

**VERFOR PROJECT-FORESTRY DEPT.,FAO
INTERNATIONAL WORKSHOP:
MACRO AND SECTOR ISSUE RELEVANT TO TIMBER
VERIFICATION IN GHANA
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Introduction

- Compliance is a potential mechanism for capturing and distributing natural resource wealth (forest rent)
- Legal forest compliance and verification face big future challenges in Ghana

Current Macro and Sector Issues

- State is unable to capture a high proportion of economic rent
- Economic rent (stumpage price of trees estimated at US\$40 m⁻³, 2005) – more than half is wasted through inefficiency in processing
- Log Export Ban Policy generates →
 - Industry generally characterized by low level efficiency
 - Industry accustomed to too much wood (40% of log input is illegal)
 - Recorded harvest 2005 = 960,000 m³
 - Industry throughput (RWE) = 1,600,000 m³

Current Macro and Sector Issues

- Regulator depends heavily on forest tax -Stumpage fees (US\$8.7million) + Export levies (US\$7 million) in 2005
- High transaction cost of operators associated with bureaucracy – US\$6.5m⁻³
- Forest owners receive inequitable share of Stumpage revenues
- Landowners and stool subjects exact US\$8m⁻³ in informal Social Responsibility Agreements (“de facto” taxation)

The coming into force of compliance and verification – What Future scenario of operating environment?

Forest depletion:

- Expected results of legal enforcement: low volume of timber and with it stumpage value
- Future annual volume estimate of natural forest harvest is 600-800,000m³
- cf. current 931,000m³ (legal) and 1.6million m³ actual 2005

The coming into force of compliance and verification – What Future scenario of operating environment?

- “High” and “Moderate” demand species will drastically decline
- “Low demand” and “other” species will be 65%
- **Emerging strong global argument – provide incentives to operators for SFM**

Future Scenario

Current (2005)Tax Potential under Log Export Ban Policy US\$m ⁻³	Subtraction from Real stumpage price of trees US\$m ⁻³	
28	Operators' Compliance Cost	13.0
	Existing Transaction costs	6.5
	Informal SRA	8.0
	Verification Cost	3.0
	Total	30.5

Cost implications of legal enforcement

- Operators' compliance cost –US\$ 13m⁻³
- Cost of verification estimated at US\$3 m⁻³

State bureaucracy (monopoly) cannot finance itself at US\$14m⁻³

- Potential Stumpage price might reduce from US\$28 to US\$15 of which 50% share goes to forest owners

Future Strategies To Support credible Legal Assurance Scheme

- Reduce and streamline compliance procedures – and with it costs
- Verification procedures should be more focused to bring less costs to operators [Emphasis on Inventory (Forest Stock) control procedures]
- Reduce state monopoly [Devolve FM functions to Private sector]
- Deal with policy failures [Log Export Ban, removing cumbersome procedures that crowd out small operators; improve equity in distribution of forest benefits to forest owners]

Future Strategies To Support credible Legal Assurance Scheme

- Confront de facto SRAs [Requires CSOs intervention /brokerage Landowners and Operators
- Advance State PR on VLT's introduction of transparency using MSD in forest fora