

Ethiopia Forest Sector Review

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Focus on commercial forestry and industrialization (Technical Report)

This Forest Sector Review – the first comprehensive analysis in 20 years – broadly aims to provide an update on the status of the forest sector in Ethiopia, and specifically to inform the Government's next Growth and Transformation Plan (GTP2) about the most promising forest and forest industry investment opportunities. This Review focuses on the current and future supply and demand of industrial and small-scale timber production, a strategic component of Ethiopia's transformation towards a more prosperous and industrialized economy. The Government of Ethiopia, specifically the newly created Ministry of Environment, Forest and Climate Change (MEFCC), called for this Forest Sector Review with the objective to improve understanding of the contribution made by Ethiopia's forests and trees in landscapes to sector industrialization, growth and employment. The Review also aims to assist the Government to achieve the Climate-Resilient Green Economy (CRGE) goals, given that investments in forests and accompanying industries support achievement of climate mitigation and rural development goals.

Ethiopia's diverse forest resources, including high forests,

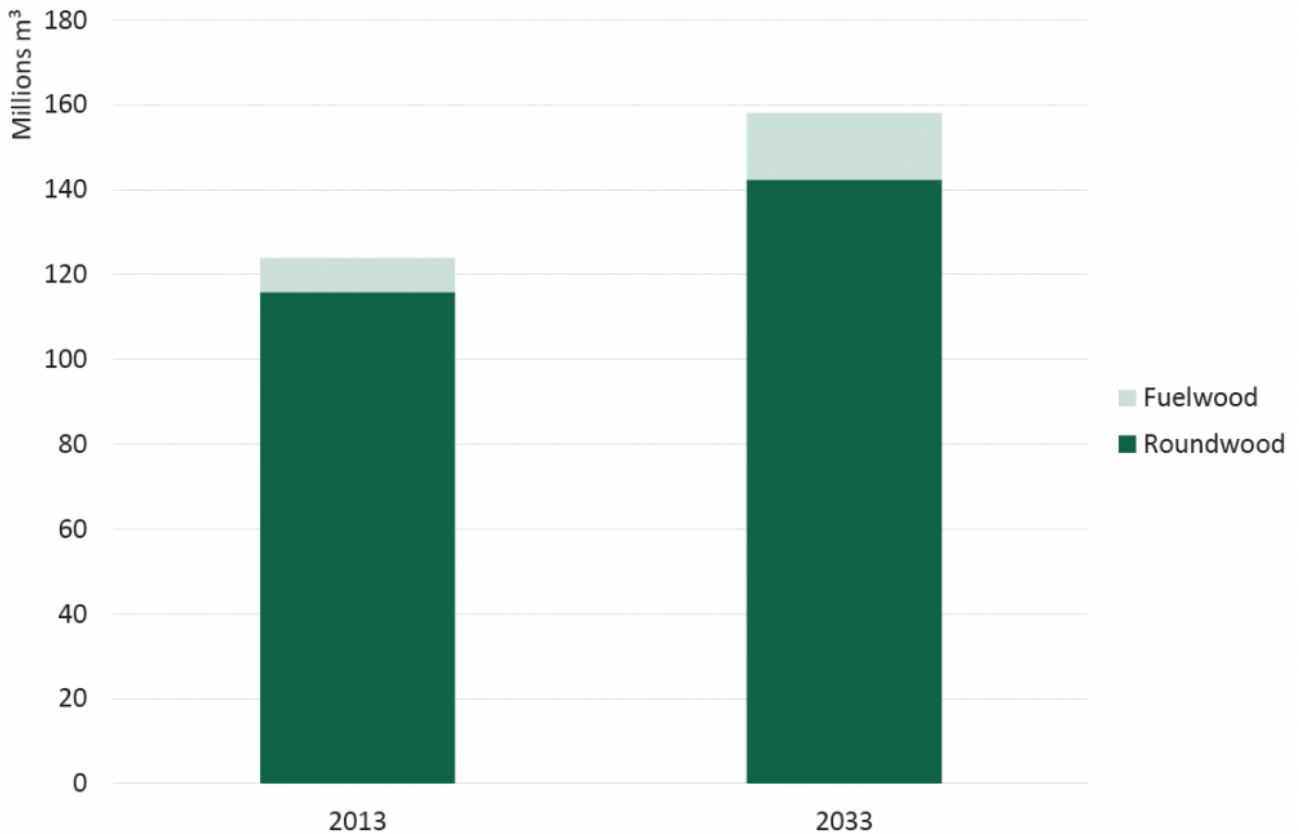
woodlands, and trees on farms, provide goods and services of important value to Ethiopia's people, environment and economy.

For example, non-timber forest products (NTFPs) play an important role in rural livelihoods and the growing market-based economy. The main commercial NTFPs in Ethiopia are honey, spices, forest coffee, bamboo, gums and resins. There is stable demand on domestic and international markets for many of these products, providing foreign currency earnings. Ethiopia's forests also are important for climate stabilization, contributing to global climate mitigation goals and providing local climate adaptation benefits. In addition, forests are increasingly recognized for their role in mitigating and adapting to global climate change. Land use related activities (agriculture, forestry) are the main source of emissions in Ethiopia. Reducing Emissions from Deforestation and forest Degradation, forest conservation, sustainable forest management and forest carbon stock enhancement through afforestation and reforestation (REDD+) is an important element in Ethiopia's CRGE strategy and must be integrated into a comprehensive sector strategy to ensure these forest goods and services are maintained.

Taking into consideration the multitude of products and benefits Ethiopia's forests provide, the Review focuses on supply, demand and the value of the forestry sector – focusing on timber – as it contributes to economic growth. This aligns with the Government strategic priorities for the GTP2, which are economic development through industrialization, private sector development and commercialization. This Review aims to support growth and transformation by encouraging large and small domestic and foreign investment in forest establishment, sustainable forest management

and forestry industry. Experience in eastern and southern Africa demonstrates that there are promising models of forest-based partnerships between communities, smallholders and enterprise to meet economic development goals and create sustainable livelihoods. Thus, this Review's focus is on forest industrialization and does not include a detailed analysis of the broad range of forest benefits, such as ecosystem services related to forests, which include watershed protection, land rehabilitation, food security, ecotourism, and biodiversity conservation. In 2013, Ethiopia consumed roughly 124 million cubic meters of wood and is consuming more each year. With population growth and economic development projections, total wood product demand will increase by about 27% over the next 20 years, reaching an annual consumption of 158 million cubic meters by 2033. Wood fuel (fuel wood and charcoal) will continue to be the main forest product consumed. However, with rural electrification and urban development, the relative share of fuel wood demand is expected to decrease (see Figure 1 below). The increasing demand is mainly explained by growing needs for industrial round wood, driven by the expanding construction industry and consumer demands of the growing middle class.

Figure 1: Total roundwood and fuelwood demand in 2013 and 2033



Construction (housing and commercial building) is expected to experience steady growth over the coming years in line with urbanization, and the forestry sector must supply this increasing demand with higher quality wood products to meet the requirements of modern construction. Other important drivers of the increasing demand include wood products for furniture, especially for urban households and commercial consumption, as well as utility poles for electrification and pulp and paper.

As shown in Figure 1, woodfuel, which is critical for household heating and cooking, is the most important forest product consumed in Ethiopia. Ethiopia now consumes over 100 million cubic meters of woodfuel each year, with roughly a third of consumption from unsustainable use of forests and woodlands. Current management of the woodfuel situation urgently needs to be improved so that it does not undermine the investments in environmental and social transformation

(including food security) at the core of the Government's rural development program. Demand and supply side measures will be needed, including electrification and introduction of efficient stoves. The woodfuel supply interventions are not prioritized in this Review for the following reasons: industrial and urban users are the main consumers with the means to pay for sustainably produced woodfuel and they will be the first switching to cleaner or more convenient alternatives; the value adding potential for woodfuel production is relatively small; and there is limited evidence that the private industrial sector is interested in investing in woodfuel production since most markets operate informally with limited benefits for industrial investors. Thus, this Review focuses mainly on the investments required to close the industrial roundwood gap, demonstrated by the "unspecified sources" supply category below.

To meet the needs of Ethiopia's growing economy, a supply gap of 4.4 million cubic meters industrial roundwood will need to be closed over the next 20 years, as demonstrated by the 2033 "unspecified sources". This challenge provides a considerable investment opportunity, as Ethiopia can close this gap through plantation establishment, sustainable management of forest resources and expansion of the forestry sector's industry base. Smallholder woodlots are currently the main source of roundwood – mainly poles – and these are expected to continue to supply an important amount of roundwood. There is significant value adding potential for wood products produced from woodlots, as much of the wood produced from woodlots does not enter the domestic industry. This presents foregone opportunities for downstream processing, including through small and medium forest enterprises, to supply the growing construction and furniture demand. Timber can also be sourced sustainably from natural forests, given safeguards are in place to prevent unsustainable practices. For example, participatory forest management (PFM) arrangements with forest communities could also contribute to closing the projected gap, if capacity is developed and policies are aligned and

effectively implemented. Over one million ha are currently under PFM agreements, but the majority is not currently under sustainable forest management. Sustainable forest management could contribute around 2 million m³.

For detail reading, download the attachment below.