

Ethiopia Forest Sector Development

Priorities to develop commercial forestry and its industrialization within the green economy



Key points

- Ethiopia's transformation to a climate resilient green economy urgently requires investments in forestry, and the following actions:
- Replace the increasing timber imports with sustainably managed domestic commercial forests
- Promote urban deployment of modern timber products to generate rural employment and prosperity, and reduce greenhouse gas emissions
- Provide private investors access to suitable land, technology and affordable long term credit
- Support joint ventures between local and international investors to increase the productivity of planted forests through technology, know-how and capital transfer
- Develop a domestic wood processing industry in agribusiness parks surrounded by sustainably managed woodlots and plantations

Acknowledgment

This work was financed by the World Bank project Multi-sector Investment Planning for Climate Resilience. Technical assistance provided by UNIQUE forestry and land use.



Investment in Ethiopia's forest sector

In order to meet Ethiopia's growing demands for forest and non-wood forest products and to achieve the transformation to a green economy, the Government of Ethiopia must act quickly to enable the public and private investments required in forest establishment and industrialization. A recent World Bank report¹ based on the Forest Sector Review (FSR)² estimated that Ethiopia's total wood demand will have increased from 4.1 million m³ in 2013 to 16.7 million m³ in 2040. The increasing supply gap is currently addressed by unsustainable utilization of natural forests and rapidly increasing timber and timber product imports. The industrial wood import increased from USD 162 million in 2014 to USD 183 million in 2015. Reliance on imports neglects rural development opportunities and is a severe constraint for the limited foreign currency available. Further, unsustainable timber utilization contributes to the rapid loss of forest biodiversity.

Increasing domestic timber production would have many social, environmental and economic benefits. Under current conditions, 750,000 ha of production forests are required to keep up with the expected demand in 2040. Meeting Ethiopia's timber demand domestically would generate 58,000 jobs and increase GDP by 153 percent in 2040, not considering secondary timber processing. Over 20 million tons of greenhouse gas emissions would be sequestered or avoided by 2040 under this scenario.

In order to supply Ethiopia's growing wood product demand with sustainable domestic production, significant investments in plantations and wood-processing are required. The Ministry of Environment, Forest and Climate Change (MEFCC) identified three sub-sectors that offer the most promising investment opportunities: construction wood, furniture, and utility poles. These sub-sectors are expected to have the largest supply gaps and provide promising business opportunities for private sector investment.³

Establishing new plantations is urgently needed, as the long gestation period of plantations means that the trees planted now can be harvested after one to three decades. Achieving this requires an integrated and coordinated effort of public, private, and development partners to provide incentives. The barriers to forest sector development need to be addressed, in particular incentives for private sector engagement. This brief summarizes how current investment barriers can be addressed to ensure the forest sector reaches its full potential contribution to meeting Ethiopia's Growth and Transformation agenda in a sustainable way.

¹ World Bank, 2017. Harnessing the Potential of Productive Forests and Timber Supply Chains for Climate Change Mitigation and Green Growth-Opportunities for the private sector.

² Ministry of Environment, Forest and Climate Change, 2017. Ethiopia Forest Sector Review.

³ Given Ethiopia's rural electrification objectives, fuel wood is expected to play a decreasing role in the long term, and strategic focus should be placed on industrial round wood production and associated value chains.

1 Policy Background

The important role of the forest sector in building a comprehensive response to climate change has long been recognized by the Government of Ethiopia. Since 2011, the forest sector is one of the four key sectors prioritized in Ethiopia's Climate-Resilient Green Economy Strategy (CRGE). This is justified by the fact that tree planting and forest conservation not only mitigate greenhouse gas emissions that cause climate change, but these activities are also a key strategy to adapt to climate change in Ethiopia, as trees help reduce soil erosion, generate income and provide other forms of ecosystem services.

More recently, however, the Government of Ethiopia and other stakeholders are emphasizing the important role of the forest sector in fostering green growth, especially its potential contribution to the industrialization agenda. The Ministry of Environment, Forest and Climate Change (MEFCC) called for a Forest Sector Review with the specific aim to inform the Government's Growth and Transformation Plan (GTP2) and the National Forest Sector Development Programme about the most promising forest and forest industry investment opportunities. The Forest Sector Review focused on commercial forestry and

industrialization, recognizing that transformation of the forest sector will require mobilizing the private sector, including small and medium enterprises along the value chain.

The Ethiopian public private consultation forum, initiated by the Ethiopian Chamber of Commerce & Sectorial Associations (ECCSA), recognized the need to hold a Public-Private Dialogue (PPD) on commercial forestry and wood processing industry development. In preparation for this PPD, a position paper was developed by the private sector with financial support from the World Bank and technical support from UNIQUE forestry and land use. This position paper outlined the measures to be taken by the government, the private sector, and other relevant stakeholders. The central issues and actionable recommendations were confirmed during the PPD and a Technical Working Group was formed including ECCSA, MEFCC, Ministry of Trade (MOT), Ministry of Finance and Economic Cooperation (MOFEC), Ethiopian Horticulture and Investment Land Administration Agency (EHILAA) and as the private sector representative Waryt Mulutilla International PLC.

Expected demand for harvested wood products (HWP) in 2040 and corresponding productive forest area, Ethiopia



2 Barriers identified and action required

The sector diagnostics conducted for the Forest Sector Review (2017) and the subsequent Public-Private Dialogue (PPD) process identified a number of issues and recommended actions to improve the investment climate of the forestry sector:

2.1 Policy and regulatory framework

Implementation and enforcement of existing policies and regulations should be the first priority of the government to improve the investment environment. Although most of the incentives required to attract the private sector to invest in the forestry sector exist in the forest policy framework, clear and comprehensive action plans are missing to implement and operationalize the strategies indicated in the policy. Forest production, processing, investment, land management, licensing, import, export, and environmental and social safeguard related issues all fall under the mandate of different government institutions at federal and regional levels. Although the responsibilities of each government institution are clear in theory, in practice the private sector has no one-stop shop for requesting land, licenses and guidance on the required procedures. There is also a need to strengthen the institutional and human capacity of government institutions at various levels. Particularly the setup of MEFCC should be improved in the regions.

2.2 Suitable land for commercial forest development

Access to suitable land at scale is the key barrier for the private sector to engage in commercial forestry. The Government responded to the demand for ready-to-invest land for agriculture by establishing the Ethiopian Horticulture and Investment Land Administration Agency (EHILAA). However, information from the agency indicates that no land is identified and demarcated for the forest sector. As a result, few regional government enterprises have invested in forest establishment and management. In order to encourage private sector investment in forest development, processing, and marketing, the government must demarcate suitable land for private commercial forestry investments and introduce the testing of modern eucalyptus clones and other suitable and commercially viable tree species in the framework of a public-private partnership (PPP).

2.3 Access to finance

Access to long-term finance is recognized as one of the major barriers for private sector operations in Ethiopia. Commercial financing institutions focus mainly on short maturing loans with a high interest rate, which is not suitable for forest-related investments. The Development Bank of Ethiopia only invests in forestry when the project has a major industrial component, which results in a lack of long-term, low-yielding capital available for commercial forestry investments. Financial analysis shows that return on forestry investment is high, but the lack of experience in the sector and social issues (e.g. land tenure conflict) means that investments are perceived to be too risky. Investment risk mitigation measures should be taken by the government to alleviate the sector's chronic problem of access to finance. Special credit lines for private, public enterprises, and joint ventures should be established via the Development Bank of Ethiopia. Alternative sources of finance should be explored, such as green bonds and climate finance e.g. from the Green Climate Fund through the CRGE in the form of grants and long-term and low interest loans.

2.4 Education, Research and Development

Ethiopia's forestry research agenda must be met by improving the quality of education and placing a strong focus on research dissemination and uptake in rural areas. Ethiopia's forest research system is poorly equipped and lacks modern facilities. The research system suffers from the lack of skilled personnel in key disciplines, such as wood technology, forest genetics, and laboratory technicians for modern and high-tech equipment operations. The education system is not producing qualified and motivated young individuals to work in the government's decentralized extension system. Extension workers are not adequately incentivized to work in rural areas. To address this, the government should support a research dissemination program for information uptake and diffusion of innovation for using modern wood products in the construction sector. The government should provide the enabling environment that attracts foreign investment through joint partnerships by equipping research facilities and nurseries to engage the private sector and industry actors in the development of forestry research.

2.5 Private sector organization

Without a private forest sector forum or associative platform, the sector cannot voice its concerns to the government in an organized and unified manner. The Ministry of Trade established the Chambers of Commerce and Sectorial Associations, which allows for the establishment of sectorial associations for forestry. However, such associations have not been established. Forest product associations must be established at the federal, regional, city, and woreda level. This would help to ensure that the interests of forestry actors are reflected at the desired level while fostering collaboration to jointly address the barriers facing sector development.

2.6 Integration between producers and industry

Forest development and wood processing industries in Ethiopia suffer from a lack of integrated planning between the forest resource and wood-based industry development. The private sector does not have practical market information at hand on available timber resources and there is poor integration between producers and industries. As a result, current processing is often estimated at less than 50% of the plant capacity. Resource availability is often a key barrier for any investment in new processing capacity. It is recommended that integrated investments in plantations and value chain are supported in regional forestry and wood processing industry clusters, following a site-species-market approach. This will strengthen the link between raw material suppliers and the industry and replace existing wood based industries (sawmills, chip wood, plywood factories, etc.) with efficient new technologies. Once a sound resource and technology base is established, Ethiopia can consider establishing a pulp & paper industry. Government procurement of forest products should provide further incentives for domestic producer.

2.7 Public-Private Partnerships (PPP)

Potential investment in the forest sector is hampered by the absence of well-articulated Public Private Partnership (PPP) system. PPPs are especially important in the context of Ethiopia's forest sector because the majority of forest plantations are publically managed, but suffer from low productivity and could benefit significantly from private investment and technology. The operational constraints that could derail the formulation and implementation of potential PPPs are access to land, access to capital, and inadequate technical, management, strategic, negotiating and manufacturing capacity. The forestry sector would benefit significantly from increased engagement of the private sector to provide additional capital and know-how.

In order to harness the benefits of PPP in the forestry sector the government should:

- Provide the enabling environment for PPP schemes to flourish by enacting clear policy directives and regulations for commercial forestry development that provide the private sector with the security required to invest.
- Facilitate the transformation of existing state-owned plantations through the provision of concessions for joint ventures with private forest investors.
- Develop commercial forestry and forest industry cluster as part of the Integrated Agribusiness Parks, including the establishment of commercial clonal nurseries in key locations.
- Encourage partnership schemes with foreign investors for technology, skills, and best practice transfer to increase productivity. Small-scale forest owners should be integrated into production to link commercial forestry value chains with the scattered tree resources. In this vein, a framework should be developed whereby public enterprises, the private sector, and communities, including small holder farmers, work in partnership to foster the exchange of technical, management, and technology skills. Women and youth entrepreneurs should be given equal opportunities for entering such partnership arrangements.

3. Recommendations

To summarize the pressing need for action: Ethiopia's natural forest logging ban in place and roughly 830,000 ha of planted forests. Most of these forests are not professionally managed, about 60%, are stocked with Eucalyptus using genetics introduced to Ethiopia more than 100 years ago. The country's rapidly growing population of more than 100 million people still rely on fuelwood and increasingly on modern timber products has resulted in a severe and rapidly increasing timber deficit.

In order to ensure the forest sector plays a key role in Ethiopia's transition to a green economy, the following Ministries and private sector organizations are expected to establish specific support programmes to address the timber shortage:

- MEFCC has to coordinate the development of the commercial forest sector and its industrialization at national and federal level. This requires the development of regulations and directives to support the private sector by providing a one-stop shop for forest investors. Ready-to-invest land is to be provided by the regions. Financial support is provided through a specific public-private sector support programme with the Development Bank of Ethiopia, and research and development support through the Ethiopia Forest Research Institute and leading international research bodies in this field.
- The Chamber of Commerce & Sectorial Associations (ECC-SA) has to support the private actors to develop associations at national and regional level to implement the agreed recommendations from the commercial forestry Public Private Dialogue. The technical working group established during the dialogue has to draft detailed working plans and provide regular update reports to hold the Government institutions responsible for providing the incentives outlined in the forest policy.
- Regional Bureaus of Environment, Forest and Climate Change or their correspondents together with the federal agency responsible for the development of agribusiness parks should dedicate areas for commercial forest establishment and industry cluster with the long term goal to develop a bio-economy, including a national pulp & paper industry. In order to attract the technology and capital required to establish high quality clonal nurseries, silvicultural management and processing industries, domestic and international investors should be encouraged by the government. The Ministries concerned are expected to support investors selected based on their technical and financial capacity to implement the proposed investments and to contribute to the GTP2 targets.

Each of the above three pillars for the development of a commercial forestry sector requires long-term support from dedicated technical as well as financial development partners.