

World Wide Fund for Nature (WWF)

in partnership with **Finnfund** and **Mpingo Conservation & Development Initiative (MCDI)**

Terms of Reference for Assessing Options to Improve Value Chain for Locally Controlled Forest Enterprises in Tanzania

1. Background

World Wide Fund for Nature (WWF), the Community Forest Conservation Network of Tanzania (MJUMITA), Mpingo Conservation & Development Initiative (MCDI) and Tunduru District Council (TDC) are currently working in partnership to implement a programme to scale-up Participatory Forestry Management (PFM) in Southern Tanzania. This programme aims to support local communities attain tenure rights and benefits from local forest resources. This programme, implemented in Tunduru District in Southern Tanzania, is based on the long-term experience of MCDI piloting innovative PFM-business models in Kilwa District. MCDI brings more than 10-years experience from Kilwa, where it has been providing a range of support and facilitation services on behalf of PFM-participating local communities (including the only Forest Stewardship Council certified community managed natural forest in Africa). A central requirement of this approach is that MCDI can recover its costs of service provision whilst still allowing communities (who have costs of their own) to make sufficient profits from the forests to be socially sustainable.

While the work on scaling-up innovations in PFM in Tunduru District is based on successful experience from Kilwa District, there are still challenges to make locally controlled forests realize economic potential that is sufficient to sustain economic benefits, and cover operation costs over the long-term. A few notable challenges include:

- finding the right institutional mechanisms that will help local communities to attract and sustain financial investments across the value (and supply) chain for timber and other forest products;
- the majority of local community forestry enterprises maintain inadequate financial records, and have limited understanding of the market and competition, and this poses risks for investments and business for profit;
- limited financial management, planning and governance skills for local communities to address both accountability and mechanisms to reduce operational costs over time;
- local communities have limited contract negotiation skills, which are needed to engage effectively with private sector and investors.
- limited financial resources for achieving and, if obtained, maintaining the maintain operational costs of Forest Stewardship Council (FSC) certification, which is important to access certain (international) markets.

These challenges are currently being addressed through partnership between WWF-Tanzania, WWF-Namibia, MJUMITA and MCDI. The purpose of this partnership is to strengthen the institutional capacity of Village Natural Resources Committees (VNRCs), a sub-organ of the Village Government in PFM-participating communities that is responsible for forest management. To further strengthen the institutional capacity of VNRCs and thus fully unlock the business potential of community forestry in Tanzania, there is a need to fully understand the value (supply) chain and

supporting mechanisms (including institutional design/set up) that will attract financial investment opportunities for local communities. These investments could not only fund timber production, but also include funding for Payments for Ecosystem Services (PES), ecotourism, sawmilling and processing offcuts from timber etc. It is against this backdrop that **WWF**, **MCDI** and **Finnfund** are seeking a consultant(s) to assess the options to improve the value (supply) chain for timber from locally managed forests in Tunduru and Kilwa Districts. This assessment is expected to contribute to the design and implementation of a business plan for the local forest enterprises in Tunduru and Kilwa, and contribute to the business capacity building of the VNRCs. In turn, it is envisaged that this will provide the basis for better attracting financial investment opportunities in locally controlled forests in Tanzania.

2. Objectives

The **overall objective** of this assignment is to assess different options to improve the value (supply) chain for products (particularly timber, but also non-timber forest products, NTFPs) from locally controlled forests in Tanzania, so as to improve the business and financial investment potential.

The **specific objectives** of the assignment are:

Business model

- a. To map the different business models available to local communities. In these business models, it should be illustrated where investment, income and expenditure would be made at various stages of the forest product value chain, from– managing the forest reserves, to harvesting, processing and sales of forest products.
- b. To define the various requirements of a desired business model, including but not limited to those listed below, and the feasibility of meeting these in the project area:
 - the skills and equipment needed to process timber, as required by the different market sectors (e.g. construction, furniture, musical instrument industry, etc.)
 - manufacturing processes, including how to ensure timely delivery of the raw material from forest to sawmill, and from the sawmill to customers (manufacturing processes must be reliable)
 - desired quality of the end product, and how to ensure this
 - logistical and infrastructural requirements, and whether these are feasible when operating in remote, inaccessible areas
 - how to ensure correct log selection and log storing (in the forest and at the sawmill)
 - skill level of workers (harvesting phase and sawmilling phase)
- c. Assess institutional set-up options at the village level that would facilitate potential business and financial investment. Such an institutional set-up should 'ring-fence' the risks so that Village Councils are not jeopardised in case of business failure.

Sawmill and dry kilns operation

- d. To establish what existing sawmills are in and around the project area, specifically to highlight:
 - The number, location, ownership and type of sawmills

- Where milled logs come from and into what markets (geographic location and sector) the processed timber is sold
 - Is there more capacity to take on logs? If so, how much capacity is there and what would the costs be?
- e. To compare the pros and cons of a mobile sawmill versus an appropriated sited sawmill, including:
- Investment and management costs
 - Turnover (i.e. quantity of logs, timely delivery) required to generate profit
 - Different ownership and management options
- f. To assess the feasibility of establishing drying kiln(s) in the project area, specifically to highlight:
- Number, location and type of kilns needed
 - Investment and management cost of a dry kiln
 - Turnover (i.e. quantity, quality and timely delivery) required to generate profit
 - Different ownership and management options

Supply and market for timber

- g. To review the timber supply from the project area, to answer the following questions:
- What are feasible and economically viable annual harvesting off-takes for key timber species in locally controlled forests in the project area (based on the forest management plans), over short- and long-term?
 - What would at current prices be the annual purchase and harvesting price of the logs (for FSC certified and non-certified logs)?
 - What would the approximate transport cost be to the closest existing sawmills?
- h. To review the market demand for the timber, in order to answer the following questions:
- What species are in demand?
 - What are the prices being offered for logs and planks?
 - Assessment of trade barriers within the country and for export.
 - Who are the main buyers and what are their expectations (i.e. the saw mill technology capacity to deliver desired quantity and quality)?
 - How could marketing be simplified in a more cost effective way to the villagers?
 - What is the potential market for lesser-known species?
- i. To review feasibility of the logistics of the operation including timely supply of the logs from appropriate areas, seasonal weather conditions and requirement of subcontractors / vehicles.

Forest Stewardship Council (FSC) certification of forests, sawmill and kiln

- j. Map out project forest areas that are 1) FSC certified (Group certification or other) and 2) non-FSC certified
- k. Establish the FSC Chain-of-Custody (CoC) certification status of existing sawmills (capacity and feasibility)
- l. Establish impacts of FSC certification throughout the value chain, including but not limited to:

- What is the demand for FSC-certified timber products along the value chain (from raw logs to sawn timber and to the end product), and how would this affect log and sawn timber prices
- Assess how FSC logging limitations may affect supply of - and demand for - timber from locally controlled forests in the project area

Financial return

- m. To conduct analysis of the:
 - Return on financial investment for the VNRC owned entity over 10 years, based on different business models, including at various levels of value adding and at different points of sale, e.g.:
 - i. Sell the logs to a third party professionally run sawmill at agreed priced (perhaps including a end product price mechanism so that price of logs will be fair)
 - ii. Purchase the logs at current prices (including all costs, i.e. logging, loading and transport), rent the sawmill and market the planks.
 - iii. Purchase the logs, invest into a sawmill and market the planks.
 - Financial analysis of the value chain for the local business-enabling environment of processors (i.e. saw mill, loggers, loaders, and transport), buyers, producers (i.e. VNRC) and input support (i.e. MCDI and District Councils in Kilwa and Tunduru). The analysis should highlight, among other things, the required investment, expenditure, income, expected profit (with % comparison) and risk level for each local enabling environment.

3. Geographical scope

The proposed assessment will focus on Tunduru District and Kilwa District in Southern Tanzania where MCDI is operating.

4. Scope of the assignment

The scope of this assignment remains the same as spelled out in the objectives of these Terms of Reference (ToR). In addition, the following aspects will have to be considered during the course of the assignment:

- a. The assessment should consider options to improve existing community logging operations, both in terms of logistics and cost (both capex and opex) thereof; currently there are delays in cutting and delivering the logs and in some cases quality may also be a concern.
- b. Assess options and recommend institutional mechanisms where, under the facilitation of MCDI, a number of VNRCs could collectively work together when engaging with a buyer(s). This will aim to strengthen the position of VNRCs when negotiating prices, and to secure orders that individual VNRC might not have the capacity to secure.
- c. Assessment to include estimation of the range of wood products that can be derived in addition to sawn products and their potential values and investment potential

- d. This assessment should be conducted with a view to contribute to the design of a long-term business and investment plan for the local community forestry enterprise(s) in Tunduru and Kilwa.
- e. The assessment should indicate what additional support would be required by local communities and MCDI to ensure success of the proposed business model(s) and institutional set-ups.
- f. The assessment should take into account and draw upon the experience of MCDI in implementing PFM in Kilwa District, as well as lessons from similar approaches in Namibia and elsewhere (e.g. Costa Rica, Kenya) that may be of relevance to the Tunduru and Kilwa case.

5. Specific tasks

The tasks for this assignment are defined by both the objectives and the scope as spelled out in this ToR. Additionally, the consultant will do the following:

- Undertake literature review to gather information necessary for the assessment
- Engage in thorough discussions with all partners to further understand the requirements of the ToR, as well as the local context and future needs and aspirations
- Carry out field visits to Tunduru and Kilwa to conduct the assessment and consult with stakeholders (including other relevant stakeholders outside supply chain)
- Address the main objectives of the study as stated above
- Support WWF to organize and facilitate at least two workshops to present, review and agree on proposed recommendations from the assessment
- Present the findings at the community-based investment dialogue with investors scheduled at the end of 2015.

6. Timing and duration of the assignment

The timeline for this consultancy is between October and mid-December 2015, including all preparatory work, gathering information, consolidating stakeholders' views and final reports. All of these deliverables should be ready in time for the community-based investment dialogue, which will be held at the end of 2015.

7. Output/deliverables

- **Inception report:** defining approaches and tools, timeline and work plan to be used in conducting the assessment. The report is due two weeks after signing the contract.
- **Draft report:** draft report (in English) responding to the objectives and scope as defined in this ToR should be submitted by mid December 2015
- **Final report:** final report (in English) responding to comments should be submitted by end of December 2015.

8. Qualifications and expertise required

This is an assignment that requires skills and knowledge in value chain assessment and innovative business planning in local forest enterprises. The consultant(s) should have the following:

- An advanced university degree in economics, natural resources management, forestry, agricultural economics, agribusiness management, or a closely-related field
- Experience in conducting both local and international value chain assessment analyses
- Solid understanding of the tools used for value chain assessment
- Experience in conducting investment feasibility analyses and studies
- Experience in economic analyses tools for value chain assessments
- Good experience and understanding of FSC Forest Management (in particular SLIMF Group certification) and Chain-of-Custody requirements and process
- Understanding of the institutional set-up of locally controlled forests in Tanzania
- An understanding of community-based natural resource management issues
- Experience in conducting market research in Southern Africa and Europe

9. Technical Proposal Content

The technical proposal should include, but not limited to, the following:

- Team composition, roles distribution and CVs
- Similar and /or relevant assignments
- Understanding of the Terms of Reference and required knowledge
- Proposed approach and methodology
- Time frame and work plan

10. Financial Proposal Content

- The proposed budget must explicitly indicate the consultancy fees per each team member, international travel (if any), per diems, accommodation costs and other costs relevant for the assignment. The total budget for this assignment is US\$ 60,000 including technical fees, travel expenses and taxes.
- The local travel in Tanzania will be directly covered by WWF.
- Consultant(s) must be independent actor and not act as agent or representative of neither WWF nor Finnfund and has no authority to bind or commit to any agreements or other obligations.

11. Project Management

- WWF and Finnfund provide the funds for this project and will be responsible for providing overall oversight and ensuring accountability of this assignment. The contract for this assignment will be administered by WWF-Tanzania.
- The technical proposals and reports (draft and final) for this assignment will be thoroughly reviewed and evaluated by technical committee made of representatives from WWF, Finnfund and MCDI.
- WWF, Finnfund and MCDI will provide relevant documents relevant to support smooth execution of this assessment.
- WWF and MCDI will play role in facilitating field visit, stakeholder meetings and other internal meetings in Tanzania.
- WWF and Finnfund will facilitate contacts for stakeholders in Europe and across the region.