration services are weak. Adequate land-use planning and a better land rights registration system need to be put in place to enhance the flexibility of land access and improve the BE. To address this MITADER's "Terra Segura" Project aims to encourage more efficient land administration, focusing on access, registration and information management.

The process of land regularisation is bureaucratic and characterised by company-community conflicts driven by very high expectations under social responsibilities terms from the community side towards forest companies. Local communities seeking tangible and immediate benefits see no benefit of the on-going projects due to the nature of medium and long-term forest investments. As a result, both local communities and forest companies operate under an insecure environment and the large uncertainty on the returns of investments has retracted the investments. Security of land tenure needs to be improved if development of the forest plantation sector is to be achieved.

Communities, many of which have extensive areas allocated for their movement and expansion, occupy almost all land in the country. Only when this is acknowledged, can investors see the true picture for land-based investment.

There is limited land zoning, no clear land-use strategy, and limited quality mapping. Uneven implementation of land law has a massive effect on plantations. Investors and communities need training, information and quality land services if the plantation sector is to fulfil expectations. There is no clear policy to manage the trade-offs between commercial and smallholder plantation forestry, including planting of trees to encourage smallholder income generation which could impact the rural poor.

Delays in securing legal access to land for forest plantations have created insecurity among investors. Although national and provincial governments have sought to attract investors, there are no provisions in place to handle the complexity of land access based on state owned land occupied by local communities. Land conflicts between forest companies and local communities continue to affect commercial access to land, limiting investment (Nhantumbo and Macqueen, 2015). In line with the government's reforestation policy, plantation operators aim to acquire large tracts of land, which is creating pressure on availability for other land uses.

The complex procedures for land access, time required for environmental licensing, insecurity of land tenure, and the proportion of areas that can be planted, mean companies



incur significantly higher costs than initially estimated. According to the World Bank (2015), the costs of registering land amounts to more than 36% of the property value, while these costs amount to less than 2% in comparable countries that are actively promoting plantation forestry. Large companies may be able to cover these costs but SME out-growers hoping to supply these companies are unlikely to be able to afford this.

Few functionaries have sufficient knowledge of the land law or the consultation process. Local government should be impartial, but in reality, government engagement is often politically charged, especially in conflict areas in the centre and the north. The role and responsibility of the local government is often unclear. Investors often have to make investments in infrastructure including roads, bridges, health centres and schools. Investors pay taxes and create jobs, and therefore some incentive should be available from the government if the investor is to provide social infrastructure.

While the government is apparently keen to promote land-based investment, the reality of this, which involves resettling communities or ceding rights in return for benefits, is politically charged. Access to land is a highly complex and emotive subject. Illegal occupation including slash and burn agriculture and commercialisation of wood products by local communities affects natural and plantation forests. The state is unable or unwilling to enforce the law in such cases.

6.2 Summary of recommendations

All of the recommendations below are high-priority:

- Support MITADER's "Terra Segura" initiative, which aims to encourage more efficient land administration, focusing on access, registration and information management. MITADER has announced that it intends to issue 5 million DUATS, to complete the integrated land management system, prepare four awareness campaigns on the rights and land use obligations and train 800 agents on the enforcement of land use regulations. Other legal reforms include the promulgation of land leasing legislation (cessao de exploracao) which would be a significant step forward for communities and investors. Training and institutional strengthening should accompany these reforms, and could include training around the Legal Framework for Land, developed by ACIS and USAID SPEED.
- Continue supporting work to issue land use titles to communities. Consider allowing an independent institution to facilitate company-community negotiations and establish clear procedures, building on the experiences of Iniciativa para Terras Comunitárias – Community Land Initiative (ITC) / DFID's Mozambique Land Action Programme (MOLA) and Millennium Challenge Corporation (MCC).

7. Improving tax policy and administration

7.1 Key tax policy and administration constraints on the forestry sector

There is no specific fiscal policy for forestry. A sector strategy should include a fiscal framework that promotes investment, business development and movement of local value-addition along an industrial development chain (similar to that proposed by ITTO). For example, Costs, taxes and fees affecting the sector are not appropriately designed. The government has been increasing taxes and fees on forestry, which further reduces the competitiveness of formal, legal operators. The proposed per hectare concession fees will punish those that have designated areas as High Conservation Value (HCV) forests. This proposal prejudices best practice whereby concession-holders should divide their area into rotational blocks and only fell one block per 20-25 year cycle. The remaining blocks are therefore not in use, but must still be protected and managed, at a cost.

Tax deductibility of Corporate Social Responsibility (CSR) and community support. In practice, the tax framework does not allow community development and corporate social responsibility to be tax-deductible. Government should revise and simplify the system, expand it to include training and apprenticeships, and make it operational.

Informality: Few people in rural areas are tax registered due to complexity of registration, licensing and tax registration for small and medium forest enterprises (SMFEs); low levels of literacy in rural areas; and citizens not having the identity documents needed to register a business or for tax. Under the Value Added Tax Code (VAT) formal businesses purchasing honey, vegetables etc. from local communities must pay 35% “*taxa autonoma*” and the cost of the purchase cannot be offset against corporate tax (meaning potential loss of an additional 32%). Thus, purchase of community produce can cost formal business between 35% and 67% over the farm-gate price. This is a major disincentive to rural economic development.

Businesses, particularly in remote rural areas, have limited access to quality accounting services, increasing their risk of non-compliance. Affording fees for certified accountants is often outside the capacity of SMFEs.

Little PPD on tax policy. There is often little engagement between MEF and businesses on the alteration of the tax framework. MEF argues, often justifiably, that few companies have the capacity to engage in such dialogue. However, the government should still seek to understand the sector. The government is under extreme pressure to increase revenues, but this should not be at the expense of long-term development. A realistic assessment of forestry as well as the fees and taxes levied in the sector should be a point of departure for discussions with MEF.

7.2 Recommendations

The following recommendations are lower priority, and involve overall fiscal policy:

- Improve transparency in the collection and distribution of revenue, particularly for the 20% community fund and reforestation tax. Build community capacity to access and manage the funds. Reforestation tax currently merely represents an additional tax on log harvesting and government should either remove it or be accountable for its use.
- Revise fiscal policy to reduce the profitability imbalance between illegal and legal operations. Revise fiscal incentives to reduce royalties for processing, and link royalty rebates to levels of value-added processing, and to use of lesser-known species to lower their costs relative to other readily marketed species. For example, consider removing the *taxa autonoma* for those companies that are demonstrably operating in a formal, legal and sustainable manner, during the proposed revision of the VAT Code. Likewise, support reforms to make community development, corporate social responsibility, skills development and research activities tax-deductible.

8. Access to information and technology

The private sector needs access to information to be able to plan, invest and develop. Information about regulatory governance, tax policy and administration and markets are essential to any investment decision by a company of any size. The lack of information in Mozambique is a major constraint for business in general and for the forestry sector in particular. This ranges from information about the legal framework to information about community development plans, land zoning, and access to finance. Through access to information comes access to technology. If companies are aware of technological advances and new approaches to sustainable management, they develop and grow. Therefore, access to information is an essential prerequisite for development and should be a cornerstone of the national forestry strategy. Culturally, the sharing of information is not common in Mozambique. Regular changes to legislation take place without consultation or PPD. Mozambique has a Freedom of Information law but there is no policy requiring that government make information available.

8.1 Key constraints relating to access to information and research

There is limited information about sustainable forest operations in Miombo woodland.

Knowledge sharing represents a powerful tool for development of the sector and does not require government involvement. For example, one of the positives of Mozambique's low-density forests is the ease of log felling and extraction with limited environmental degradation. Researchers should document these techniques, and share the information along with other identified best practice approaches used by those companies that operate sustainably.

The government has not taken the lead in research and development. Harvesting is likely in excess of regeneration but there has been little research into regeneration rates. There is little attempt to find alternative markets for lesser-known species or to allow experimental harvesting outside those species recognised as commercial. Use of lesser-known species would take pressure off the Precious and Class 1 species that are already overcut, lower the average cost of harvesting through improved recovery, and supply lower-cost timber to the market for lower-value end-use purposes (such as construction). Plantations need research into performance of different genetic materials, survival rates, weather patterns, impacts of fertilisers, and pest control. Classification and management of HCV areas also requires research.

8.2 Recommendations

High-priority recommendations:

- Support applied research and development programmes to build up a locally relevant body of knowledge - dissemination of findings, promotion of knowledge exchange, and public-private partnerships between public research organisations and forest companies. For example, research on new tree species and their processing and commercialisation are



urgently needed. Some formal-sector forestry businesses are already undertaking research and there should be incentives for them to continue, and to share their findings. Document existing best practice and roll out training and information about this. Develop research and development programmes focusing sustainable management and silviculture. Ghana's Forestry Research Institute provides a good example of how to achieve this.

Lower priority recommendations:

- Forestry sector transparency could be improved by compiling and sharing basic data on operators, concessions, licensing, exploitation, industry and export to be publicly accessible physically or virtually through creation of sector dedicated website (Mackenzie, 2014). Another alternative is continuous assessment of compliance of forest companies with regard to regulation and social responsibility agreements.
- Support forest operators, local government and communities to understand laws, rights and responsibilities. Help the private sector understand how communities function, possibly through local NGO facilitators, trainers and mediators. For example, ACIS could update and disseminate its existing "Legal Framework" guides to land, employment, environmental licensing, business rights and other aspects of the legal framework. Train companies, communities and local government on using the guides.

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Appendix 2 **List of persons contacted for this study**

Name	Organisation
ANABELA RODRIGUES	WWF
ANDRE AQUINO	World Bank
ANDRE MANDLATE	SINTAF
ANGELA HOGG	USAID
ANTHONY WHITE	TCT Dalmann
ANTONIO SERRA	Envirotrade
ARLITO CUCO	Green Resources
CARLA CUMABE	FAO
CATRIONA CLUNAS	DfID
CLAUDIA PEREIRA	FAO
DIOGO MACHADO MENDES	FAO
FION DE VLETTER	World Bank
GAIA ALLISON	DfID
ILENE HARDY	Obtala Resources
JAKE WALTER	Technoserve
JANE GROB	Technoserve
JEREMY DUFOR	OLAM
JORGE CHACATE	AMOMA
JOSE CARDOSO	Entrepuesto
LLOYD MUBAIWA	Florestas de Niassa
MARIA OVEREEM	JOBA
MARIO FALCAO	AGREF / UEM
NILS VON SYDOW	Levasflor
PATRICK GREENE	Obtala Resources
PAULA LOPES	Kurima ne Povo
PAULA PANGUENE	REDD +
PEDRO MOURA	Portucel / AGREF
RITO MABUNDA	WWF
SR. MAJID	ACFLOR
XAVIER SAILORS	SAKAMBUERRO MITADER

Appendix 3 Key laws and regulations governing the forestry sector

The Forest and Wildlife Law of 1999 (Law 10/99 of 7 July) and its respective regulations in 2002 (Decree 12/2002 of 6 June) sets the legal framework for developing the forestry sector. In order to achieve sustainable forest management, it recommends supporting the forest concession regime. In addition to establishing the legal ground for the exploitation of natural resources, it also includes measures to tackle illegal logging, as well as to promote participatory forestry management- where the local community, private sector and the rest of society are involved and acknowledged as key stakeholders of forest management.

In 2007, standards for primary processing of round wood of all timber species are approved (Ministerial Diploma 142/2007 of 14 November). These standards aim to respond to the dynamics of the national and international processed wood market, and are defined as referred to in the previous legal instruments: Ministerial Diploma 15/2005 of 7 September and article 3 of the Regulation of Forest and Wildlife (Decree 12/2002 of 6 June). The standard dimensions for sawn timber, parquet flooring and sleepers are also defined.

In 2010, the introduction of value added tax on timber exports aim to ensure the fulfilment of objectives prescribed under the Law nr 10/99 of July 7th, Forest and Wildlife Law, MITADER (Law 7/2010 of 13 August). The tax ranges from 3-20% of the FOB price, depending on the extent of processing it is subject to. The motivation behind such a tax is to reduce the prevailing high rates of international exports of sawn as well as round wood. The tax discourages the export of round wood in order to promote and strengthen the local wood processing industry. The severity of the sanctions applied under the Forest and Wildlife Regulation (Decree 12/2002 of 6 June) has been increased, in case of infractions involving natural resources.

In 2012, a decree 30/2012 has been approved on August 1st, changing the duration of the simple licence covering an area up to 10 000ha from 1 to 5 years, and requires simplified management plans. This measure not only aims to make punishments more severe, but also defines incentives for establishing forest plantations. The species *Pterocarpus tinctorius* is reclassified as a precious species class, controlled through Ministerial Diploma approval, and the exploitation of Pau ferro "*Swartzia madagascarensis*" is banned for 5 years from January 1st, 2016 (Ministerial Diploma 10/2016).

The Government of Mozambique signed the Yaounde Ministerial Declaration on African Forest Law Enforcement and Governance, showing the country's international commitment against illegal logging and hunting, as well as their associated trade and corruption (Amigos da Floresta, 2009).

Appendix 4 Description of recently completed Development Partner Programmes

- Forest governance in Mozambique: “the urgency of the moment”, July 2015, WWF supported by the Embassy of Sweden in Maputo.
 - Ensures more active participation of civil society organisations to influence policy design, planning and decision making on various processes in the forestry sector, and implement existing legal frameworks in the country.
 - Strengthens participation of private sector and sovereign bodies such as Parliament.
 - Capitalises forest assets and create incentives to do so wisely and sustainably, allowing local communities to benefit in the long term, by engaging them in long term management and value creation, and encouraging them to be the best stewards of sustainable forest resources management.
- The Biofund, the first conservation area Trustfund in Mozambique, August 2011, with support from AFD, the German government and World Bank, WWF, in cooperation with the Mozambican government.
 - Supports the conservation of aquatic and terrestrial biodiversity, and the sustainable use of natural resources, including the consolidation of the national system of conservation areas.
- The Forest governance learning group (IIED, date n.a.), the [European Commission](#) and the [UK Department for International Development](#) in partnership with [Center for Public Integrity](#) in Mozambique.
 - Connects forest-dependent people who are marginalised from forest governance with those who control it.
 - The first phase was implemented from 2004 to 2009, funded by the [European Union](#) and the [Netherlands Ministry of Foreign Affairs](#).
- European Union Timber Regulation (EUTR), March 2013
 - Illegal timber is prohibited in the European market.
- The National Forest Programme, 2010-2014, funded by Finland
 - This project has a budget of €11.4 million but has run into some financial problems, and funding is currently suspended (Mackenzie, 2014).

- Combat the causes and effects of deforestation in Mozambique, 2009, funded by the Norwegian Embassy in partnership with International Institute for Environment and Development (IIED).
 - Research was conducted and sustainable forest management was tested in the Beira-landscape corridor of Mozambique.
 - The main drivers of deforestation were identified and a model was developed by IIED to reduce forest degradation and enhance carbon stocks focusing on transitioning from short term unsustainable logging to long term forest concessions.
 - Provided initial financing to implement sustainable land uses, sustainable timber harvesting, and integral use through processing to maintain more trees.
 - Fast-growing species forest were introduced.

Appendix 5 Legal, regulatory and policy provisions relating to forest plantation sector

The forestry and wildlife development strategy and policy of 1997 refers to commercial re-afforestation, promotion of exports of timber and other forest products, use and exploitation of natural resources by the community and re-afforestation by the community, as well as protection and conservation of forests, the rehabilitation of forests in particular.

The national policy on energy, 5/98 of May 3rd, 1998 mentions expanding people's access to energy sources under proper conditions of utilisation and best possible economic conditions, protecting the environment, promoting the re-afforestation of the country to increase the availability of firewood and charcoal, as well as promoting economically viable investment programmes for the development of energy sources.

The forest and wildlife law of 1999 refers to promotion by the state of development of forest plantations for commercial, industrial or energetic purposes, according to the ecological characteristics of each area under terms to be regulated. In addition, governments, private forest owners and the forest industry should adopt long-term policies and management plans for forests, as well as strategies for industry development, in order to secure a reliable resource base for industry activity and growth.

The forest and wildlife regulation of 2002 refers to forest plantations. The regulation stresses the need for DUAT (Art. 79) and an environmental licence (Art. 81) as requirements prior to the establishment of industrial plantations. Logging in forest plantations can be done without logging fees or taxes, but the owner of the plantation must submit a request for approval of their operations to the Forest Service (Art. 38). The regulation defines that the logging fee for logging in natural forests includes a reforestation tax, which is to be used for reforestation activities (Art. 101). With the separation of forest plantation from the responsibility of MASA, it should be made clear in the on-going revision of the forest law how the reforestation tax will be operationalised. Illegal logging problems prevailing in the natural forest sector if not addressed may have negative impact on plantations.

Contact us

Kru Desai

Government and Infrastructure

T +44 (0) 20 73115705

E kru.desai@kpmg.co.uk

Peter Wilson

BERF Team Leader

T +44 (0) 7850 329362

E peter.wilson@kpmg.co.uk

Katja Silva-Leander

BERF Project Director

T +44 (0) 144 238 7534

E katja_silva-leander@dai.com

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