



Government's Responsibilities to Promote Private Investment in Forest Plantation Development in Nigeria

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Abstract

Forest plantation development is an important activity in sustainable forest development with the aim of increasing wood supply and stemming the tide of deforestation in the natural forests. Forests managed by government cannot guarantee sustainable production of round wood in Nigeria because exploitation of natural resources is not done in a sustainable manner and government effort to replenish the loss forest does not match the rate of forest loss. Hence, private investment is one of the main financing sources for forest plantation development. Governments (federal, state and local) have a significant direct role to play in private investments in forest plantation development. Government could make forest plantation development attractive to private investors when the country is politically stable and operates transparent policies. Incentives {from free seedlings to the provision of political and macro-economic stability} as policy instruments aimed at increasing the comparative advantage of forest plantations will stimulate investments in plantation establishment and management. Therefore the responsibility of the forest to meet the ever increasing needs of the people calls for more and urgent strategies not only to increase the population of trees through private forest plantations investment at all levels but also to create a conducive climate environment for private investment.

Key Words: Private investors, Investment climate, Natural resources, Forest plantation development, Government.

Introduction

There are three tiers of Government in Nigeria; Federal, State and Local Governments. All these tiers have their specific responsibilities to forestry development but the State and the local government are the closest to the grassroots. However, a national approach to make private investment in forest plantation development attractive is urgently necessary because forestry matters are not compartmentalized within political boundaries. For instance, increase in private forest plantation development in one State could lead to improved economy in the neighbouring States or the country as a whole. For private investors to feel comfortable investing in forest plantation development, they need to have a reasonable expectation for conditions that will allow their investments to thrive and expand. Thus, the roles of government in forestry development should include provision of soft loans, seedlings, technical assistance, create market and marketing platform for forest products and also serve as extension agents to the general public through dissemination of innovation and information (Enters et al., 2004; Arnold 2001; Byron 2001).

The potential of forest plantations has been recognised globally. Roche (1990) stated that in the late 1920's when New Zealand was struck by the worldwide economic depression which resulted in widespread of unemployment. Afforestation was seen by government as constructive relief work. Government invested heavily on plantation establishment to keep the people employed. Also, the Philippian government established a good tree plantation climate for investors. The government gave economic incentives, tax breaks, easy bureaucracy (permissions), and access to limited banking to develop tree plantations and wood processing mills (sawn timber, plywood, veneer, pulp and paper etc.). Many schemes were provided by government for tree plantations investment in the country.

In Nigeria, unemployment and poverty contribute to overexploitation of the forests. NBS (2018) recorded 20.9 million persons as unemployed in Nigeria. Private investment in forest plantation development should be seen by the government as a constructive relief work. Active investment in forest plantations development through the use of incentives especially financial incentives will contribute to the economy of the country through job creation and improving the standard of living of many citizens. Government can facilitate this by providing a conducive investment climate.

World Bank (2016) stated that investment climate is affected by many factors, including: macroeconomic and political stability, physical infrastructure, availability of capital and human resources, taxes, rule of law, property rights, government regulations, government transparency and government accountability. Hence, investment climate refers to the economic, financial, and socio-political conditions in a country that affect whether individuals, banks and institutions are willing to lend money or invest in the businesses operating there.

It should be noted that forest plantation establishment is essentially a business and government typically are not good at doing business (Lowore and Munthali, 2003). Consequently, private investment in forest plantation has a lot of great potential to rescue the forestry sector and in turn contribute to sustainable forestry development in Nigeria. Therefore, Government needs to improve the investment climate in order to achieve optimum private investment in forest plantation development in Nigeria.

Building Awareness and Capacity

Indufor (2013) stated that there is need to educate the general public and financing institutions on the basics of forest asset valuation, forestry investment and risks. Many financing institutions and individuals that are involved in forest investments lack understanding of forest assets as an investment class. Often financing institutions and investors do not know how to assess risks related to forestry investments. They are often not familiar with forestry business in general, and therefore are reluctant to deal with it. Building the capacity of individuals, organisation and institutions is important for the strengthening of civil society and grassroots development in Nigeria. Building the capacity of potential private investors will lead to overall enhancement in efficiency, transparency and accountability in implementing forest plantation development. Presently in Nigeria, people know the multipurpose benefits of forest resources (timber, fuelwood, medicinal purpose etc.), hence the reason for continuous increase in the demand for forest products. Unfortunately, many people are ignorant about the consequences their actions have on forest, the level of deforestation and depletion. They are oblivious about the importance of sustainable management of the forest and the potential forest plantation has to compliment resources from natural forests. In this regard, Nigeria government can foster a skilled workforce through basic education programs, consider labour market interventions that promote higher skills, and help people participate in sustainable forest development through forest plantation investment.

Providing Secure Land Tenure

Globally, the competition for land is increasing, driven mainly by demand for food and other agricultural commodities as well as for fibre, wood and bioenergy. In Indonesia, for example, the competition for land between forest plantations and agriculture is intense. This is particularly so with oil-palm plantations: according to some estimates, such plantations are more than ten times more profitable than forest plantations for pulpwood. Also, choosing agricultural production through competing policies has affected natural forest cover and limited private investment in forest plantation development. Indufor (2013) confirmed that land-use competition pushes up land prices, with the effect that forest plantations shift towards new frontiers.

Enter et al., (2004) reported that early government efforts to engage private investment in tree planting tended towards the provision of physical incentives (land, seeds and seedlings). In New Zealand and the United States, one of the earliest incentives was land grants, which encouraged settlement and, under certain conditions, tree planting. More recently, China has provided significant land allocations to farmers for tree growing. Kartodihardjo and Supriono (2000) reported that land availability either for purchase or rent and uncertain tenure has constrained investment in Indonesia, Uganda, Thailand and the Philippines. In extreme cases, tenure and land use conflicts have resulted in the destruction of plantations and equipment. This certainly deter private investors from participating in forest plantation development.

Secure property rights have long been recognized as a precondition to private investment in forest plantation development. It brings confidence to buyers and their lenders involved in the property transaction. In Nigeria, there is a need for policy and legislative reforms to establish clear, transparent and cost-efficient procedures for land acquisition and leasing. Social safeguards and related community consultations should also be put in place to avoid land-grabbing and conflicts with local communities. For instance, an investor may purchase a piece of land from the State government in Nigeria and still be threatened and disturbed by indigenous landowners. In such situation, a well-defined property rights in land tenure system is needed to prevent such harassment.

Increasing Availability of financing for responsible and sustainable investments

Enters et al., (Ibid) stated that from a financial perspective, forest plantations are long-term investments with a large proportion of capital expenditure occurring in the first several years of the production cycle and revenue is generated only at the time of the final harvest, which in most cases is between 20 to 40 years, but fast-growing species may be harvested in slightly less than 10 years. Thus, fund is a vital tool in any investment. It is needed to create, manage, conserve forest resources, and also establish facilities for production and marketing of forest products in the country (Byron, 2001).

Indufor (Ibid) claimed the availability of longer-term, reasonably priced, loan financing is a major constraint for forest plantation investments in many developing countries. Thus continuous efforts are needed to develop tailored loan facilities in existing national development banks or other financing institutions, particularly targeting small- and medium-scale private forest plantation owners who are unable to access loan financing from abroad. Funding mechanisms for private investors should be made available. For example, there are banks e.g.

development bank of the Philippines and land bank of the Philippines, they provide loans to investors who would like to venture into reforestation, tree planting and plantation development in the Philippines.

Fasoro (2018) reported that huge capital are expended at the initial stage of forest plantation investments by private owners in southwest, Nigeria and little or no revenue are generated until towards the end of year of rotation. This shows that huge capital is needed for the establishment of forest plantation. Also, private forest plantation owners who borrowed money for the investment may never be able fully pay the initial outlay until the end of rotation when the investment will yield returns. This may prevent private forest plantation owners from having access to loan in some banks or financial institutes. The study further revealed that private forest plantation owners can be tempted to defer treatments, due to the limited access to capital and credit. This eventually affects the quality and quantity of the timber produced.

Ensuring Good Governance and Transparency

Kallio (2013) stated that distinct, dependable and fixed laws and regulations, in addition providing incentives, land security, conducive investment climate and adequate infrastructure and technology will attract private investment to forest plantation development. It is important that a country is politically stable and must also communicate this to the rest of the world in order to attract private investment. The transparency of a government decreases corruption, which is often interwoven with and prevails over governmental policy. When a country operates transparent policies, she has the capacity of offering ample security to investor and risk in investment is reduced. That is, the greater the political stability and governmental transparency, the lower the risk (ITTO, Ibid). Incidentally, Indufor (2013) reported that some forest policies largely exist on paper in Asia and Africa. In reality, very little of the required measures are carried out. For example, Uganda has good laws and regulations protecting the forests and trees, but the problem lies in implementation of these laws and regulations. Hence, comprehensive governance reforms are needed especially in Asia and Africa because of potential for forest plantation expansion. Such reforms typically streamline and increase the transparency in the processes of issuing licenses and permits. Therefore, reducing the risk of corruption and excessive bureaucracy accelerates the investment execution and improves the investment environment.

Good governance is a crucial element for attractive investment conditions. Respect for the rule of law is a prerequisite for upholding rights and obligations of people and business and for establishing trust in the legal system of a country. The existence of an independent, impartial and efficient national justice system is the essence of the rule of law. Well-functioning national justice systems are beneficial for the economy. Good governance, including control over illegal activities and provision of significant infrastructures such as good transportation system, creating a conducive market and marketing system will do the most to foster responsible private investment and improve its contribution to social and economic development.

Olajide (2005) observed that there is little or no forest governance in Nigeria but rather forest administration which is devoid of people or users' considerations. Many Nigerian leaders have often been accused, and justifiably too, of economic mismanagement, wanton squandering, embezzlement or misappropriation of public funds. As a matter of fact, corruption and unethical behaviours appear to have been institutionalized in Nigeria. Corruption at different levels of government discourages private investment in forest plantation development. In a situation where private forest owners are subject to exploitation by unscrupulous administration officials citing various rules and laws affect private investment. In some cases, provision of incentives to private investors by government officials gave them the chance to engage in corrupt activities. Inefficient political stability and bad governance has led to unsustainable harvest of forest resources from the natural forests and forest plantations, which drastically reduced stocks. Some of forest policies in the country largely exist on paper. In reality, very little of the required measures are carried out.

The major governance-related obstacles affecting private investment in forest plantation development in Nigeria include ineffective policy, institutional failure, scarcity and insecurity of land, and the lack of trust towards the government. Absence of appropriated is semination of information, policy, proper decentralization, legislation, transparency, conflict resolution and decision making processes impede private investment in forest plantation development.

Introducing Targeted Incentives

As stipulated in Table 1, various combinations of incentives can trigger the adequate investments in forest plantations development. Provision of goods and services can facilitate private investment, situations where government supplies good and services to specific individuals and firms in forestry sector at a reduced cost or, sometimes, for free. For example, if government give out seeds to interested individuals and promise to buy back those seedlings after a specific period of time at certain amount, a lot of people will participate in raising viable seedlings. Also, provision of free-of charge seedlings and fertilizer to potential private investors are appealing because they are straightforward and less intimidating especially to small-scale investors.

Subsidies, grants and loans from the government and NGO's to individuals and firms which may require forms and paperwork can stimulate and encourage forest plantation development. Provision of public goods include situations where government supplies good and services to the whole of forestry sector either at a reduced cost or, more often, for free. These public goods include basic infrastructures like good transportation system, creating a conducive market and marketing system in the country.

Tax incentives include various arrangement whereby individuals and firms in the forestry sector benefits from the way that taxies are levied and collected (e.g. exemption from certain taxes) or more subtle benefits from the way that taxes are calculated (e.g. various different ways in calculating taxes on forest growth or they may be distinguished in terms of when taxes are due in the life cycle of the forest). Reduction in duty and money levied by government on forest production can attract more private investors. For example tariff paid on round wood for exportation, amount paid for permits by private owners to cut trees in their plantations.

Table 1: Types and Effects of Forestry Incentive Instruments

Type of Incentive	Inputs	Processes	Outputs
Subsidies, grants and loans	Grants to cover planting and replanting costs.	Grants to cover forest management operations (e.g. thinning).	Trade finance Conservation easements.
	Cost-sharing or cost recovering arrangements. Loans for investment in forestry and forest processing facilities	Cost-sharing or cost-recovery arrangements Grants for investment in new technology and processes Grants for locating forest or forest industry investments in particular locations	Payments for the production of non - market benefits Green fee payments
Tax incentives	Tax reductions or exemptions to offset planting cost Tariff preferences	Tax reductions or exemptions to offset forest management costs Differences in the way forests are taxed Tax reductions or exemptions for locating forest or forest industry investments in particular locations	Tariff preferences Favourable tax treatment of forest production
Provision of goods and services	Extension services (e.g. for planting) Subsidized public roundwood sales. Free or subsidized materials (e.g. fuel, fertilizer, seedlings)	Extension services (e.g. for forest management and processing)	Extension services (e.g. assistance with harvesting and marketing) Trade insurance Subsidized transportation
Provision of public goods	Fire and pest control Infrastructure development	Research and development Technology transfer Publications and information	Marketing board Infrastructure development
Policy support	Land tenure reform Improvement to commercial law	Community forestry Recycling legislation Forest certification	Non-tariff trade policy Improvements to commercial law

Market Conditions must be Conducive to Profitability

Byron (2001) and Scherr (2004) confirmed that the willingness of private investors to invest in forest plantation development with timber production as the main objective is influenced by the availability of functional markets. The existence of a functional market is one of the most critical factors in promoting private forest plantations. Also, perception that forest plantations will be profitable is the central motivation for forest plantation establishment. A number of factors can reduce profitability in countries. A primary issue in Nigeria is pricing, particularly when stumpage rates in natural forests or from government supplies are kept artificially low. This occurred through a number of mechanisms. These included intentional under-pricing of natural forest wood, long-run concessions or quotas without appropriate price adjustment for inflation, restricting exports and thereby creating an oversupply in local markets, illegal harvesting and trade in timber and inappropriate government market behaviour. All these will affect the market price of resources from private forest plantation.

Foley and Barnard(1984) affirmed that guaranteeing wood prices is one of the direct strategies for creating a stable market for trees produced in the Philippines. When governments set an artificially low rate of return on their forest production, this undermines private investments. Krishnapillay (1998) and Hammond (1998) reported that in Malaysia, Papua New Guinea and the Solomon Islands, abundant supplies of cheap wood from extensive natural forests until recently provided little incentive for plantation investment. Hence, reasonable and stable market prices would encourage private sector participation in forest plantation management.

Rohadiet al.,(2012) further revealed that inaccessible markets, poor market and marketing information, and inability to overcome transaction costs affect private forest plantation development. Private owners with limited access to market information often lack negotiation power on the prices they receive for their products, and they often have little choice but to accept the price dictated by the forestry departments (even if it is well below market rates). Government speculated price is not fixed, so, private owners have the right to negotiate on the price they are willing to sell without running into losses. Perdana et al.,(2012) reported that engaging middlemen (timber contractors) in timber price negotiation sometimes reduces the profits of private forest plantation owners, although, Roshetkoet al.,(2007) observed that the involvement of middlemen is not always negative or damaging because they enhance marketing of wood. Hence, when private forest plantation owners have access to market information and there is market stability, they will have relevant negotiation power and no middlemen can defraud them.

Need for Continuous Improvement in Technical Factors of Production

Maturanaet al., (2005) stated that many small scale forest plantation owners in Indonesia and other developing countries in the tropics often manage their timber plantations using poor silvicultural practices with low levels of labour inputs, which lead to low quantities and quality of timber. Kallweit (2005) also reported that skills levels in most private plantation business in Uganda are low; specifically, investors lacked appropriate skills and experience in management practices for viable commercial forest plantations development. Evidently, private owners manage the forest better where there was better training, education and leadership. Therefore, government has to provide technical advices, extension programmes, free seedlings and protection services to private owners in the country to promote desirable development through private forest plantations.

Fasoro (2018) revealed that there are some private forest plantation owners in southwest, Nigeria that lack appropriate management skills. Many private owners are ignorant of the appropriate silvicultural practices such as spacing, beating up, thinning, pruning etc. and this lead to low quantities and qualities of timber in the forest plantations. Plates 1 and 2 show forest plantations in southwest, Nigeria that are not properly managed.



Plate 1:Lack of proper spacing, prompt thinning and pruning



Plate 2:Beating up not done to replace lost seedlings

Scherr (2004) stated that availability of tree farming technologies- innovative technology that provides the best quality seeds is significant to bolster tree planting. Selection of appropriate tree species is one of the most important silvicultural decisions to be made, and has a strong influence on the success of forest plantation development. The species selected should be suitable for the local environmental conditions, and should also suit private owners' objectives and livelihood strategies and available markets.

In addition, improving technical factors of production also means improving the technology. Technologies can be generated through research and development (R&D) by research institutes, academics and private sectors. These can be used to enhance the production of forest plantations. Forest Research Institute of Nigeria can be tapped to provide technical assistance in the production of high quality planting materials for plantation species and appropriate development and management techniques to improve survival and increase productivity of forest plantation. Focused forestry research provides information for policy makers and funding agencies. It provides transfer of research-induced technology to people which is the only way to measure research benefits to society. It also provides feedback to scientists and researchers on which technologies or technology components are successful. Thus, continuous improvement in the technical factors of production is important in private forest plantation development.

Macroeconomic Policy Stability

European Union (2019) stated that stable macroeconomic policy is crucial to private investment in forest plantation development, since they anchor the expectations of economic actors and contribute to lowering the risk of doing business by providing a more secure and predictable environment for private investor in making investment decisions. Bandow (1997) reported that forest sector is heavily influenced by macro-economic policies even though forestry often has little influence over the setting of these nation-wide policies.

The Federal Government of Nigeria tries to influence the performance of the national economy through various macroeconomic policies such as changing the level of taxation, government spending, or the supply of money available in the economy. These categories of macro-economic policies affect forestry: monetary and fiscal policies, foreign exchange rate policies, factor price (interest, wage and land rental rates), natural resource, and land use policies. Changes in monetary, fiscal and trade policies affect the performance of the forestry economy through their respective influences on input and output prices, land prices, and exchange rates. Foreign exchange rate policies directly affect forest products prices and costs.

Foreign exchange rate policies directly affect forest products prices and costs. The exchange rate directly influences the price because exchange rate is the relationship between the value of the domestic currency of a country and a foreign currency (i.e the international 'price' of the currency) and can be taken as a measure representing the market equilibrium for the currency (the adjustment between supply and demand of the currency by economic agents) (ITTO, 2009). Inappropriate exchange rate policies can result in domestic currency instability, which increases the risk for private investment in forest plantation development.

Also, factor price policies directly affect forest plantation costs of production. The primary factors of production are land, labour and capital. Land and labour costs make up a substantial cost of establishing forest plantation in Nigeria. Government often enact macro policies that affect land rental rates, wages rate or interest rates throughout the economy. In Nigeria, if land is leased by companies/organisation for forest plantation establishment, huge money is expended. Various payments are required to be paid every year to the government. Examples of payment made are; Stumpage Permit Class, Sales of forms and registration of vehicle by tree, tree harvest permit, land rental payment etc. these can act as limiting factor to private investment in forest plantation development in Nigeria. Other factor price policies include minimum wage floors or interest rate of ceilings, and these policies influence some sectors more than others.

Further, interest rates on money borrowed affect private investment in forest plantation development. Interest rates are one of the main macroeconomic instruments by which governments adjust monetary policy. Since interest rates define the cost of capital and its profitability for investors, they are a crucial factor in investment decisions. Thus, a country will be more attractive to investors if it has a low real interest rate (which is the basic interest rate defined by the government based on change to consumer prices, minus inflation). In other words, a high interest rate reduces business attractiveness; as for investors, financial investments with a rate of return lower than the interest rate are not economically feasible (ITTO, 2009). Therefore, interest rates have significant bearing on the appeal of investments in forest plantations because they are a long-term businesses in which capital plays a vital role.

Conclusion and Recommendation

Studies have shown that private forest plantation development is a major way of achieving sustainable forest development, income generation, increase wood supply and also reduce the pressure on natural forest in Nigeria. However, the total number of private investors involved in forest plantation development and the total area of forest plantation in Nigeria is small compared to the total land area of the country. Hence, private investors' interest should be stimulated towards investing in forest plantation development and this can be achieved through guaranteed conducive investment environment.

Therefore, these recommendations are made

- Government should liaise with the apex body concerned with forest and its resources in Nigeria, that is Forestry Association of Nigeria which comprises all forest stakeholders (timber contractors, plank sellers, private forest plantation owners, forestry lecturers and researchers etc.) to create policy that will facilitate private forest plantation development and also make provision for incentives so as to remove bureaucratic and market bottleneck.
- Government must formulate clear and stable policies to offer security to investors. Fostering of favourable conditions such as secure rights, promising technology, reasonable financial terms and an industrially integrated market, along with strong government commitments to increase the likelihood that plantations are more profitable and less risky for private investors.
- Widespread promotion of opportunities, new technologies and market information relevant to private forest plantation development must be embarked upon. There should be research-extension linkages to promote private forestry. Forest Research Institute of Nigeria, Federal Department of Forestry, all Nigeria Institutions with Forestry Departments, State Ministries/Departments of Forestry and other forestry stakeholders must come together to discuss how to boost private investment in forest plantation development. This process promotes public-private partnership which enhance transfer of information that can improve forestry development in the country.
- Provision should be made by government to lease or rent land to interested investors and reassure prospective forest plantation investors about the security of the land they rented.
- Access to financial services and market can be especially challenging for small and medium forest enterprises. Often, sustainable practices cost more to implement and the return on investments comes at the end of rotation period. Therefore, reducing cash-flow problems in forestry investment would be a significant incentive to attract private investment in forestry. For this, a special concessional loan with longer grace and payback periods should be guaranteed by government.
- Amendment or revision of forest regulations through a comprehensive study to better support the private investors in private forest plantation development.

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