



Policy forum: Potential options for greening the Concessionary Forestry Business Model in rural Africa

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ABSTRACT

Over the years, the Concessionary Forestry Business Model in Africa has largely driven the production of tangible forest products such as timber. There are concerns, however, that this approach does not include local communities as important stakeholders of the decision-making process. Little regards are also given to environmental sustainability, which would ensure inter-generational equity. This paper develops options for addressing these issues, thereby greening the Concessionary Forestry Business Model in Africa. Firstly, socioeconomic, environmental and technological challenges facing concessionary forestry businesses are discussed by reference to country case studies. The paper then continues to provide the core elements of a greener Concessionary Forestry Business Model, with more emphasis on business infrastructure, value propositions, customer interfaces, and profit models. The paper concludes by examining the necessary policy tools that will promote the integration of eco-innovations into Africa's forestry sector.

1. Introduction

Though several business models exist in Africa's high forestry regions, the concessionary business practice dominates, generally producing timber for exports (Karsenty, 2007). This business model has been in existence since Africa's colonization and its operations still gaining prominence even after decolonization. Africa's forestry sector offers several opportunities to its people, including serving as a source of income, energy, poles, and food for many rural dwellers. Over 90% of the people living in extreme poverty depend on forests for some part of their livelihoods (Megevand et al., 2013). Despite the gains the sector offers, it faces challenges of mismanagement and poor governance, contributing to unsustainable practices hindering the effective use of the opportunities offered by forests and woodlands (UNEP and NESDA, 2004; FAO, 2005). The high dependency on forests by the poor implies that fewer resources will be available after the degradation of the environment, for both the present and future generations with greater risk and unsustainability. The sector can, however, play a key role in the transition towards a greener economy and a more sustainable society (UNEP, 2010). The concepts of the green economy, green growth, and eco-industries all emphasize the sustainable use of resources so that the future generation may not experience resource scarcities or be exposed to environmental risks or otherwise be worse off but rather have the possibility to improve their standards of living (Henriksen et al., 2012).

Innovation is recognized widely as a driver of economic and social progress on a national level as well as a driver of business success and competitive advantage at the firm level (OECD, 2012). Eco-innovation is seen as a way of reconciling economic and environmental needs, while at the same time providing new sustainable opportunities for the industrial sector of nations (OECD, 2012). A breakthrough in eco-innovation according to the Nordic Workgroup (2010) is the possibility of finding solutions to the challenges presented by the environment and the climate, while at the same time attaining growth and creating new green jobs. New-product markets and new ways of business transaction emerge from this global “green transition” (FORA, 2010).

Literature abounds on how the introduction of the concepts of both sustainability and innovation into the “business as usual” activities help to achieve inclusive green growth. Nonetheless, none has yet investigated the opportunities to greening the Concessionary Forestry Business Model in rural Africa. This paper aims to address this knowledge gap, by finding answers to the following questions: What are the challenges that influence the greening of the Concessionary Forestry Business Model in Africa? How can a Green Concessionary Forestry Business Model be implemented in Africa?

The remaining of the paper is organized as follows: Section 2 analyzes the current state of the concessionary forestry business to identify challenges that need to be addressed for its green transformation. Section 3 then proposes a new Concessionary Forestry Business Model

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called the “Green Concessionary Forestry Business Model Innovation,” which has the potential to foster growth, sustainability, and inclusiveness in the African forest sector. The role government should play to support the implementation of the new forestry business model is investigated in Section 4. In Section 5, we conclude by summarizing the key findings.

2. Sustainability challenges of the Concessionary Forestry Business Model in Africa

Concessionaires operating in African forests are mainly foreign multinationals from Portugal, Switzerland, Lebanon, Belgium, Italy, China, India, France, Malaysia, Denmark and The Netherlands (Molnar et al., 2011; Sunderlin et al., 2008). The central government, ministries and the forestry businesses constitute the key partners in the Concessionary Forestry Business Model in Africa (Kozak, 2009). In this model, contracts are awarded to private firms together with a set of guidelines referred to as “cahier des charges” (Kozak, 2009), which details their environmental and social obligations in exchange for harvesting rights. Their major activity is that of producing timber destined for export markets (Molnar et al., 2011) based on natural processes (AfDB et al., 2003). This implies that extracting companies do not usually contribute to the growth process of forest products.

Even though significant steps have been taken in a number of African countries to establish sound forest management plans, there is still a big gap between management plan requirements and achievements in practice (Molnar et al., 2011). Social challenges of concessionary forestry businesses in Africa are numerous, including the avoidance of taxation by some concessionaires. Kozak (2009) points out that, collected taxes, even though translate into sizable revenue streams for national governments, do not trickle back down to the communities in which the concessionaires are operating. In addition, the requirements for local consultation and participation are breached leading to the depletion of indigenous and customary access and tenure rights of local peoples. Molnar et al. (2010, 2011) describe this as leading to little evidence of protection of livelihoods, cultural and social values in these local communities, causing social inequity, abject poverty, exclusion, and marginalization. Furthermore, development in the rural communities is limited, as concessionaires neglect their obligation of job creation, launching of social projects and social investments for the local populations (Ivar and Søreide, 2009).

Economic challenges stemming from concessionary businesses in Africa are numerous. Inadequate and outmoded processing units add minimal value to timber. Even though the sale of timber is profitable to these concessionaires, much revenue is lost due to the production and export of low-value added items like industrial round wood, sawn timber, and wood-based panels (AfDB et al., 2003). Even though some progress has been made in improving management, a large portion of the remaining tropical forest remains under-managed (ITTO, 2006). The International Tropical Timber Organization (ITTO) stresses that only 36 million ha of tropical forest area is managed sustainably in the year 2005 by its member countries, representing a mere 5% of tropical forests (ITTO, 2006). The continent thus occupies the first position of having the highest percentage of timber exported as round or unprocessed logs (20% of production, compared to 11% for Asia and less than 1% for Latin America) (Molnar et al., 2011). Notwithstanding this, domestic conversion into value added and finished products is continually declining (ITTO, 2008, 2009). In general, revenues generated by these countries are focused more on short-term profit through native-forest extraction, while exported timber is processed into furniture, paper, chemicals, etc. and imported back into these African nations at higher prices.

Uncontrolled logging by concessionaires leads to the pollution and drying of water bodies, and also to increase air pollution due to less sequestration of carbon coming from deforestation. The resultant effect of carbon concentration in the atmosphere is global warming, which is

evident in Africa by the intense heat and the sunshine with droughts occurring in most regions of the continent. A salient challenge is the capability of future regeneration of commercial timber species, which raises the issue of sustainability of African forests (White et al., 2007). Under-compliance with environmental regulation is another challenge that confronts the concessionary forestry business.

According to the FAO (2003), the development of technology in Africa for managing natural resources has been very slow, leading to the over-reliance on technology developed in other parts of the world. The processing industries in Africa are relatively inefficient. An example is the sawn wood and veneer processing sub-sectors in Gabon (Terheggen, 2011). Stressing further, Terheggen (2011) identifies the scarcity of skilled domestic workers, a comparatively high (reservation) wage level, and poor physical infrastructure as the causes of inefficiency stemming from a high production cost. Other causes noted include inadequate electricity and financial sectors to support processing activities, an unfavorable business climate and a weak political economy characterized by corruption and rent-seeking.

Although the activities of concessionary forestry businesses generate significant profits for the companies involved, several challenges persist, putting the status of this business model in question regarding its sustainability.

3. Greening the Concessionary Forestry Business Model

Environmental benefits and sustainability are the key characteristics of green business models together with service creation, value addition and value realization using both technological and non-technological innovations. The structure of the Concessionary Forestry Business Model is complex, but it can easily be captured through the framework of business model canvas developed by Osterwalder and Pigneur (2010).¹ Henriksen et al. (2012) with a focus on the business model canvas, proposes a strategy to green business models.² This strategy is used throughout this section to develop options for greening the Concessionary Forestry Business Model.

3.1. Greening the enterprise interface or infrastructure

Greening the Concessionary Forestry Business Model entails the consideration of local communities and indigenous people as service providers in support of the forestry business operations. The majority of the World's poor have a high dependency on forests, which can be improved by enhanced local control, including forest enterprise development (Macqueen et al., 2014; Larson et al., 2010). Local government and indigenous people may ensure that the forestry business companies fulfill their obligations of job creation, community development, and environmental sustainability in the communities, where logging activities take place. Co-management of forest resources between governments and local communities according to Berkes et al. (1991) seeks to create negotiated agreements between state and local communities and therefore, offers a possibility to overcome conflicts.

Greening the Concessionary Forestry Business Model will require linking forestry resource extraction industries to wood transformation industries through a supply-chain management. Modifications in the wood product value chain should integrate concessionaires to ensure the production of specific species and products that meet the needs of

¹ In the framework of business model canvas, an enterprise can easily describe its business model in four interfaces: (a) enterprise interface or infrastructure (key activities, key resources, and partner networks); (b) market offering (value proposition); (c) customer interface (customer segments, channels, and customer relationships); (d) profit model or finances (cost structure, and revenue streams).

² The greening strategy is built around four elements: (i) creation, which implies coming out entirely with a new way of carrying out business activities or a new (innovative) product; (ii) an alternate method or process of business operation or service delivery; (iii) business model redesign and; (iv) possible modifications to existing systems.

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