

# Malawi's green gold



Challenges and opportunities for small and medium forest enterprises in reducing poverty

Patrick Kambewa and Henry Utila



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# Acronyms and abbreviations

BP	British Petroleum
COMESA	Common Market for Eastern and Southern Africa
CONGOMA	Council for Non-Governmental Organisations in Malawi
DEMAT	Development of Malawian Enterprises Trust
DFID	Department for International Development, UK
DFO	District Forest Office
DGID	Dutch Ministry of Foreign Affairs
EC	European Community
EU	European Union
FGLG	Forest Governance Learning Group
GTZ	Germany Technical Cooperation
IFMSLP	Improved Forest Management for Sustainable Livelihood Programme
IIED	International Institute for Environment and Development
JICA	Japanese International Cooperation Agency
MARDEF	Malawi Rural Development Fund
MCCCI	Malawi Confederation of Chambers of Commerce and Industry
MDG	Millennium Development Goal
MEDI	Malawi Entrepreneurial Development Institute
MEPC	Malawi Export Promotion Council
MGDS	Malawi Growth and Development Strategy
MIRTDC	Malawi Industrial Research and Technology Development Centre
MK	Malawi Kwacha
MPRS	Malawi Poverty Reduction Strategy
MSME	Micro, Small and Medium Enterprise
nfp	National Forestry Programme
NGO	Non-Governmental Organisation
NTFP	Non-Timber Forest Product
OVOP	One Village One Product
PTC	People's Trading Centre
RSA	Republic of South Africa
SADC	Southern Africa Development Community
SEDOM	Small Enterprise Development of Malawi
SME	Small and Medium Enterprise
SMFE	Small and Medium Forest Enterprise
VFA	Village Forest Area
VNRMC	Village Natural Resources Management Committee
WESM	Wildlife and Environmental Society of Malawi
WICO	Wood Industries Corporation Limited
WTO	World Trade Organization

# Executive summary

Approximately 85% of Malawi's population live in rural areas and depend in some way on forests for their livelihoods. For the poorest and most marginalised, forests represent a safety net, satisfying basic needs such as food, energy, shelter and health in times of hunger and crisis. More recently, government policies have highlighted how forest resources could do more to help reduce poverty through the development of small and medium forest enterprises (SMFEs).

This scoping study describes the main opportunities and constraints facing SMFEs in Malawi. It draws on field-based interviews with entrepreneurs involved in four different forest product value chains (plantation timber, cane furniture, fruit juice and wood carving) and an analysis of national policies and how they affect SMFEs. It responds to a need expressed by Malawi's Forest Governance Learning Group (FGLG) to know more clearly how government policies and legislation both within the forest sector (e.g. the Forest Policy and Forest Act), and beyond the forest sector (e.g. legislation on business and association registration, finance and export) support or constrain SMFEs.

The Malawi government defines SMFEs as forest enterprises which employ 5–100 workers. In Malawi, enterprises with less than 5 employees are classed as micro-enterprises, those with 5–20 employees are classed as small enterprises and those with 21–100 are classed as medium enterprises. Any firm employing more than 100 workers is classed as a large enterprise.

Estimates of Malawi's forest cover vary widely but official sources suggest that in 2005 there was 3.4 million hectares of forest cover (36.2% of total land area) and 33,000 hectares was being deforested per year. While Malawi has established some public and private forest plantations, these cover less than 3% of the total forest area. Most of the forest area is natural forest, which is divided into forest reserves, national parks and game reserves (47%), and customary land (50%). Malawi possesses a range of SMFEs based on these forest resources which can be grouped into categories such as timber producers, firewood and charcoal producers, non-timber forest product (NTFP) producers and suppliers of ecosystem services (including eco-tourism).

## The main policies affecting SMFEs in Malawi

SMFEs in Malawi are affected by a wide range of policies, acts and programmes. Unlike in the past, many new policies are now highly supportive of SMFE development, including the following key examples:

The *National Forest Policy of Malawi 1996* is a departure from previous forest management approaches in that it favours participatory management over pure forest protection. The policy calls for communities to conserve and sustainably use forest resources, including trees on farms, to achieve the government's commitment to alleviate poverty.



The *Forest Act of 1997* replaces one dating back to 1942. It contains provisions for managing indigenous forests on customary and private land, managing reserves and protected areas, and establishing and maintaining woodlots and plantations, including trees on farms.

Malawi's *National Forestry Programme* (nfp) also makes it clear that the forest sector alone cannot tackle poverty but must play its part in drawing in stakeholders from other sectors to resolve these issues.

The Department of Forestry is implementing the *Improved Forest Management For Sustainable Livelihoods Programme* (IFMSLP) with funding from the EU. The programme aims to help people meet their basic needs from tree and forest resources, reduce vulnerability, develop income-generating opportunities and enhance rural livelihoods through sustainable management of forest areas in Malawi. This programme emphasises the growth of SMFEs as a way of making better use of forest products. This is an improvement over past forest utilisation programmes which did not take SMFE interests into account.

Beyond specific forest legislation, the *Malawi Growth and Development Strategy* (MGDS) is the country's five-year plan (2006–2011) aimed at achieving socio-economic growth and development. The strategy recognises that weak and uncoordinated management of natural resources is a major constraint to development in Malawi, exacerbated by population growth, environmental degradation, and encroachment of urban areas into forests and marginal lands. The strategy places the role of the forest sector in 'Theme One – Sustainable Economic Growth'. Key objectives for forestry include halting deforestation, improving productivity and adding value, increasing reforestation, strengthening enforcement, and introducing incentives for private sector participation.

The *National Decentralisation Policy of 1998*, the *Local Government Act of 1998* and the 2006 paper *Decentralisation in Forestry – Moving Forward Together* provide a legal basis for the establishment of authorities controlling forests at the district level, as well as an outline of the functions and operation of district assemblies. In principle, the policy allows for co-management agreements between the Department of Forestry and communities to use the forests. Like the forest legislation mentioned above, it allows communities to make commercial use of forest resources rather than just managing them. It also places some decision-making at the district level, making the process more accessible to local SMFEs.

Malawi's *Land Policy of 2000* aims to provide title deeds to owners of customary land (half of Malawi's forest land is designated customary land). It is envisaged that such a move will encourage holders to make investments such as developing woodlots, which can then be used for SMFE activities. However, the policy does not oblige holders to plant trees on a certain proportion of the land. Other incentives are necessary to make forest-based activities commercially attractive compared to other land uses.

The draft *Micro, Small and Medium Enterprises Policy of 2007* aims to ensure that Malawi has a healthy economic environment for all enterprises to realise their potential. It has a strong focus on removing practices that discriminate against small enterprises to provide a

level playing field – for example making natural resource access fair and improving access to financial services and markets that have often been the preserve of large enterprises alone.

The *Cooperative Development Policy of 1997* focuses on community needs and participation. Most small enterprises in the country have groups which are loosely called associations. This policy provides an opportunity to formally recognise and train these groups so that they can more effectively fulfil their duties. The Ministry of Industry and Trade ostensibly facilitates these activities, but to date effective associations have mainly formed in the agricultural sector, and have been strongly supported by non-governmental organisations (NGOs). Of the associations visited during this study, none had been formed or trained by the government under this provision.

The *Competition Policy of 1997* aims to stop unfair trade practices and protect consumers and small-scale producers from economically powerful agents. SMFEs could in principle use this legislation to challenge large-scale forest harvesters, processors or manufacturers who might employ unfair practices such as restricting access to forests resources or price fixing. In one of our case studies, SMFEs were allowed to harvest in the Viphya plantation because they were prepared to work in areas that were less accessible to the large- and medium-scale enterprises, which use equipment that requires road transportation.

A number of national programmes and institutions have a direct mandate to support small enterprises, including SMFEs. These include: One Village One Product (OVOP), the Malawi Export Promotion Council (MEPC), the Malawian Entrepreneurial Development Institute (MEDI), the Malawi Confederation of Chambers of Commerce and Industry (MCCCI), the Development of Malawian Enterprises Trust (DEMAT), the Small Enterprise Development of Malawi (SEDOM) and the Malawi Rural Development Fund (MARDEF).

In this report, we look in detail at four value chains producing timber, cane furniture, processed juice and wood carvings. Perhaps the most significant SMFE subsector of all is the charcoal and firewood sector, which is covered separately in another report. Kambewa *et al.* (2007) reported that the charcoal industry is worth MK5.78 billion (US\$41.2 million) annually, accounting for about 0.5% of Malawi's gross domestic product (GDP).

### SMFEs producing plantation timber

Malawi has 110,000 hectares of forest plantation and approximately 82% of this (90,000 hectares) belongs to the government. The largest plantation at 53,501 hectares is the Viphya plantation. Two types of SMFE operate in this plantation. At the small end of the spectrum are 28 pit sawyers, while the medium-scale category comprises 20 mobile saw millers. One of the mobile saw millers has a workforce of up to 150 employees and could be classified as a large enterprise. These employees work throughout the entire timber processing chain, from felling through sawing to stacking and selling at his outlets.

Pit sawyer SMFEs need a licence from the Department of Forestry, issued annually at a cost of MK9,000 (US\$64) and valid for ten months. A licence allows an owner to have a gang of up to five pit sawyers (although these are supported by other labourers). The majority of

pit sawyer licence owners are absentee owners. After obtaining the licence, they buy either individual trees or are allocated a plot 20 by 20 metres with an average of 16 trees, at a cost of MK12,000 (US\$86). Timber from pit sawyers is mainly consumed locally, bought by business people from the main trading centres such as Mzuzu, Lilongwe and Blantyre.

The pit sawyers complain that they are designated less accessible areas than the mobile saw millers, but the Department of Forestry does this deliberately to optimise the use of the forest.

Mobile saw millers must apply annually for licences, although this is not advertised to prevent too many millers from applying. All licences for mobile sawyers need the approval of the minister and are issued based on the submission of an onerous amount of documentation. For repeat applicants, the previous year's performance is crucial, i.e. whether they were compliant with forest management practices such as windrowing and fire protection.

Air dried planks from *Viphyra* are sold locally as well as internationally. Locally, the major market is Lilongwe followed by Blantyre. Mzuzu is also emerging as an important urban market. Many of the saw millers also produce timber for export to countries such as Kenya, Mozambique, Somalia, South Africa, Tanzania, Zambia, Zimbabwe and countries in the Middle East. Export permits and phytosanitary certificates are not required.

Mobile saw millers are particularly concerned about the uncertainty the annual licence process creates for their business and the bureaucratic and often delayed process involved in getting a licence. They experience financial difficulties as a result of the high rates of duty on equipment, the inaccessibility of credit and the high risk of fire due to poor weeding of firebreaks by plantation managers. They have an organised, fee-based membership association of timber sellers in Lilongwe which protects their interests, including the market space they informally occupy.

### SMFEs producing cane furniture

The thriving cane furniture industry is located on the road from Lilongwe to Salima and is comprised of largely informal/unlicensed businesses that use bamboo, tree saplings and vines from surrounding community forest areas. Products for sale include chairs, tables, sofa sets, baskets, bottle carriers, and cupboards. Sales occur on the roadside, predominantly targeting visitors/travellers to and from Salima. Cane manufacturers in most cases operate as a group in associations. The few rules governing bamboo harvesting are not generally enforced and hence do not affect operations.

Over the years, the number of cane manufacturers has grown, increasing competition. Because the product is long-lasting, the market is now close to being saturated and the SMFEs complain of low sales. They also express concern about the scarcity of raw material, but despite this, the cane manufacturer association has so far done little to address the issue.

## SMFEs producing forest-based fruit juice

Groups from 14 villages have been trained in natural resource management for fruit production. They supply their fruit to a processing plant belonging to the community-owned company Village Hands, established in 2004. Their main products are juice from fruit of the baobab tree (*Adansonia digitata*) called Malambe Juice and from the tamarind tree (*Tamarindus indica*) called Bwemba Juice. They also process honey. The products from Village Hands are all sold on the domestic market. While foreign markets exist, the requirement for a constant and large supply of produce and strict quality standards act as barriers to the company exploiting this market.

This group of SMFEs drew attention to the competition for tamarind trees between fruit purchasers and charcoal producers, and the constraint it put on the growth of their business. They are also in competition for land with the growing population in the area, as more fruit trees are being cleared for dwellings. Most significantly, Village Hands complains that it suffers due to its formal registration costs, which are not borne by the many unlicensed competitors. Competitors also use the brand name 'Malembe Juice' and cannot be taken to court for infringement of the brand name due to their informal status.

## SMFEs producing wood carvings

The wood carving industry takes place both in rural areas near natural forests, where most of the production occurs, and urban areas, where value-adding activities take place and the products are sold. The carvings are mainly produced near reserves such as Chikala forest reserve (Machinga district), Matandwe forest reserve (Nsanje district), Mwanza forest reserve (Mwanza district), Mulanje forest reserve (Mulanje district), and Phirilongwe (Mangochi district). The major products are safari chairs, face masks, miniature animals, and games such as chess, *bawo*, wooden cups, plates, knives, and boxes.

The major markets for woodcarvings are in Lilongwe, Blantyre, Mzuzu, and Zomba, and in and around the main tourist attraction centres of Mangochi, Salima, and Nkhata Bay. There are some exporters who buy in bulk; one group of Malawian traders in particular takes the carvings to South Africa, where they are sold through middlemen in Johannesburg, Durban, and Cape Town.

The main constraint to the development of the wood carving industry is that it is unlicensed and regarded as an illegal activity that destroys the forest. This has the effect of driving business underground. Despite reports from both Blantyre and Chingale that there has been dialogue between the carvers and the Department of Forestry, these SMFEs still operate in a state of uncertainty and insecurity.

## Challenges

Excluding cane products, the demand for most SMFE products seems strong. As a result, the increasing pressure that SMFEs put on the forest is a major challenge, both for them and the country. For example, some activities, such as firewood harvesting and charcoal production, are linked to forest degradation. The Land Act does not stipulate planting or maintaining a proportion of trees/forests on customary land, and there is little enforcement to protect existing forest reserves and protected areas. Even in more intensely managed areas, such as the Vipha plantation, saw millers are not rewarded for good forestry management.

With the threat that some SMFEs pose to natural resources and the perception that many are acting illegally, there is a real risk that the government will enact policy changes hostile to SMFEs. SMFEs are very vulnerable to changes in land use and restrictions or removal of user rights. There are reports of public officials unexpectedly increasing rent or taking bribes rather than impounding hardwood that is being transported without proper documentation.

Entrepreneurs most commonly cite poor finance as the principal threat to maintaining their competitive position, with high transport costs a key issue. Raw material shortages is the second most important constraint.

Bureaucracy is also an issue; business licences are only issued at one location (Blantyre) for the whole country. The majority of the SMFEs were not aware of the policies governing their operations, e.g. the provision for licensing and sustainable use of forest land, and the utilisation of forest products on customary land, public land, forest reserves and protected forest areas.

Most of the SMFEs surveyed have limited processing, packaging and storage facilities. They have limited knowledge about the quality and standards/grades required in the production of their products. Many are selling their products at a price lower than the true market value. Few SMFEs belong to strong associations that can bolster their bargaining power or strengthen their trading networks.

## Opportunities

A number of new pieces of legislation highlight the importance of SMFEs and pave the way for their development. For example, the Decentralisation Act offers people the opportunity to manage resources (including forests) within their locality in an accountable and transparent way with the local district assemblies. There are also several government support programmes that SMFEs could make good use of.

The advantage of SMFEs is that the resource on which they depend is renewable if properly managed. International demand is high for 'natural' and 'community-based' products (e.g. fair trade), which offers an opportunity for SMFEs to reduce local poverty through their businesses.

With the necessary support, SMFEs have shown that they can both formalise and meet the challenges of local markets (e.g. Village Hands fruit juices) or even international markets (e.g. the wood carving industry which has penetrated the South African market). Institutions such as MEPC can assist SMFEs to access more lucrative markets by using existing bilateral and multilateral trade agreements, such as the South Africa-Malawi bilateral agreement, SADC and the WTO. In other cases, especially countries in East Africa, the WTO and COMESA can be used to enhance trade in SMFEs. To date, most trade protocols have tended to benefit large-scale traders at the expense of informal SMFEs, but this could be turned around.

Partnerships between SMFEs and large-scale industries could benefit SMFEs, allowing them to further process their goods and achieve economies of scale for the export market. In addition, the strengthening of local producer associations could lead to a transfer of these skills to other enterprises.

## Policy implications

There is a need for champions of SMFEs to clearly articulate to government and NGOs that SMFEs can play a role in the sustainable management of forest resources. These institutions include DEMAT, MARDEF, SEDOM, MEDI, MIRTDC, OVOP and the Ministry of Trade and Private Sector Development.

There is also a need to demonstrate the potential of the SMFE sector as an engine for economic growth and poverty reduction. SMFEs can and should make a sustainable contribution to economic growth within the Malawi Growth and Development Strategy, and not simply be seen as a means to conserve forest resources.

There is a pressing need for the Department of Forestry to guarantee pit sawyers and mobile saw millers (and users of NTFPs) access to forest resources as long as they follow required management practices.

This security of resource access is key to encouraging financial service providers to offer affordable credit to SMFEs. Potential investors must also be helped to see the SMFE subsector as an area with potential for growth and investment. Governments should consider creating credit guarantee schemes and a credit reference bureau to assist SMFEs to access loans from non-government finance institutions.

To achieve economies of scale, improve production processes and encourage further investment, producer associations must be formed and strengthened. This can be achieved through training and encouraging the formation of a full-time secretariat. To gain further bargaining power, several associations could be organised under umbrella associations.

While the majority of current policies and programmes appear to be supportive of SMFEs, the Department of Forestry should play a more proactive role in developing SMFEs, not just in monitoring and controlling forest use. This could include improving data on and awareness about forest businesses, and helping integrate them into various programmes. For example, the Department of Forestry could develop standards and grades for different timber and wood products depending on how they are processed (air dried or kiln dried), knots, grains, colour and size. At Chikangawa, the standard length of timber was 18 ft. Anything less than this was classed as a lower grade. Yet for some products such as furniture, 18 ft length would not be a reasonable requirement, demonstrating the need for a comprehensive set of standards appropriate to the business needs.

Efforts should also be made to link the existing SMFEs with local and international institutions that have substantial experience in developing small businesses.





# Introduction



## 1.1 Background context

Small and medium scale enterprises (SMEs) have been on the increase in Malawi since the late 1980s. People took up these types of businesses because they could not find formal employment elsewhere; structural adjustment programmes at the time had led to the closure of businesses and the privatisation of government-owned companies, which caused massive unemployment. The use of natural resources such as forests offered an important alternative to people who had lost their jobs.

In 1972, the forest cover in Malawi was estimated at 4.4 million hectares. This fell to an estimated 1.9 million hectares in 1992. If correct (note that recent data shows some discrepancies), this decline represents a loss of 2.8% or 125,000 hectares per year. More recent Forestry Department estimates indicate that the forest cover may still be above 3 million hectares. Figures supplied to the Food and Agriculture Organization of the United Nations (FAO) suggest that Malawi has 3.4 million hectares of forest, and an annual deforestation rate of 33,000 hectares (FAO, 2007). Table 1 shows data given to the authors by the Department of Forestry. While this data does not tally precisely with other estimates, it is useful in that it breaks the forest cover down into different categories.

Table 1. National forest types and size in Malawi		
Forest category	Area (hectares)	Percentage of total area
Forest reserves	870,052	22%
National parks and game reserves	981,479	25%
Government plantations	90,000	2%
Private plantation	20,000	0.5%
Customary land	1,988,255	50.5%
<b>Total</b>	<b>3,949,786</b>	<b>100%</b>

Source: Department of Forestry

Malawi is naturally endowed with vast miombo woodlands, characterised by the genera *Brachystegia*, *Julbernadia* and *Isobertlinadia* (Malaise, 1978). As noted above, these woodlands have shrunk considerably, mainly due to human activities.



Malawi forests can be divided into two main categories: natural and plantation forests.

**Natural forests** represent the remainder of the miombo forests that once covered almost the whole country. These areas are divided into forest reserves, wildlife reserves and customary land. Forest reserves cover 22% of the country and are managed by the Department of Forestry. There are 82 forest reserves scattered across Malawi. Most of them are on hills or mountains protecting fragile areas from erosion and environmental degradation. They play a key role in protecting important water catchment areas. National parks and game reserves are managed by the Department of National Parks and Wildlife and comprise 25% of the total forested land area. There are five national parks and four game reserves throughout the country. Customary land forests are owned traditionally by smallholders and cover about 50% of the total forest area in Malawi. Approximately two thirds of these forests are classed as disturbed forest, with 20–70% used for cultivation.

**Plantation forests** include both government and private plantations, plus trees on farms. Government plantations are run by the Department of Forestry and cover just under 2% of the total forest area. 85% of these timber production forests consist of softwoods (mainly *Pinus patula*). Eucalyptus is the main hardwood species, planted mostly for poles and firewood. In Malawi, the largest plantation is Viphya, which covers 53,000 hectares and grows pine and eucalyptus. Private plantations are mostly owned by tea and tobacco estates and cover just under 0.5% of forest area.

There is a substantial area of smallholder woodlots whose inclusion in formal statistics varies. Trees on farms (which fall outside delimited forests) are an important source of timber and energy for smallholders. These trees are either planted or grown naturally in gardens or occasionally along roads. Many smallholders live far from the nearest forest, yet there are many trees scattered throughout their crops, along streams, and garden boundaries. Houses are often surrounded by a large concentration of fruit trees.

Trees and forests remain an important means of making a living, especially for the poor. The products from trees and forests include firewood and charcoal (meeting 90% of the country's energy needs), building materials, carvings, and non-timber forest products (NTFPs) such as medicines, food, leaves, caterpillars, fruit, honey and game. When subsistence agriculture fails, natural resource-based enterprises are often the only source of income. As a result, use of forest resources is often rampant and wanton, especially in hard years, and forests are now threatened by over-exploitation. In response, the government has tended to emphasise forest protection rather than encouraging utilisation of forest resources for income generation.

Despite this emphasis on forest protection, deforestation continues to be a major problem. This is because the root causes of deforestation – poverty, population growth, infrastructure development and unregulated economic activities – have not been adequately addressed. Research suggests the top five causes of deforestation and forest degradation are:

- ◆ uncontrolled tree felling for firewood
- ◆ curing tobacco in the smallholder and estate sectors
- ◆ opening up new gardens and permanent farming areas
- ◆ infrastructure development
- ◆ shifting cultivation.

Figure 1. Timber stacked for charcoal production in the traditional fashion



Photo: T. Finch

Forestry resources have the potential to be a source of economic growth and improve livelihoods, especially in rural areas. The Malawi Growth and Development Strategy (MGDS), the current five-year plan (2006–2011) aimed at achieving socio-economic growth and development, is designed to take advantage of this potential. The MGDS promotes the creation and growth of sustainable small and medium forest enterprises (SMFEs). The National Forest Policy of Malawi (1996), the Forestry Act 1997 and the National Forestry Programme (nfp) also strongly support participatory forest management on which such enterprises are based. But there are many other extra-sectoral policies that affect the development of SMFEs, as presented in Chapter 2.

Population growth in Malawi is one of the highest in sub-Saharan Africa, but the average life expectancy is only 39 years, largely due to the HIV and AIDS pandemic. Poverty is of major concern to the government as it is an important factor in the country's many other challenges in developing a market economy, such as improving education, tackling environmental problems, arresting the spread of HIV and AIDS, and tightening fiscal discipline.

Although Malawi enjoyed modest economic growth in 2006 and 2007, poverty still remains pervasive. Approximately 6.3 million people, or 52.4% of Malawi's population, live below the poverty line. 85% of the population lives in rural areas and relies heavily on forest resources, especially on customary land. Despite the significant pressure this puts on forests, if these areas are governed well, they can provide a renewable source of raw materials.

## 1.2 Aims and objectives of this study

The overall aim of this study is to increase understanding of how current policies and institutions affect the operations of SMFEs, for better or worse. The study looks both within the forest sector (e.g. the Forest Policy and Forest Act), and beyond the forest sector (e.g. legislation on business and association registration, finance and exporting). It forms part of the work of the Malawi Forest Governance Learning Group (FGLG), an informal alliance that tries to connect those marginalised from forest governance with those in charge of it, and to help both work together better.

The specific objectives of the study are threefold:

- ◆ To identify four timber and non-timber forest product value chains and interview entrepreneurs about the main legislative measures and institutions that support them and the main constraints or processes with which they have to comply, and the time and resources expended in doing so.
- ◆ To use these interviews to critique the sections of policies in and outside the forest sector that are relevant to SMFEs, building on previous studies that have assessed how the legislation is being applied at departmental and field levels.
- ◆ To use this analysis to make recommendations for future policy or legislative changes and implementation procedures.

### 1.3 Methodology

Following discussions with members of Malawi's FGLG, four timber and non-timber product subsectors were identified. Interviews with individuals involved in each of these value chains were conducted. At each stage in the value chain, entrepreneurs were asked about the legislative requirements needed to secure resource access, produce management plans, comply with local by-laws, develop any local benefit sharing mechanisms, register the enterprise or association, access credit, install/import equipment, connect to energy and other infrastructure, maintain contact with clients, comply with employment, environment and other laws, produce, process and transport products, and sell or export products. Comments were invited from the entrepreneurs about recent changes.

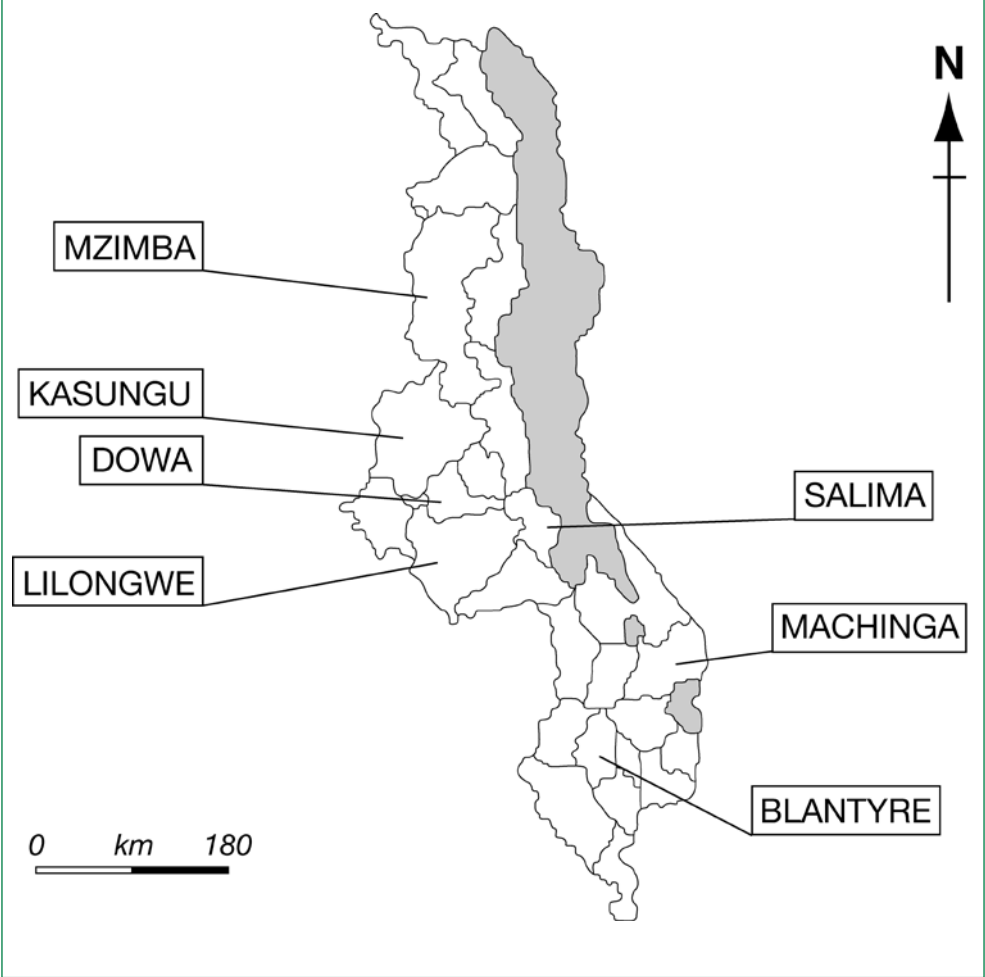
Interviews were also conducted with other key informants to identify and catalogue supportive legislation and institutional structures that assist SMFEs. A compendium of supporting institutions and projects was compiled (see Table 4) that identifies and briefly describes the main enterprise support programmes, micro-finance institutions, enterprise training facilities and information services (including market information). The description includes the relevance and restrictions for forest enterprises and contact details.

Interviews and analysis were used to critique relevant policies and acts in relation to the development of SMFEs (e.g. policies on forestry, energy, commerce and industry). Particular attention was given to the recent decentralisation of forest resource access and licensing. Through interviews within the Department of Forestry and district authorities, a review was carried out on how the current legislation is being applied with regards to SMFEs and what can be done to address the identified constraints. An assessment was also made about whether any future legislation (e.g. the Land Policy) is likely to address the issues identified.

A socio-economist and a forester conducted the study. The fieldwork was conducted in October to December 2007. Preliminary results of the study were presented at an international FGLG meeting in Bophal, India from December 4 to 7, 2007.

The rest of the report is structured as follows: Chapter 2 presents a review of policies affecting SMFEs. This is followed in Chapter 3 by a presentation of the four subsectors, i.e. timber enterprise, cane furniture, juice production and carvings. These enterprises were distributed throughout the country (see Figure 1), including Mzimba district and Lilongwe city (timber products), Dowa district (cane furniture), Neno district (juice processing) and Blantyre city and the road to Chingale in Machinga district (wood carvings). Chapter 4 presents a SWOT (Strengths, Weaknesses, Opportunities, and Threats) analysis for SMFEs in Malawi and highlights a number of key policy options and conclusions.

Figure 2. Malawi districts in which SMFEs were visited



# Policies and programmes affecting SMFEs

Interviews with entrepreneurs throughout Malawi helped to identify a number of key policies and programmes that affected, at least in principle, the operations of SMFEs. It was widely felt that the government of Malawi had recently put in place a number of policies, acts and programmes aimed at promoting SMEs in general and SMFEs in particular.

## 2.1 Forest policies and programmes

The *National Forest Policy of Malawi*, adopted in 1996, represents a departure from previous forest management approaches, which favoured forest protection rather than participatory management. The policy provides the basis for communities to conserve and sustainably use forest resources, including trees on farms, to help the government achieve its commitment of alleviating poverty. The main condition is that use of forest products in forest reserves and customary land is carried out under licence and sustainably. The policy also recognises the need to involve the private sector, not only in the use of forests, but also in their management.

A number of gaps were identified in the course of implementing the National Forest Policy and involving communities and other stakeholders in the sustainable management of forest resources. To address these gaps, a supplement to the National Forest Policy, titled 'Community Based Forest Management' dated July 2003, was produced. The policy is explicit about the need for major institutional reform to bring about this fundamental shift in direction.

The *Forestry Act* of 1997 replaces the one dating back to 1942, which was narrow in scope and focused primarily on the control of forest resources. The new legislation follows the intent of the National Forest Policy to improve the social and economic welfare of Malawians. This emphasis is found in the provision for the management of indigenous forests on customary and private land, the management of reserves and protected areas, and the establishment and maintenance of woodlots and plantations, including trees on farms. The Forestry Act allows for co-management agreements between the Department of Forestry and local communities.

Forest activities are controlled through the issuance of licences and conveyance/transfer certificates. The Forest Act 1997 Part VIII, section 46 (a) stipulates that unless under licence, no person shall cut, take, fell, destroy, uproot, collect or remove forest produce from a forest reserve, customary land, public land or protected forest area.

Section 68 states that any person who traffics forest produce without a licence shall be guilty of an offence. This provision requires a licence to fell forest produce in a protected forest area, and a conveyance or transfer certificate to convey forest produce from one point to another. This requirement is primarily associated with the transport of the wood of indigenous species. Softwood transport almost never requires such certificates.



Figure 3. Community area of newly established forest with support from the Department of Forestry



Photo: D. Macqueen

Malawi's *National Forestry Programme* (nfp) was developed through a consultative process and was approved in 2001. It is seen as a framework for enhancing the management of forests and trees, alleviating poverty, and improving livelihoods. It highlights the link between forest degradation and poverty, notes that women and children suffer the most from firewood shortages, and identifies a chronic imbalance in the supply and demand of forest products. It also notes that agricultural expansion is being made at the expense of forests, and smallholders are discouraged from planting trees to diversify their sources of income and increase food security because trees have a long-term rotational age/cycle, unlike agricultural annual crops.

The 12 strategies to achieve the stated nfp goal of "sustainable management of forest goods and services for improved and equitable livelihoods" reflect the key issues facing the sector. Many of the priority actions are related to poverty reduction. Strategy five (see Table 2) is particularly pertinent to SMFEs as it seeks to "improve individual smallholder livelihoods". In the strategy's fourth action, there is a strong statement about improving both the viability and spread of SMFEs of all types – although it omits the Department of Forestry from the list of lead actors responsible for making this happen. The nfp also makes it clear that the forest sector alone cannot tackle poverty, but must play its part in pulling other stakeholders together.

The National Forest Policy, Forest Act and nfp stipulate that the Village Forest Area (VFA), a village's land, is to be actively managed by the community, either for enterprise or forest conservation. Management is the responsibility of the Village Natural Resources Management Committee (VNRMC). The VFA and activities of the VNRMC are laid out in a forest management plan, which must be prepared before forest ownership and management responsibilities are transferred from the government to the community under a forest management agreement.

The forest management plan is developed by the community with assistance from forestry extension agents. The participatory forest management planning process aims to equip rural communities with the knowledge to make decisions and become managers of their surrounding natural resources, a goal of the National Forestry Policy, 1996. Ultimate responsibility for defining the size and location of the VFA lies with the village head, group village head or traditional authority.

Upon registration of a VFA, certain powers are conferred to the VNRMC under the Forest Rules 2001. In order to make full use of the powers and provisions under these rules, it is important to survey (using a suitable hand-held global positioning system) and register the VFA in the name of the VNRMC at the District Forestry Office (DFO). The DFO must maintain a register of VFAs and responsible VNRMCs within the district. Once registered, VNRMCs can begin to develop local management rules, sanctions and by-laws.

One example of village level management comes from Chimaliro forest reserve in Kasungu. The community entered into a co-management agreement with the Department of Forestry whereby the community can harvest some forest products such as grass, firewood and hanging bee hives in return for fulfilling clear sustainable management obligations. At the same time, the proceeds from the sale of timber are shared between the Department of Forestry and the community at a ratio of 70% to 30%. Similar arrangements can be used for the harvesting of bamboo, hardwood for carvings or fruits.

The Department of Forestry is currently implementing the Improved Forest Management for Sustainable Livelihood Programme (IFMSLP) with funding from the EU. This substantial five year programme is designed to address a variety of issues, including:

- ◆ lack of awareness of poverty alleviation policies and approaches to implement them in the forest sector;
- ◆ resource availability and constraints such as low capacity, skills, attitudes, understanding and motivation;
- ◆ local political and bureaucratic inertia, agendas and influence;
- ◆ weaknesses in grass-root enterprise groups and organisations as well as the overall institutional framework.

The aim is to improve the capacity of local people to meet their basic needs from tree and forest resources, reduce vulnerability, present income generating opportunities and enhance rural livelihoods through sustainable management of forest areas in Malawi. Because this programme is aimed at enhancing the utilisation of forest products, it contributes to the growth of SMFEs.

**Table 2. Strategy five of Malawi's nfp**

<b>Strategy to improve individual smallholder livelihoods</b>			
To increase the contribution of forest goods to improving smallholder livelihoods through better access to information, high quality planting material and other inputs, small-scale contracting services, and finance for tree management.			
<b>Priority actions</b>	<b>Importance</b> (Very high, high, medium)	<b>Urgency</b> (Immediate, short-term, medium term)	<b>Lead actor</b>
Enable local institutions in high firewood demand areas to provide support for growing privately held trees by fostering trust and making such trees and woodlands sufficiently secure	Very high	Immediate	District assembly
Explore and promote partnerships between micro-entrepreneurs or smallholders and others (such as government and private sector plantations, NGOs and the estate sector) e.g. outgrower schemes, equity sharing enterprises, contract tree growing on estates or smallholder land, and small-scale charcoal production in private plantations	Very high	Immediate	Private sector, NGOs and Department of Forestry
Package tree growing and agroforestry inputs (seeds, fertilisers) in lots affordable to smallholder farmers through existing outlets for agricultural inputs and new private entrepreneurs	Very high	Short-term	Ministry of Agriculture, private sector
Improve the viability and spread of more sustainable forest-based enterprise, including: firewood and charcoal, poles for construction, fibre for roofing, pit-sawing, mobile/small-scale sawmilling, furniture, curio and craft making, medicines, bee-keeping, livestock grazing in woodlands, and food and fruit juice production	High	Short-term	NGOs, private sector, university
Limit the production of subsidies for tree planting to areas where there is a genuine need which cannot be met through existing services (otherwise private enterprise will be undermined)	Medium	Medium-term	Department of Forestry, NGOs

Source: National Forestry Programme Handbook, 1996

For example, in 2007 the programme organised a forest enterprise fair that brought together a wide range of different producer groups, service providers and potential buyers. In this way, current forest policies and programmes are evidently supportive, at least on paper, of the development of SMFEs based around participatory forest management.

## 2.2 Poverty reduction and growth strategies

In 2002, the government of Malawi started implementing the *Malawi Poverty Reduction Strategy* (MPRS) (Malawi Government, 2002). Based on four pillars, the first focuses on diversifying the country's activities beyond agriculture to include natural resources, manufacturing, tourism and small-scale mining to spur economic growth. Decentralisation and promotion of community-based management of the forest sector are identified as important to encouraging sustainable use of resources and providing an additional source of non-farm income. Natural resources are also considered to be part of the environment and constitute one of the four issues that are important across more than one pillar – the other issues being HIV and AIDS, gender, and science and technology.

After the phasing out of the MPRS, in 2006 the government introduced the *Malawi Growth and Development Strategy* (MGDS), the country's five-year plan (2006–2011). It builds on the Malawi Economic Growth Strategy (Malawi Government, 2004) and the Malawi Poverty Reduction Strategy (Malawi Government, 2002) and emphasises socio-economic growth and development. The MGDS stresses the importance of private sector investment but is silent on the role that businesses should play in the country's development.

The MGDS framework is divided into five themes: sustainable economic growth, which covers the conservation of natural resources (fisheries, forestry and the environment); social protection; social development; infrastructure development; and good governance. While it notes that the forest sector falls under 'Theme 1 – Sustainable Economic Growth', it places forestry under 'Sub-theme 4 – Conserving the natural resource base' rather than 'Sub-theme 1 – Maximising the contribution to economic growth through the potential sectors of growth'. In other words, the MGDS is unclear about the commercial contribution of forestry to national economic growth.

The MGDS also takes into account the limited impact the MPRS has had on improving livelihoods and food security of poor and vulnerable groups. It recognises that weak and uncoordinated management of natural resources is a major constraint in Malawi. Population growth, environmental degradation, and encroachment on forests and marginal lands are significant challenges. Alongside key objectives for forestry such as halting deforestation, increasing reforestation and strengthening enforcement, the MGDS also focuses on improving productivity and value addition, and introducing incentives for private sector participation. The MGDS is therefore more explicit than the MPRS in terms of opening opportunities for the growth of SMFEs.

## 2.3 Decentralisation and local government policies

Malawi's *National Decentralisation Policy* of 1998 adopted the devolution model of decentralisation, which transfers power and authority to a separate legal entity – from central government to the local authorities, which includes district assemblies. The aim is to devolve administrative and political authority to the district level, integrate government agencies into one administrative unit, assign functions and responsibilities to the various levels of government, and promote popular participation.

This key policy provides direction as to the division of functions, roles and responsibilities between central government represented by ministries, and the various local authorities, comprising district, town, municipal, and city assemblies.

The *Local Government Act* of 1998 provides a legal basis for the establishment of structures at the district level, as well as an outline of the functions and operation of the assemblies. As a contribution to the devolution process and the assignment of functions and responsibilities to the various levels of government, the Ministry of Energy and Mines (Departments of Energy, Mines, Forestry) prepared a five year sector devolution plan, which came into effect on March 31, 2004. From that date, staff of the Department of Forestry deployed in District Forest Offices (DFOs) formally report to the assembly through the district commissioners. Central government, through the departmental headquarters, retains the responsibility for policy formulation and regulation, establishment of standards, training, and curriculum development.

In principle, the National Decentralisation Policy provides for natural resource users to have co-management agreements with communities surrounding a natural resource as long as they use the resource sustainably. As noted above, the Forest Act also allows for this.

In summary, both decentralisation and forest legislation are mutually supportive. The Malawi government has created on paper an enabling environment for the growth of SMFEs. It has given more control of the use of natural resources to local communities and allowed commercial use of timber and NTFPs, not simply an obligation to manage the forest sustainably for no benefit.

## 2.4 Land policy

Malawi's *Land Policy* of 2000 captures the government's desire to overcome the constraints to Malawi's social and economic development caused by the absence of a comprehensive land policy. In relation to forestry, some of the key policy statements support greater investments in land conservation and the community approach to resource management promoted by the National Forest Policy. The Land Policy is aimed at providing title deeds to land that was previously customary land. It is envisaged that such a move will lead to holders making investments such as the development of woodlots that can be used for SMFE activities.

## 2.5 Micro, small and medium enterprises policy

Malawi accords high priority to the development of Micro, Small and Medium Enterprises (MSMEs) in recognition of the crucial role they play in endogenous growth and broad-based economic development. A new *Micro, Small and Medium Enterprises Policy* was drafted in 2007. The policy has a strong poverty reduction agenda and sees increasing the productivity of local enterprise as a critical issue. There is evidence from our interviews with entrepreneurs that, as skills develop around appropriate production systems, people are able to help themselves and raise their standards of living. At a more advanced level of enterprise development, adequate support has also enabled such enterprises to become innovative and may even allow them to attain international competitiveness.

The Micro, Small and Medium Enterprises Policy aims to ensure that all factors affecting MSME operations and their competitiveness are addressed and that adequate support is available to overcome all constraints. This implies the removal of all discriminatory practices against MSMEs to provide a level playing field, without which the smaller enterprises would not be able to compete.

Worldwide, the definition of enterprise size is based on a number of parameters, including level of capital, number of employees and annual turnover. In the case of Malawi, the official definition is based on number of employees and annual turnover as Table 3 shows. In the event that an enterprise falls under more than one category, annual turnover is the determining factor.

**Table 3. Nature and characteristics of micro, small, medium and large scale enterprises in Malawi**

Category	Employment	Annual turnover
Micro	1 – 4	Up to MK1,000,000 (US\$7,143)
Small	5 – 20	Above MK1,000,000 up to MK10,000,000 (US\$7,143 – 71,428)
Medium	21 – 100	Above MK10,000,000 up to MK50,000,000 (US\$71,428 – 357,142)
Large	Above 100	Above MK50,000,000 (above US\$357,142)

Source: Malawi Government, 2007

The MSME sector is felt to offer some particular advantages in terms of poverty reduction, for example:

- ◆ creating employment by developing enterprises with low cost of entry;
- ◆ making use of local raw materials in addition to agricultural produce;
- ◆ ensuring equitable distribution of income that accrues at a local level;
- ◆ serving as nurseries for large-scale enterprises;
- ◆ promoting entrepreneurship and skills training across the country.

The MSME Policy is consistent with the MGDS. The forestry sector is a potential beneficiary of the MSME Policy given that forest resources are among the only alternatives to agricultural produce in the rural areas where most Malawians live.

## 2.6 Cooperative development policy

The *Cooperative Development Policy* of 1997 focuses on community needs and participation. The policy's main strategy is to mobilise human, material, and financial resources for the socio-economic development of the country. The goal is to create an enabling environment that will encourage the sustainable development of cooperatives with an ultimate aim of enhancing the economic and social well-being of members. The cooperative policy defines the ideal form of community participation as "autonomous associations of persons united voluntarily to meet their common economic and social needs through a jointly owned and democratically controlled enterprise".

Most SMFEs in the country join together in groups called associations. Usually these associations are merely groups of interested members undertaking the same activity but with little or no bargaining power or formal organisation and thus do not fulfil the policy's vision. The Cooperative Development Policy theoretically provides an opportunity for the formation and training of such groups to help them effectively fulfil their duties. The aim is to build small enterprises into strong associations that can protect the members' interests.

The Ministry of Industry and Trade is committed to facilitating the formation and training of associations without charge. However, the capacity of the ministry to do this is low due to a lack of skilled staff and limited funding from government to conduct such courses. Although they do not charge professional fees, the clients need to cover transport and upkeep costs. Officials from the ministry indicated that no SMEs (including SMFEs) had contacted them for any training. This indicates a lack of information about this training service.

## 2.7 Competition policies

Competition policy is aimed at avoiding unfair trade practices. The Competition Act of 1997 protects on paper both consumers and small-scale producers from economically strong agents. Thus SMFEs can be protected from the large-scale forest enterprises. Any activity that is deemed uncompetitive is prohibited under this policy.

In principle, SMFEs are protected from large-scale producers or manufacturers who might employ unfair practices such as restricting access to resources, or price fixing. In reality, these practices still take place. For example, large-scale operators in Viphya enter into concessions



with the Department of Forestry for a period of 20 years, while mobile saw millers are denied the same arrangement, despite demonstrating the capacity to plant more than 10 hectares of trees per miller. The large-scale millers therefore enjoy significant security for their business interests, while the SMFEs suffer the uncertainty involved in applying for a licence every year.

## 2.8 Other government and non-government initiatives SMFEs can use

There are various government and non-government initiatives that the SMFEs can take advantage of (see Table 4). These include the provision of business development services such as training, financial services (particularly micro-finance), and initiatives that provide an enabling environment for the development of SMEs.

A number of organisations or programmes provide business development services:

- ◆ One Village One Product (OVOP) is a programme aimed at promoting products common to an area by improving production and sales/exports. Village Hands in Neno district and some cane furniture makers in Dowa have benefited from this programme. This approach has the potential to benefit other SMFEs.
- ◆ Malawian Entrepreneurial Development Institute (MEDI) can help small entrepreneurs develop business skills. MEDI is currently training small-scale cassava processors to produce starch, cassava flour, and animal feeds. So far, they have not worked with SMFEs.
- ◆ Malawi Export Promotion Council (MEPC) can support SMFEs wishing to export by inviting enterprises to participate in local and international trade fairs. MEPC can assist SMFEs to access more lucrative markets by using existing bilateral and multilateral trade agreements such as South Africa–Malawi bilateral agreement, SADC and WTO. WTO and COMESA can be used to enhance trade in SMFEs in countries in East Africa.
- ◆ Malawi Confederation of Chambers of Commerce and Industry (MCCCI) offers the opportunity to producers of NTFPs to exhibit at annual trade fairs, although some SMFEs such as wood carvers in Blantyre reported that they no longer attended such fairs, as they did not translate into increased sales of their products.

In addition, there are several finance institutions in Malawi that SMFEs could make more use of. The Development of Malawian Enterprises Trust (DEMAT) and Small Enterprise Development of Malawi (SEDOM) are aimed at providing business training and micro-finance to small-scale enterprises. SMFEs have not yet taken advantage of these services, however the Malawi Rural Development Fund has offered loans to groups involved in harvesting timber in Mzimba district.

**Table 4. A compendium of potential support institutions and programmes for the development of SMFEs**

Name	Contact details	Potential role for SMFE development
<b>Regulatory organisations</b>		
Department of Forestry	P.O. Box 30048 Lilongwe 3 Malawi Tel. +265 1 771 000/068 Fax. +265 1 774 268 Email: dirforest@malawi.net fes@malawi.ent	The department is responsible for the formulation of policies and acts as well as regulation of forest protected areas. There are already provisions to enable SMFEs to exploit forest resources. In practice, awareness of these provisions and implementation of the rules and regulations is limited, not least because of the lack of business training in the department.
Forest Governance Learning Group (FGLG)	Centre for Development Management	FGLG is involved in facilitating the exchange in learning and the development of ideas on forest governance through practical, just and sustainable forest use. The central premise is that forestry can contribute to the eradication of poverty and sustainability, but only with good forest governance – the right leadership, institutions, policy decisions and practical systems. SMFEs can benefit from FGLG activities promoting equitable access to forest resources to enhance social justice. Through its international network, FGLG can also bring about innovative ideas and actions that further promote the welfare of SMFEs based on experiences from other countries. FGLG can also increase understanding between the forest resource regulators and users.
<b>Enterprise training facilities</b>		
Malawi Entrepreneurs Development Institute (MEDI)	Private Bag 2 Mponela Malawi Tel. +265 1 286 244 Fax. +265 1 286 412 Email: medi@medimw.org	This is a government institution aimed at imparting special technical skills and training Malawians in entrepreneurship / business management to make businesses profitable as well as viable.
Development of Malawian Enterprises Trust (DEMAT)	P.O. Box 1540 Blantyre Malawi Tel. +265 1 842 982 Fax. +265 1 843 296	The organisation is aimed at training people in business skills and offering loans to graduates.
TEVET Authority	Private Bag B406, Lilongwe Malawi Tel. +265 1 77 211 Fax. +265 1 774 797 <a href="http://www.tevetamw.com">http://www.tevetamw.com</a>	SMFEs could benefit from TEVETA training in technical skills to improve productivity and quality of the products. The training programmes usually take place at technical colleges / schools.

Ministry of Industry and Trade	P.O. Box 30366 Lilongwe 3 Malawi Tel. +265 1 770 224/377/614 Fax. +265 1 770 680 Email: minci@malawi.net	This ministry is responsible for industry, trade and private sector development. It is directly responsible for issuing business licences, and theoretically offers free training on the formation and operation of associations and cooperatives. SMFEs could increase their bargaining power by developing strong and well-established associations and cooperatives.
<b>Micro-finance institutions</b>		
Malawi Rural Development Fund (MADERF)	Box 2400 Blantyre Malawi Fax. +265 1 846 354	This is a government of Malawi credit scheme aimed at providing credit to groups of rural people involved in income-generating activities. A few groups in the timber industry in Mzimba district received loans in the fourth quarter of 2007.
Small Enterprises Development Organisation of Malawi (SEDOM)	P.O. Box 256 Lilongwe Malawi Tel. +265 1 755 718 Fax. +265 1 750 991	This is a government organisation that provides loans to people engaged in small-scale enterprises.
Malawi Rural Finance Company (MRFC)	Private Bag 39 Lilongwe Malawi Tel. +265 1 753 133 Fax. +265 1 757 133 Email: mrfchqs@mrfc.co.mw	The company is wholly owned by the government and provides financial services to rural communities who are excluded from credit. This company is important for SMFEs given that most are in rural areas.
Opportunity International Bank of Malawi	Private bag A71 Lilongwe Malawi Tel. +265 1 758 403 Fax. +265 1 758 888 Email: oibm@oibm.mw	This is a private bank which specialises in providing loans to small businesses. SMFEs can potentially access credit from this bank.
One Village One Product (OVOP)	Secretariat, Ministry of Local Government and Rural Development P.O Box 30312 Lilongwe 3 Malawi <a href="http://www.ovop.org.mw">http://www.ovop.org.mw</a>	This is a government project established with support from the Japanese International Cooperation Agency. It assists rural people to undertake activities suited to their region through training and market identification, especially export markets. Some SMFEs located on the Dowa-Salima road have received training and equipment under OVOP. OVOP contributes 70% of the total cost of the project and normally the local contribution is in kind (i.e. labour and locally sourced materials).
<b>Information services</b>		
Malawi Export Promotional Council (MEPC)	2nd Floor Kanabar House, Victoria Avenue P.O. Box 1299 Blantyre Malawi Tel. +265 820 499 Fax. +265 1 835 429 Email: mepc@malawi.net	This government agency identifies and develops Malawi's capacity to export through identifying foreign markets for Malawi's goods. Some SMFE products such as woodcarvings, cane furniture and timber can benefit from MEPC's activities.

Malawi Confederation of Chambers of Commerce and Industry (MCCCI)	Chamber House P.O. Box 258 Blantyre Malawi Tel. +265 1 871 988 Fax. +265 1 871 147 <a href="http://www.mccci.org">http://www.mccci.org</a>	MCCCI is a partnership of enterprises and associations representing all sectors of the economy of Malawi. SMFE participation in MCCCI could enhance their access to markets as the organisation provides lobbying and advocacy, and delivery of business facilitation services in Malawi and the Southern Africa region.
CONGOMA	P.O. Box 480 Blantyre Malawi Tel./Fax. +265 1 876 409/459 Email: <a href="mailto:info@congoma.org">info@congoma.org</a> <a href="mailto:civsoc-mw@sdnp.org.mw">civsoc-mw@sdnp.org.mw</a> <a href="http://www.congoma.org">http://www.congoma.org</a>	This is an umbrella body for NGOs in Malawi, some of which are involved in forest and environment, enterprise development and credit management, skills training and construction. Through this organisation, SMFEs could approach NGOs that can assist in their development.
Business Consult Africa	P.O. Box 31764 Chichiri Blantyre 3 Malawi Tel. +265 1 875 700/333/ 673/799 Fax. +265 1 875 388	This is a fair trade organisation that supports small-scale traders to export their products. They have supported cane manufacturers in the past.
Malawi Economic Justice Network (MEJN)	P.O. Box 20135 Lilongwe 2 Malawi Tel. +265 1 750 533 Fax. +265 1 750 098 Email: <a href="mailto:mejn@sdnp.org.mw">mejn@sdnp.org.mw</a>	Malawi Economic Justice Network (MEJN) is a coalition of more than 100 civil society organisations that have activities in the field of economic governance and also aim at promoting fair trade. MEJN's membership includes NGOs, Community Based Organisations, Trade Unions, representatives of the media, academia, and others. They could help address issues of injustice that affect some SMFEs.
Malawi Bureau of Standard	P.O. Box 946 Blantyre Malawi Tel. +265 1 870 488 Fax. +265 1 670 756	This is a government parastatal responsible for quality management certification, product and process certification, laboratory testing services, industrial research, standards information services, product and process improvements. SMFEs can benefit from this organisation by developing standards and grades or potentially having their products certified. Quality assurance of this type will be essential for SMFEs hoping to tap into lucrative export markets.

# Specific assessments of four SMFE subsectors

The most recent study which demonstrated the importance of SMEs to the Malawian economy was carried out in 2000 (Malawi Government, 2000b). The study showed that there were an estimated 747,000 SMEs in Malawi. The two main categories were (i) agriculture and (ii) mining and natural resources, which accounted for more than a quarter of the SMEs. The remainder were manufacturing, commerce and service enterprises. There were 9,571 SMFEs, which accounted for 1.5% of the total number of SMEs. It is likely that the forestry sector now has a larger number of SMEs and therefore accounts for a higher percentage.

Some of the major SMFEs are involved in the production of charcoal, firewood, timber, wood carvings, and forest-based foods. Although some SMFEs have not been evaluated, a recent study by Kambewa *et al.* (2007) showed that charcoal is a multi-billion MK (Malawi Kwacha) industry and the third largest industry in the country after tobacco and tea. While other sectors are smaller, these findings suggest that they could also contribute a substantial amount to the country's GDP.

The SMEs that are a focus of this study produce timber, cane furniture, juice and wood carvings. Each one of these is discussed in turn.

## 3.1 Timber production and processing in Viphya plantation

Planting of new forests by government, and private organisations and individuals has been going on in Malawi for many years. These activities have taken different forms:

- ◆ **Commercial plantations:** These include both centralised and privately initiated plantations. Among the more important government-owned plantations are Dzalanyama in Lilongwe, Ngara in Kasungu, Mulanje and Nanchidwa in Mulanje, Zomba in Zomba, Dedza in Dedza, and Viphya in Mzimba district. Local authority (district and town assembly) plantations have also been promoted in Karonga, Kasungu, Lilongwe, Zomba, and Blantyre. Examples of parastatals and private organisations that have established their own plantations include various tea estates, farming and tobacco estates.
- ◆ **Rural participation in tree planting:** To encourage mass participation in the overall forestry development strategy, the government promotes tree planting by rural households, individuals, estates and other industries. The tree planting season spans four months of the year during the rainy season.

There are about 61 government plantations ranging in different sizes scattered throughout the country. The total annual production of timber and firewood in Malawi has been estimated at 160,000 m<sup>3</sup> and 3.1 million m<sup>3</sup> respectively. While the demand for industrial timber can be fully met by the industrial plantations, there is a gap between the demand and the production of firewood. Table 5 shows different types of plantations.

While there are a few large forest enterprises in Malawi (e.g. Viphya), SMFEs tend to dominate the sector and comprise the majority of forest enterprises in Malawi. They are scattered throughout the country, with production centres mostly in rural areas and in and around forest reserves (natural and planted). The points of sale for these enterprises are concentrated mainly in urban centres where there is a growing demand from industrial and housing development. There are few adequate records kept of either large or SMFE producers (especially in the latter category where informality is rife). Data on production and consumption is therefore based primarily on occasional partial surveys which usually differ in the type of data collected.

**Table 5. Annual allowable supply of wood by forest type**

Types	Sub-type	Area	Mean annual increment (m <sup>3</sup> /ha )	Allowable cut (million m <sup>3</sup> /yr)
Natural forests	Forest reserves	870,052	1.2	1.0
	Forests on customary land	1,988,255	0.8	1.4
Plantations	Viphya	53,000	17.0	0.9
	Other government plantations	37,000	11.0	0.4
	Estate plantations	20,000	11.0	0.2
	Woodlots	15,000	10.0	0.2
<b>Total</b>		<b>2,983,307</b>		<b>4.1</b>

The Viphya area is located in the northern part of Mzimba district. It is the largest plantation in the country, and the largest in southern Africa, comprising about 53,501 hectares. Viphya plantation contains seven forest stations: Champhoyo, Chikangawa, Kalungulu, Luwawa, Lusangazi, Mazamba and Nthungwa stations with Chikangawa station as the headquarters. Planted in the 1960s, the forest is the major supplier of softwood timber (*Pinus spp*) for Malawi and other countries, including Burundi, Kenya, Mozambique, Somalia, South Africa, Tanzania, Zambia, Zimbabwe, and the Middle East. Beekeeping, mushroom growing, fish farming, tourism and recreation also take place in the forest.

There are three types of timber producers who operate in such plantations: large-scale, medium-scale and small-scale enterprises. The two large-scale processors are Wood Industries Company of Malawi (WICO) and RAIPLY, an international company operating in five other African countries. The medium-scale category comprises mobile saw millers. Small-scale enterprises consist of pit sawyers. This study focuses on medium- and small-scale processors (i.e. the SMFEs).

There are a number of formal requirements to fulfil to operate commercially in the Viphya area. Data in Table 6 shows the requirements for accessing trees in Viphya, either as a mobile saw miller or a pit saw miller.

**Table 6. Requirements, period and costs for accessing trees in Vipha plantation**

Requirement	Organisation	Mobile sawyers		Pit sawyers	
		Time required	Amount	Time required	Amount
Registration of business name	Registrar General's office, Ministry of Justice based in Blantyre in south Malawi	21 days	MK200 (US\$1.4)	Not mandatory	-
Business registration	Ministry of Industry and Trade based in Lilongwe city in central Malawi	1 week	MK5,000 (US\$36)	Not mandatory	-
Permit to saw	Department of Forestry, Ministry of Energy and Mines for mobile sawyers. The permit is given at the Ministry in Lilongwe while pit sawyers' permits are given at the plantation	2 months	MK30,000 (US\$214)	2 months	MK9,000 (US\$64)
Bidding for plots	Department of Forestry, Chikangawa Plantation office	Maximum of one week	Variable depending on the maximum bidder	One day	MK12,000 per plot (US\$86)

Notes:

- US\$1 is equivalent to MK140.
- 1 plot (20 by 20 metres with approximately 16 full grown trees).

Apart from their scale of operation, the main difference between the mobile saw millers and the pit saw millers is that mobile saw millers need a business licence issued by the Ministry of Industry and Trade. Unusually, business names must be registered separately with the Registrar General in Blantyre in the southern region of Malawi. This normally works to the disadvantage of people from the northern region wanting to register a business as they have to travel over 600 kilometres to Blantyre. The draft MSME policy proposes that SMFEs can register at their local district assembly, thereby cutting costs.

The cost of a permit to saw is MK30,000 (US\$214) for mobile saw millers while pit sawyers pay MK9,000 (US\$64). Both permits are valid for ten months, from September to June the following year. Mobile sawyers are given land to harvest for the whole period, while pit



sawyers are given plots that are already harvested and thereafter shift to a new area where new plots are given. In both cases, entrepreneurs said that the allocated plots were never large enough and they often had to request more plots. Operators complained that it took a long time to allocate new plots which meant that they could not use the licences for the full time they had paid for. This was expensive for them as they had to continue paying workers despite having no trees to harvest.

Viphya plantation is well supplied. For example, the mobile sawyers rely on diesel as a source of power for running the saws, and the nearest fuel pump, owned by BP Malawi Limited, is within Chikangawa area. The plantation has access roads which the sawyers can use to transport their trees or timber. Operators did report that some places were not easily accessible because the roads were either in bad repair or did not exist. The pit sawyers complained that they were normally given areas with very poor access roads. Communication is not an issue in terms of availability, but possibly in terms of cost. There are centres with telephone facilities within the area, and most of the plantation has access to the mobile phone networks of the main mobile phone operators in Malawi, Telkom and Celtel.

The majority of mobile operators stay in the area during harvesting time. Workers not local to the area are given the opportunity to erect 2-person, 6 m<sup>2</sup> huts at MK1,000 (US\$7) per hut payable to the Department of Forestry. Other workers, particularly the mobile saw millers, rent houses in the surrounding villages. There are several guesthouses in the area owned by the Department of Forestry which are also open to the public.

A post office, police and fire services are also available in the area. There are no credit facilities operating within the area; the nearest are in Mzuzu City and Mzimba Boma, but do not provide credit or loans to mobile sawyers. The nearest banks are 70 kilometres away in Mzuzu and 40 kilometres away in Mzimba Boma.

The major problem facing operations in the study area is the inadequate supervision of forest activities, which has led to some areas of forest becoming overgrown. This is especially problematic in firebreak areas. There are reported cases of illegal harvesting by some pit sawyers. Members of Department of Forestry staff are also said to be involved in illegal harvesting, which represents a serious conflict of interest. There is inevitable tension between those wanting to conserve the forest versus those promoting SMFEs and trying to maximise their sales. This has led to misunderstandings and a lack of trust between the Department of Forestry and the operators.

The next sections present detailed information on the pit sawyers and the mobile saw millers.

### **Timber pit sawyers**

We carried out our survey of pit sawyers at Nthungwa station. To operate as a pit sawyer, you need a permit / licence from the Department of Forestry, issued annually at a cost of MK9,000 (US\$64), which is valid for ten months (see Table 6). The harvesting of timber is not allowed between July and August during which time the following year's licences are processed. After obtaining a licence, pit sawyers either buy individual trees or are allocated a plot of trees within a plantation of 20 by 20 metres which on average contains 16 trees. The plot is

sold at an additional MK12,000 (US\$86). At the time of the survey, at one harvesting point, the managers of sawing units were from Mulanje, Thyolo in the southern region and Dedza in central Malawi and Champhira in northern Malawi. The owners were not present at the sawmill point.

Each licence grants the holder rights to use no more than five crosscut saws and a gang of ten sawyers. An SMFE unit has supporting members who carry out activities such as logging, extraction to the pit and loading. Payment of sawyers includes food, estimated at MK2,300 (US\$16) per month per person.

Wages are paid by piece-work at a set rate of MK4,000 (US\$29) per 300 pieces sawn. The rate for felling each tree is set at MK20 (US\$0.15) per tree. On average 280 to 300 pieces are sawed per pair per month, giving a monthly wage of roughly MK4,000 (US\$29). In Malawi, the new minimum wage is MK129 (US\$0.9) per day for urban workers and MK95 (US\$0.7) per day for rural workers. On top of this, urban workers get a housing allowance of MK12 (US\$0.08) per day, while rural workers get MK10 (US\$0.07) per day. The minimum wage prior to 2008 was MK87 (US\$0.6) plus a MK9 (US\$0.06) housing allowance per day for urban workers and MK66 (US\$0.5) plus a MK7 (US\$0.05) housing allowance for rural workers.

Figure 4. A team of pit sawyers



Photo: Paul Muhosha

Sawyers earn above the minimum wage for rural workers. The same cannot be said for general labourers, who are paid based on the quantity of work they complete, such as the number of trees moved or timber planks handled.

At Thungwa, where we conducted a site visit, there were about eight pit sawyer units working on 75 plots. The prices of planks from pit sawyers are on average lower than that of mobile sawyers. For instance, an 18 foot long by 6 inch wide by 2 inch depth (18\*6\*2) plank sells for MK350 (US\$2.5) compared to MK400 (US\$2.9) to MK600 (US\$4.3) for the mobile sawyers. This is in part because the quality of planks from the pit sawyers tends to be lower, with uneven finishing (smoothness) and irregular sizes (often below the declared sizes). The machines used by the mobile sawyers produce a better quality plank.

Wastage among pit sawyers is also said to be higher than the mobile sawyers. First, the remaining tree stumps are higher and a good part of the trunk is not used. The tip of the tree is also not utilised. Pit sawyers normally sell their timber to local traders, unlike the mobile saw millers who sell their produce further away. Whereas mobile saw millers hire vehicles, the pit sawyers tend to use informally hired vehicles, *matola*, on their way back to Blantyre or Lilongwe. Transportation costs were quoted as MK100 (US\$0.7) per plank to Lilongwe. The pit sawyers are the main supplier to the domestic market. However, operators reported that local buyers compete with buyers from as far afield as Tanzania. Thus timber from the pit sawyers is also exported, however informally this may take place.

### Mobile timber saw millers

Mobile saw millers were interviewed at Thungwa (near Elephant Rock) and Lusangazi stations. The millers in this category normally own and use portable, diesel-operated sawmill machines. The most common mill types are AMEC 1, AMEC 2, LT30, Laimet and Woodmiser.<sup>1</sup> New entrants into timber production usually go for AMEC because it is the cheaper option, while well-established processors eventually graduate to Woodmiser mills due to the quality and efficiency of the cut. Mobile saw millers also use chain saws, which cost about MK150,000 (US\$1,071). Every two weeks a chain saw blade should be replaced at a cost of MK7,000 (US\$50), while the guide bar costs about MK10,000 (US\$71). As an example of the typical scale of operation, one mobile saw miller started his business in 1997 and currently has two chainsaws, six tractors for transportation (although three of them were broken down). He has 93 men on his payroll. He also has his own retail shop in Lilongwe. For the 2007–08 season he was given 10–15 hectares to harvest.

One complaint many mobile sawyers made was the high duty they pay on equipment purchases. Despite this concern being widespread, the Ministry of Finance has resisted requests to exempt forest equipment from tax and most applications are unsuccessful.

The typical mobile timber sawyer has one mobile sawmill and employs 70–100 men for logging, transporting, sawing, stacking, loading in trucks and after harvesting, windrowing. Mobile saw millers are mainly classed in the medium-scale enterprise by the Malawi definition.

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1. The Woodmiser mill costs about MK2.5 million (US\$17,857) and can cut small to big logs. AMEC 1 is wasteful and cannot saw very big logs and costs about MK400,000 (US\$2,857).

The wages of workers range from MK7,000 (US\$50) for the chainsaw operators to MK5,500 (US\$39) for general workers (substantially above the wages for pit sawyer teams). Stacking labour costs about MK35 (US\$0.25) per log. Although it is difficult to assess the wages of those paid on a rate basis, other monthly wages reported for the workers were higher than the minimum wage set by the government.

The Department of Forestry does not advertise mobile sawmilling opportunities, and while this reduces transparency, it does avoid over-application. Interested parties must search out the information themselves. Applications are made directly to the Department of Forestry with copies to the regional forestry offices and the Director of Forestry. The applications are usually processed from June to July and harvesting starts in September to October. Applications are made every year. All licences for mobile saw millers need the approval of the minister. They are issued based on submission of a wide range of documents including:

- ◆ a Malawi passport
- ◆ business documentation (the licence to operate a business, which costs MK25,000 (US\$179)
- ◆ evidence of tax compliance from the Malawi Revenue Authority
- ◆ a bank statement indicating that they have the capital to sustain a business
- ◆ for repeat applicants, the previous year's performance report.

For repeat applicants it is crucial that they are seen to have been compliant with forest management practices such as windrowing and fire protection.

Procurement of actual land to be logged is based on an auction system. In one case, 4.3 hectares of land involved bids at a range of MK1,277,112 to MK1,334,000 (US\$9,122–9,528) for an estimated 1,596.4 cubic metres.<sup>2</sup> The price for timber at stump is roughly MK835 or US\$6 per cubic metre.

Some mobile saw millers complain that the Vipha plantation is overgrown, i.e. it is being harvested at a lower than optimum rate. With such underutilisation, they do not understand why they have to bid at auction. However, auctions avoid arbitrary allocation of trees and plots<sup>3</sup> and allow the Department of Forestry to allocate the more attractive plots, either with easy road access or with good quality trees, to the highest bidder. Operators reported problems with bidding, with some mobile sawyers bidding far above the informally agreed price to secure the best plots.

The plots that are put up for auction are usually not close to each other. This means that mobile saw mill operators have to move their equipment to a new area once they have finished harvesting a particular plot. This is costly and difficult due to the heavy equipment.

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2. Interview with plantation manager, Chikangawa, November 2007.

3. We heard of a case of two mobile sawyers who planted 10 and 30 hectares, yet were not rewarded for their actions. A few mobile sawyers indicated that they can look after about 50 hectares under concession, just as is the case with large corporations such as RAIPLY and WICO, yet provisions for mobile sawyers to do this do not exist. The Department of Forestry argues that they would give concessions if an association was formed, because this would allow them to track the concessions and target those failing to manage the area properly. Such a system would be open and transparent.

Management of plots is shared between the millers and the Department of Forestry. In some cases, mobile saw millers did not follow recommended forest management practices, resulting in an increased risk of fire because of poor windrowing practices. The Department of Forestry reportedly punished all groups working in the area that was poorly managed, even though in most cases only a few in the group were at fault. In some cases, the Department of Forestry was more at fault, for example, when it did not clear firebreaks.

After mobile saw millers fell the trees they cut the timber into planks and stack it to air-dry. No other processing is done. Large saw millers season their timber in heat-treated kilns or hot air kilns and obtain phytosanitary certificates for the export market. However, both large-, medium- and small-scale sawyers sell their timber without reference to any quality standards, as none exist in the country.

### Timber products, markets and sellers associations

The main products are planks of standard sizes: 18 feet long by 6 inches wide by 2 inches deep (18\*6\*2) mainly used for rafters and general construction. Other plank sizes are 18\*4\*2 for general construction and less preferred, 18\*2\*2 for blundering (the timber that holds up the ceiling). Producing planks generates off-cuts (locally known as *zipapati*) which can be used for constructing fences, livestock corrals and firewood. In areas with little timber, off-cuts are also used as material for construction and to manufacture furniture. Another by-product is sawdust (*utuchi*) which can be used as fuel or bedding material for small ruminants and poultry. However, most of these potential products are not collected and sold because the distance to centres of consumption does not justify the cost.

The planks from Viphya are sold locally as well as internationally. Locally, the major market is Lilongwe followed by Blantyre, with Mzuzu also emerging as an important urban market. Consumers can buy directly from the sawyers. Some of the more established mobile saw millers have points of sale in the urban areas from where consumers buy. There are also middlemen who buy from the sawyers to sell in the urban areas. The planks sold at the local markets from the mobile sawyers are mainly rejects that do not meet the standard sizes.

A visit to Lilongwe indicated that there are several points of sale for planks. The largest is near Lilongwe Central Market, outside the premises of Bwaila Ox-Cart Manufacturers behind the Devil's Street. The timber sellers have an informal association consisting of over 100 members. The association has a committee which is responsible for managing the members' affairs. Each member pays a monthly contribution of MK200 (US\$1.4) which they normally use when a fellow member is bereaved, to pay funeral costs. The association also protects the interests of members, such as maintaining a hold on their point of sale, which they occupy illegally. Some people engaged in the timber business at this market are labourers who unload and load timber and facilitate the general movement of the timber at the market. Others sell timber on behalf of the owners; these sellers are locally known as '*olilira*'.<sup>4</sup>

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4. These sellers are similar to sellers at the auction market in that they are paid on commission based on the mark up from the base price established by the owner.

About 75% of the timber sold at this market is from pit sawyers. The remainder is sub-standard timber from mobile sawyers. These buyers meet their own transport costs, and in some cases buyers combine their loads to share costs. Each plank is transported at between MK100 (US\$0.7) to MK130 (US\$0.9) per piece to Lilongwe.

The arrangement of transport is either formal, where the owners of planks approach owners of vehicles, or informal, where they approach the drivers. In most cases, the vehicles are returning from a scheduled trip carrying passengers. This is called *matola* and although illegal, it is an important form of transport in the country. For formal arrangements, a conveyance certificate is issued to facilitate travel, especially through roadblocks where forestry officials are present to check for illegal transportation.

At Lilongwe market, there are sellers of softwood and hardwood timber. Hardwood timber is mainly sourced from Mozambique and used for manufacturing furniture. People often have to bribe their way through security checks or use informal routes to avoid the officials who can either confiscate their product or coerce them into paying bribes. Hardwood felling and transportation is only legal with the proper documentation, i.e. a licence to cut down trees and a conveyance certificate.

At Lilongwe market there is a larger variety of softwood plank sizes than at the point of primary processing because of the demand for smaller sized planks from buyers with less capital. These buyers purchase planks from middlemen at wholesale prices, who process the planks at MK50 (US\$0.35) each using a sawmill owned by the association of timber sellers. For example, a plank measuring 18\*6\*2 can be divided into three planks of 18\*2\*2. The majority of these buyers are purchasing planks to construct houses. Hardwood is sold at a separate site to the softwood and is used mainly for making doors, and door and window frames.

**Table 7. Indicative prices of planks at Viphya from mobile sawyers (prices as from August 2007)<sup>5</sup>**

Size of plank (length in feet, by width in inches, by depth in inches)	Sales price
18*2*2	MK150 (US\$1.1)
18*3*2	MK230 (US\$1.6)
18*4*2	MK250 (US\$1.8)
18*6*2	MK400 (US\$2.9)
18*8*2	MK550 (US\$3.9)
18*9*2	MK600 (US\$4.3)
18*10*2	MK650 (US\$4.6)
18*12*2	MK750 (US\$5.4)

5. These prices are based on one of the largest mobile sawyers at Chikangawa. Prices from other sawyers were MK100 (US\$0.7) to MK200 (US\$1.4) more.

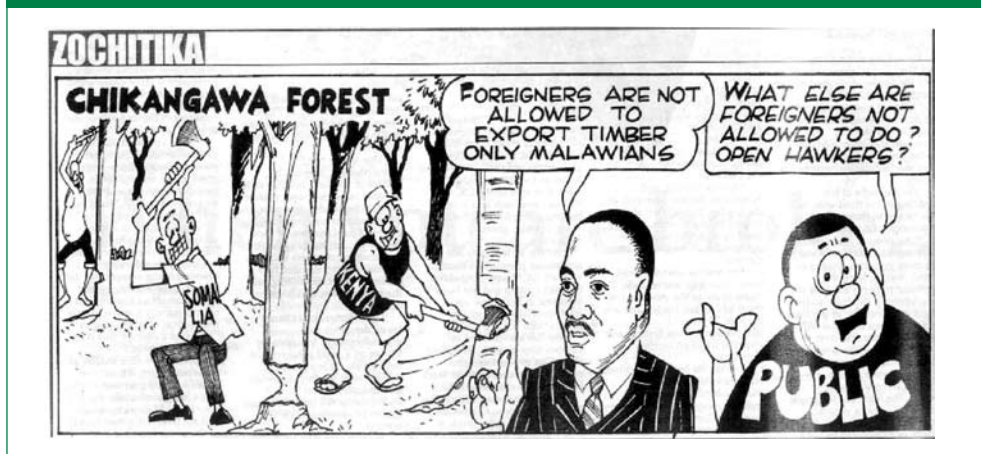


Some sawyers sell directly to international buyers in country, while others export the planks to consumers from other countries. Most of the mobile saw millers produce timber for export to countries such as Kenya, Mozambique, Somalia, South Africa, Tanzania, Zambia, Zimbabwe, and the Middle East. Transporting 1,200 pieces to Kenya costs about MK380,000 (US\$2,714) to MK400,000 (US\$2,857) or a maximum of MK333 (US\$2.4) per piece.<sup>6</sup>

Exporters do not need an export permit/licence to export timber, and the timber is almost always exported without a phytosanitary certificate. While this is contrary to national legislation, the rules are not enforced by officials at the borders, or the exporters pay them bribes.

A significant number of mobile sawyers are non-Malawians (see caricature in Figure 5). Although the Department of Forestry, in conjunction with the Department of Immigration, makes an effort to keep track of these individuals, they often operate under Malawian names and Malawian managers.

Figure 5. The plight of Viphya / Chikangawa Timber



Source: The Sunday Times, November 11, 2007

### Constraints identified by SMFEs producing timber

Operators reported that a major constraint they faced was their inability to access credit, which limits their ability to expand or invest in more modern saw milling and chain sawing technology. In most cases, the operators said they relied on their own funds, which implies that growth in the timber industry has come about almost solely through reinvestments (unlike other sectors, where access to credit has been responsible for quick growth).

Operators also complained that the two months when harvesting is suspended (July–August) to issue licences is too long, and means they have to harvest during the wet season, when working and transportation of logs is difficult. In addition, the construction industry (the major

6. From Kenya, the timber is further processed (value added) and exported to other countries, especially the Middle East.

market for timber) is at its peak during July–August, and slows during the wet season, so it is more difficult for the operators to sell their timber at this time.

This situation is the most inconvenient for pit sawyers, who are allocated harvesting areas far from the main road, which increases the difficulty of transporting planks in the rain. The pit sawyers we interviewed were bitter that mobile saw millers were given areas with good quality wood near the road, thereby making it cheaper for them to extract the wood.

Operators also complained that they had to reapply for a licence each year, without any certainty that their application would be successful. Such uncertainty discourages operators to make long-term investments to modernise and increase the efficiency of the sector. The saw millers are also discouraged from forming strong associations or cooperatives when their membership is not guaranteed from year to year.

Another problem is the amount of trees allocated with each licence; some saw millers, particularly mobile saw millers, said they are not allocated enough to justify and pay off their investments in machinery.

Overall, the pit sawyers were of the opinion that the system favours the wealthier mobile saw millers. For example, in 2007, licences were issued late and while nobody was supposed to be processing timber prior to the licences being issued, the mobile saw millers went ahead and harvested anyway without punishment. Pit saw millers also complained that they must pay cash before they can harvest trees while the mobile saw millers can harvest on loan.

### 3.2 Cane furniture production in Salima and Dowa Districts

Along the M5 road that runs from the capital Lilongwe to the lakeside town of Salima, there is a thriving cane furniture industry. The products being sold include chairs, tables, sofa sets, baskets, bottle carriers, and cupboards. These products are sold on the roadside, predominantly to national travellers and tourists moving to and from Salima.

The raw materials for the products are sourced both from within and outside the village (e.g. from Forest Reserves) and include bamboo, palms, reeds, trees, saplings, and vines. Bamboo is mostly sourced from Thuma East Forest Reserve in the south. Vines are sourced from the lake shore about 30 kilometres away or, when these are scarce, from as far away as Liwonde along the Upper Shire River, about 200 kilometres away. Trees are either purchased or sourced locally. This is the case for saplings, which are grown in the villages. These are free and no permission is sought to harvest them.

There are traders in the area who specialise in selling bamboo. Although harvesting bamboo from forest reserves incurs a fee, people usually harvest the materials without paying. The forestry management practice requires harvesters to leave a stump of about 30cm above ground level to ensure that shoots regenerate. We found that harvesters either did not know of these management practices, or did not follow them properly. Royalties for harvesting bamboo in forest reserves are shown in Table 8.



Figure 6. Cane chair and other products sold along the Lilongwe-Salima road



Table 8. Royalties for bamboo harvesting in Forest Reserves

Butt diameter (cm)	Licence rate per bamboo stem
Less than 5	MK3 (US\$0.02)
5 but less than 10	MK6 (US\$0.04)
10 and above	MK12 (US\$0.08)

Source: Forestry Department, 2004

Bamboo traders, rather than the furniture makers, usually harvest the material and are knowledgeable about harvesting sustainably. Although some furniture makers had been trained in planting bamboo (and had a demonstration plot), most we saw were unsuccessful due to termite infestation.

Interviews with cane furniture makers were held at the Msikidzi shop, where a group of 34 manufacturers work. The natural resources they use include solid bamboo (e.g. *Oxytenanthera absynnica*),<sup>7</sup> vines (e.g. *Cissamples mauritiana*) (*chipapati*) and a variety of tree species (e.g. *Trichilia emetica* (Natal mahogany, *msikidz*), *kavunguti*, *Pterocarpus angolensis* – *mlombwa*,

7. Bamboo used to make furniture is ideally more than four years old, and is mature and solid. This type is locally known as *gumwala* (not *nsiwa*).

*Leucaena leucocephala*, *Terminalia sericea* – *naphini*, *Thevetia peruviana*, ‘hedge’ and mphando). They used tools such as hammers, bow saws, hacksaws, panga knives, simple knives, measuring tapes, pencils, and fire.<sup>8</sup> We also visited Kamlemba and Kapita shops.

Across the whole region, a variety of products are derived from bamboo, palms (e.g. *Raphia farifera*) and reeds (e.g. *Phragmites mauritania*). Bamboo is used for weaving baskets, granaries, chairs, beds, mats and shelves. Reeds are used for making mats, fences, granaries, and baskets. All these products have a commercial value and provide supplementary income for communities.

A number of different actors are involved in cane manufacturing, including suppliers of raw materials (plant materials and nails and varnish), labourers (skilled and unskilled) and sellers. Nails and varnish are bought from nearby grocery shops, or in Salima Boma.

Furniture manufacturing requires both skilled and unskilled labour. Unskilled labourers (usually young individuals who may not have enough of their own work) remove the skin from the bamboo and sapling trunks, and smooth and treat them. Skilled labourers plait the products using the vines, and construct the products. Wages are paid according to the number of pieces processed. Cane manufacturers are mainly informal businesses that operate without a licence; however, they do pay a market fee to the district assembly.

The manufacturers are directly involved in the sale of their products, and in most cases manufacture their products where they sell them. Groups of manufacturers set the product price; if a seller wants to sell a product at a lower price, he must obtain agreement from the group before making the sale. In addition to buying on the spot, buyers can place orders with the manufacturer (including products with unique designs) to be collected at a later date. Large orders are shared among members of the group (who agree on a process so that the end product is uniform) to ensure that products are finished on time. At Nsikidzi, when business is good, the average revenue per person per month is MK10,000 (US\$71). During the agricultural season, when manufacturers have other responsibilities, their income from furniture making drops.

Cane furniture manufacturers also work as farmers during the agricultural season. The profits they make from cane manufacturing allow them to purchase fertiliser, seed and additional labour. Thus, they get better yields than those farmers who depend solely on farming, and claim they earn enough for their families to eat.

The cane furniture industry is set up such that the money from any product sold trickles down to all people along the chain, including the suppliers of raw materials, the unskilled and skilled labourers and the manufacturers/sellers. In recent years, the number of cane manufacturers has increased thereby increasing competition. Also, because cane furniture is very durable, demand and therefore sales have dropped.

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8. Fire is used to make the sapling malleable and pliable.

Cane manufacturers are organised into associations that increase their bargaining power and allow them to set prices. Although Lilongwe is a more lucrative market for cane furniture compared with the roadside, the cane manufacturers have been unable to access this market because they lack transport and knowledge of the market.

The Katengeza Association from Dowa, one of the first groups to form in the area, have received support from the JICA/Malawi Government One Village One Product initiative (OVOP), including assistance with designing and producing their products and a boiling drum to cure their bamboo. OVOP is currently assisting them to identify untapped markets for their products. For example, OVOP has advised them to label their products 'RSA World Cup 2010' to appeal to fans of the forthcoming World Cup games.

Apart from bamboo and tree harvesting licence rules, cane manufacturers do not follow any formal rules or regulations regarding the harvesting of raw materials. Because of the informal nature of their industry, any changes in government policies would have little impact on their activities. Although they were aware of problems to do with the management of their raw materials (for example, vines have recently become scarce in the local area and collectors must travel over 200 kilometres to collect them), it is unlikely they would adopt sustainable practices, simply because of the sheer number of manufacturers and the open access to the resource.

### 3.3 Fruit juice production at Kamwamba area in Neno district by the Village Hands company

As natural forests are destroyed to make way for villages and gardens, fruit trees are disappearing in Malawi. The most common indigenous fruit trees include *Uapaca kirkiana* (*masuku*), *Adansonia digitata* (*malambe*), *Tamarindus indica* (*Bwemba*), and *Sclerocarya birrea* (*Mfula*).

One way of promoting sustainable management of indigenous trees is to develop them as a source of revenue. In Neno district, the community-run Village Hands company produces fruit juice from baobab fruits, collected from the *Adansonia digitata* tree. The community benefits financially from this venture and therefore has an incentive to protect the trees upon which the enterprise is based. Village Hands produces more than 10,000 cartons of juices per annum. The revenue raised is used to improve the livelihoods of local communities in the surrounding areas.

Village Hands is an approximation of the Chichewa phrase "*Luso la anthu a kumudzi*", which literally means "skills from village people". The company originally formed to stop deforestation caused by charcoal making by providing alternative employment. Initially, the company was involved in several activities, including rearing guinea fowl, cane furniture making, and wine production from baobab and tamarindus.

Village Hands registered as a company in 2004 and has a board of trustees made up of people from the village, a board of directors comprised of villagers and outsiders such as members of the Wildlife and Environmental Society of Malawi (WESM), and a local operations manager.

Village Hands is the only fruit processing company owned and managed by villagers. GTZ, the Germany technical cooperation agency, helped Village Hands establish the processing plant, and people from 14 villages were trained in natural resource management. The members sell their fruit to the processing plant; the idea is that they will be encouraged to protect their fruit trees, rather than destroying them to make charcoal. The company specialises in making fruit juice from baobab fruit (*Adansonia digitata*), called Malambe Juice, and tamarind fruit, called Bwemba Juice. The company also processes honey.

Figure 7. Home made fruit juices available on the market



Unlike other private fruit juice manufacturers, Village Hands is formally registered as a company. Village Hands identified this as a constraint; while they pay taxes, competing organisations do not, by virtue of not being registered. Additionally, other organisations have started to use Village Hands' brand name 'Malambe Juice', but because they are unregistered, Village Hands cannot take them to court.

In Malawi, the African baobab tree (*Adansonia digitata*) is common at low altitudes, in dry woodland, bushland and grasslands (Swart, 1963). A significant number of Malawians rely heavily on the tree; individuals consume and sell the fruit and fruit juices (the fruit pulp has very high vitamin C content, almost ten times that of oranges). The fruit is sold by weight. Most of the pulp bought by the fruit juice producers is sourced locally, but some comes from

Mozambique, sold by middlemen. The tree also provides a variety of products, such as bark fibres that are used to make rugs, blankets, hats, baskets, and tablemats.

Baobab trees are generally communally owned; only those growing on somebody's field are owned by that person. Recent studies in Malawi show that there is little natural regeneration so there is a need to manage the trees carefully. Local management on farms is relatively straightforward (in contrast to the tamarind tree, see below).

The *Tamarindus indica* (tamarind) tree is a very adaptable tree species occurring in woodland, bushland and thorn bush areas. It often grows in the same areas as the baobab tree. The fruit is sold in the markets and consumed as a condiment or as a drink. The fruit pulp is used as a laxative, the bark is used to cure sore throats, the leaves are used for stomach problems, and the roots are used to treat heart pain in some parts of the country.

The hard and heavy wood is often harvested for firewood and charcoal; in Neno, however, with the establishment of the fruit juice factory, people have begun to look after their trees rather than destroy them for charcoal production. Propagation of the species is relatively easy by seed, and cuttings and root suckers may also be used.

Honey is still a minor component of the company's portfolio, although they produced five tonnes in 2007. The honey is supplied by beekeepers in the area, organised into local associations. Most have a minimum of five beehives, and the largest, owned by Mr. Gobede of the Kaudzu Association, has as many as 70.

Fruit processing activities include harvesting (by villagers), transportation to the factory (by villagers), storage in bulk (by the factory),<sup>9</sup> processing and bottling in 500ml and 250ml containers, and transportation to the retail market (by company staff). The major retail markets are supermarkets in Lilongwe (People's, Seven-Eleven), BP shops, WESM Shop, and Bunda Turn-off at Superrete. By November 2007, the company had sold 75,000 bottles of juice (500ml in size) and five tonnes of honey. The company is expanding its production such that some raw materials, especially baobab pulp, is being imported from Mozambique. However, they still face competition from small-scale processors.

Honey production activities include harvesting (by the farmer), preliminary sieving (by the farmer), and transportation to the factory (by the farmer). At the factory, honey undergoes secondary sieving (by factory workers) before being bottled and labelled in 500ml bottles. The honey is sold through the same chains as the juices.

The products from Village Hands are sold on the domestic market. At the moment, foreign markets are out of reach because they require a large and constant supply of produce of a specific quality. This Malawian enterprise is not yet ready to make that leap.

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9. These fruits are seasonal; after harvesting, the factory has to make sure it buys enough to keep producing the juices throughout the year.

### 3.4 Wood carving producers in Machinga district and Blantyre city

Wood carvings are produced in rural areas near forest reserves and sold in urban areas. The main products are safari chairs, face masks, miniature animals, and games such as chess boards and pieces, *bawo*, cups, wooden cups, plates, knives, and boxes.

The following tools are used to produce the carvings: bow saws, pangas, knives, planes, scrapers, sand paper, polish, wood chisels, wood glue, and seal. The common trees used are *mwanga* (*Pterocarpus angolensis*), *gmelina* (*Gmelina arborea*), bluegum (*Eucalyptus spp*), cindrella (*Toona ciliata*) and *mtumbu*. These trees are all hardwoods, with the exception of *gmelina*, which is polished dark-brown to give it an appearance of red mahogany or black to give it the appearance of ebony. This process is locally known as *kujudula*<sup>10</sup> and is done to increase the value of the piece. It is not clear whether this practice has significant conservation benefits for hardwood trees in the natural forest.

The production of woodcarvings is a highly segmented process involving a number of specialised players. The wood is usually bought either from farms or from people living near a forest reserve.

Figure 8. Production of wood carvings in Malawi

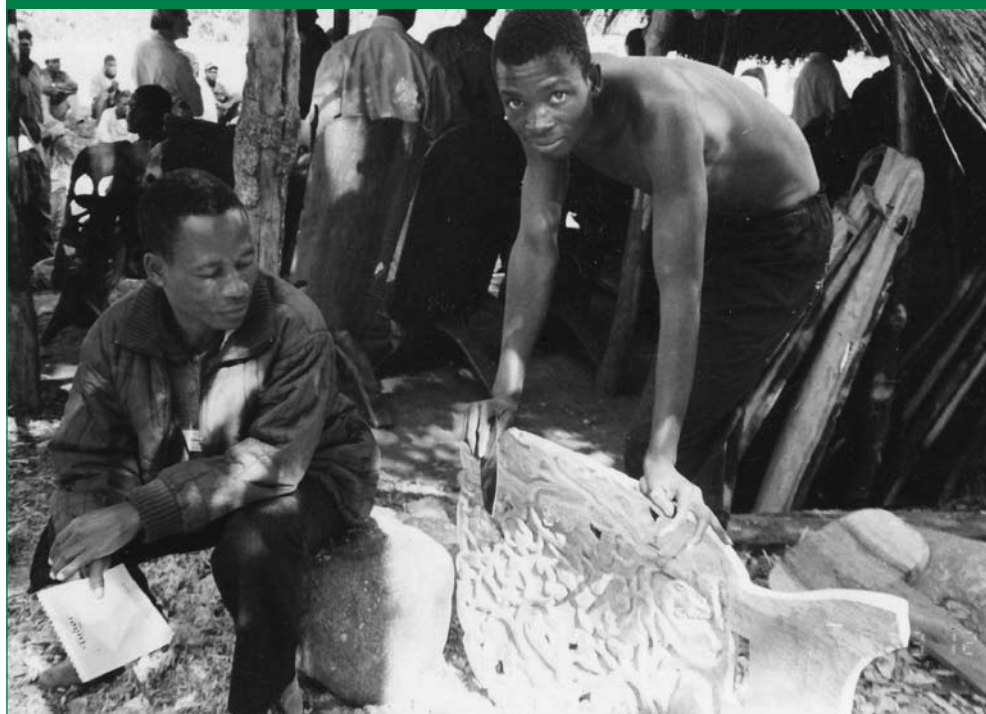


Photo: Gerald Meke

10. This word has a connotation of deception.

The tree is either cut into logs for transportation to the production/selling site or, if the processing point is far away, is processed roughly into the shape of the end product. Fine carving gives the product its final shape and wood glue or seal is used to fill any cracks. Sand paper is used to smooth the product before it is polished to the colour of choice. At the selling point, the product is polished to give it an attractive appearance.

The major markets for woodcarvings are in Lilongwe, Blantyre, Mzuzu and Zomba. Wood carvings are also sold on the roads to and at the main tourist attraction centres of Mangochi, Salima, and Nkhata Bay. Carvings are mainly sold on the spot, but can be bought in bulk for exporting.

Exporters most often export to South Africa and must send a fax to officials at the Beit Bridge border crossing stating their intention to export. Upon entry to South Africa, they are charged between 200–1,000 Rand (approx. US\$20–100), at a rate of 3 Rand (approx. US\$0.30) per kilogramme. The carvings are sold in Johannesburg, Durban and Cape Town through middlemen; because traders are only given a 30-day visitor's visa, they cannot sell their product themselves. They are also officially restricted from selling directly at the markets, a situation which raises their costs and reduces their selling price. On average, a trader will take two weeks to sell their products. At the time of the interview, the most marketable products in South Africa were the miniature wooden elephants and wooden plates.

The wood carving industry is regarded as an illegal activity. Processors are not given a licence for harvesting wood as this is seen as a licence to destroy forests. As such, wood carvers carry out their business with a great deal of uncertainty. Although carvers in Chingale and Blantyre have engaged in dialogue with the Department of Forestry, for now the uncertainty remains.

Ironically, the government has invited wood carvers to participate in international trade fairs, giving them mixed signals. On the one hand, the government discourages the activity on the account of its contribution to deforestation. On the other hand, the government promotes the activity as a potential foreign exchange earner through increased exports. Furthermore, wood carving is identified as an important income generating activity for the poor in the Malawi Growth and Development Strategy.

Approximately 120 wood carvers are located at the Chingale turn-off, Machinga district and are organised into a group managed by a committee. There are five production / sales huts, each with an average of over 20 members. These wood carvers source logs from the nearby villages at the foot of the Chikala Mountains and have access to hardwood. In contrast to the carvers at Blantyre (see below), few people have machinery for fine-tuning the carvings. The products are mainly bought by Malawian travellers.

Blantyre is also an important wood carving market. The main market is located near the former PTC Main Shop. The woodcarvers belong to a local association with over 50 members, which has allowed them to negotiate with the city authorities for this official site to sell their goods.

Producers in Blantyre sell wooden chairs, miniature wooden animals, facemasks, wooden plates, spoons and knives, beads, doormats and wooden sugar bowls. Products at this market tend to



be genuine hardwood products. The main trees used are *Combretum imberbe* (*nkolong'onjo*), small *Dalbergia melanoxylon* (*phingo*), and *Pericopsis angolensis* (*muwanga*). Producers source the hardwood from the Lower Shire region, Mwanza, and Mulanje and increasingly from Mozambique, where they compete with buyers exporting to Tanzania and China.

Tree felling usually involves people from within the villages – outsiders are not allowed to cut down the trees. In principle, local hardwood can be harvested from a dead or dying tree in a protected area, i.e. a forest reserve or village forest area, but the Department of Forestry rarely issues permits. The rough shapes and designs are done at the site of harvesting and transported to Blantyre using public transport. Although officially a conveyance certificate (or import licence for products coming from Mozambique) or permit to harvest trees from a protected area (Forest Act 1997 Section 46 subsection a and Section 47, Section 68 subsection b and c) is required, most dealers do not have this documentation and simply pay a bribe if they are caught.

Once the semi-processed products reach Blantyre, they are taken to people who specialise in fine-tuning. Machines are used to finish some products; the Blantyre PTC-based dealers have about five machines at their disposal. After fine-tuning, the products are smoothed using sand paper (sand paper types used are P80, 60, 0) and then polished and shined. These activities do not necessarily take place at the same site. The majority of the value adding activities take place in Chirimba Township. Details, such as the drawings on wooden plates, is done by drumelling (roughening the timber).





# Challenges and opportunities for SMFEs in Malawi

The current status and performance of the SMFEs reflect the challenges and opportunities facing the sector, summarised in this section.

## 4.1 Challenges facing SMFEs in Malawi

From our interviews with entrepreneurs throughout the country, plus an analysis of relevant policies affecting SMFEs, the following challenges stand out for SMFE development in Malawi:

- ◆ With current population expansion, there is strong demand for most forest-based products in Malawi (although saturation is reported in the cane furniture market). While access to the domestic market is not a problem, access to export markets poses a big challenge for some sub-sectors. Exporting woodcarvings to South Africa is complicated by restrictions on Malawian exporters and where they can sell their products. In the juice market, the volumes required to win major orders outside the country (which Malawian SMFEs cannot yet meet) is a major barrier to exporting.
- ◆ Increasing pressure on forest resources is a major problem in Malawi. Most of the raw materials that SMFEs use come from land they do not control; it is either publicly owned land, managed by the Department of Forestry, National Parks & Wildlife, or private concessions. SMFEs are thus vulnerable to changes in land use and restrictions or removal of user rights. Few incentives exist to reward SMFEs that might be willing to invest in reforestation activities.
- ◆ SMFE activities can be as destructive of forest resources as other forms of deforestation; this is especially true for firewood harvesting and charcoal production. The impact of timber, cane furniture, fruit juice and wood carving activities is more selective, with the impact varying widely with the type of end product, harvesting and origin of the resource. But use of materials is often inefficient; for example some SMFEs harvest a whole tree and discard everything except the heart, e.g. for *Chlorospermum mopane* – *tsanya*.
- ◆ The Land Act does not insist that a proportion of customary land is maintained as trees/forests. With little capacity for active enforcement there is ongoing depletion of forest resources on the existing forest reserves and protected areas.
- ◆ Even for more intensively managed areas of forest such as the Vipha plantation, saw millers are not rewarded for good forestry management (e.g. felling followed by re-planting). As a result, entrepreneurs tend to do the minimum possible.
- ◆ There are reports that public officials charge producers unofficial 'rent', for example, during the transportation of hardwood. There is a lack of proper documentation to make

the process smooth for SMFEs and as a result, some SMFEs tend to go underground or habitually use bribes to operate. Some Malawians work with outsiders to illegally harvest timber from places like the Viphya plantation. In such cases, the SMFEs can quickly be exploited by those outside.

- ◆ Entrepreneurs most commonly cite finance as the principal obstacle to gaining a competitive advantage; raw material shortages is the second most significant barrier. While finance for investment is a problem in its own right, it is also a symptom of other difficulties. For example, SMFEs might have trouble formally registering their business. They might have to deal with insecure/small/intermittent markets or unreliable supplies of raw materials. They might lack suitable tools or skills with which to improve productivity. They might have weak managerial capacity and an inability to make use of available support services. Factors such as these often dissuade financial services from making loans to SMFEs. SMFEs also do not have access to a credit reference bureau to help them access official credit, or credit guarantee schemes that could assist small-scale entrepreneurs. There is a lack of investors willing to support the development of local technologies, e.g. the Malawi Industrial Research and Technology Development Centre. Additionally, some institutions, such as the Ministry of Industry and Trade, have insufficient human and financial resources and do not always fulfil their obligations.
- ◆ Despite promising policies, practical government bureaucracy often impedes SMFEs. For example, businesses must register their business names in the southern city of Blantyre, regardless of where the business is located. This raises transaction costs for businesses from other parts of the country, particularly those from the north. The new SME Policy proposes decentralising the registration of businesses.
- ◆ A majority of the SMFEs are not aware of the policy environment in which they operate, including rules and regulations that affect them. For example, many are unaware of the provisions for licensing SMFE activities. They are also unaware of their responsibilities for the sustainable use of forest land and utilisation of forest products on customary land, public land, forest reserves and protected forest areas. Under licence (a relatively insubstantial cost in Malawi) SMFEs should be able to traffic, export, and extract forest products without undue stress or fear of confiscation or seizure at checkpoints by police or roadblocks. There is an urgent need for the Department of Forestry to disseminate information more widely and to re-orient its officers and those of other government agencies so that they understand and can be more supportive of SMFE activities.
- ◆ The majority of the SMFEs surveyed are not aware of or have limited knowledge about quality and standards/grades that could greatly increase the value of their products and the profitability of their businesses. For example, neither pit sawyers nor mobile saw millers have any standards/grades for different sizes of timber, grains or knot planks. They deal in timber with little or no added value (non-seasoned and non-treated timber, non-graded, with no phytosanitary certificate). For example, Malawi timber from the Viphya Plantation is bought by foreigners and further processed (adding value) in Kenya, Burundi, and or Tanzania and exported to the Far East.

- ◆ Most SMFEs have limited processing, packaging and storage facilities. While a few informal common interest groups exist among similar SMFEs, most are not organised into formal associations that could gain scale efficiencies, share the costs of new investment and increase their bargaining power. In some cases this could simply be because government rules force SMFEs to apply for licences annually. Membership of any association would therefore be restricted to a year, giving operators little incentive to join and invest in the group. Perversely, the plantation manager of Vipha based at Chikangawa told us that he cannot give SMFEs longer term concessions for timber as long as they are not organised into an association.

## 4.2 Opportunities for SMFEs in Malawi

- ◆ There is now an MSME Policy draft which will have positive implications for the growth of SMFEs. There are also forest sector programmes such as the Improved Forestry Management for Sustainable Livelihoods Programme aimed at supporting the livelihoods of people by helping them use forestry resources sustainably.
- ◆ The Forest Act 1997 sections 45 and 46 does now allow for commercial use of forest produce in forest reserves and customary land. To engage in such commercial activities, SMFEs must do so under licence, with appropriate permits for exportation, importation and re-exportation of forest produce (Section 47). Section 68 sets out the offences relating to possession or trafficking of forest produce. Thus unlike earlier acts which emphasised the conservation of the forest resources alone, the 1997 Act provides a conducive policy environment for the utilisation of the resources, thereby contributing to the growth of the SMFEs. The Decentralisation Act also offers an opportunity for individuals to manage resources (including forests) within their locality with accountability and transparency to the district assemblies.
- ◆ There is a thriving SMFE sector in Malawi, which supplies a number of well defined markets. Even if some of these value chains are informal, their existence proves the entrepreneurial capacity of large numbers of forest dependent people – and this is a good foundation on which to work towards poverty reduction. The great advantage of the forest sector is that, if governed well, it offers the opportunity for enterprise development based on renewable natural resources that are sustainable over time.
- ◆ There is abundant evidence that given appropriate skills and production systems, access to raw materials and other inputs, people are able to help themselves and raise their standard of living (e.g. the Village Hands factory). If a support programme for SMFEs was well designed, it is likely that it would attract a significant amount of goodwill from donors as they contribute to government development initiatives such as the MGDS and the UN MDGs.

- ◆ With the necessary support, formal SMFEs have shown that they can meet the challenges of large-scale operation and penetrate international markets. PEZ General Dealers, a mobile operator, started as a pit sawyer in late 1997 and now boasts 93 employees, 6 tractors and 2 chainsaws with his own outlet in Lilongwe at Biwi Triangle. He has voluntarily planted up to 30 hectares of trees without incentive, as a token of thanks and a way of giving something back.
- ◆ Partnerships between big business and SMFEs could be an important way forward, but there are currently few well-organised producer associations with whom such partnerships might develop. Nevertheless, there are now good foundations upon which to develop thriving enterprise associations under the Cooperative Development Policy. There is need for a concerted effort by the government and NGOs to catalyse and develop the capacity of such associations.

# Conclusions and policy implications

## 5.1 Conclusions

- ◆ SMFEs currently offer substantial and diverse opportunities for the poor to improve their livelihoods by generating income from some of the only resources available to them.
- ◆ A majority of the SMFEs use crude or outdated technology for producing their products, e.g. wood carvers are restricted to wood chisels and knives; pit sawyers use axes to fell trees and hand saws to process wood instead of chainsaws and electric-powered machinery for processing.
- ◆ SMFEs lack access to credit and generally rely on their own finances for growth. Examples of this can be found in almost all the subsectors surveyed, including pit sawyers, mobile saw millers, cane furniture producers and manufacturers of woodcarvings. Only in the juice sector have external grants been an important financial resource.
- ◆ There are few formal and powerful producer associations within Malawi to improve scale efficiencies, share the costs of investment in new technology and improve bargaining power.
- ◆ There are no agreed grades and standards for different products even where there are informal or formal producer associations. As such they sell their produce at low prices, with people further down the chain adding value by establishing grades and standards. At the same time, there is also lack of value-adding activities on some products such as timber, which is sold without seasoning or drying, apart from air-drying.
- ◆ There is widespread uncertainty in both timber and NTFP enterprises over the security of access to resources. Much of the harvesting of natural resources happens illegally, with bribery to allow transport to the points of sale commonplace. Even in the semi-formalised timber industry, SMFEs such as pit sawyers and mobile saw millers have to apply for a licence every year. That uncertainty can discourage sawyers from investing more in the business or financial institutions from offering credit.
- ◆ SMFEs currently have little potential to tap the export market. Timber export markets are dominated by foreigners and in some cases Malawians are denied access to the markets, as is the case with wood carving exporters in South Africa.

## 5.2 Policy implications

- ◆ There is a general need for sensitisation of policy- and decision-makers to the potential of specific SMFE value chains to contribute to economic development. They deserve credit, training in business management, skills development and help to organise themselves into associations. Government strategies should clearly articulate the role of SMFEs so that other policies and programmes support the sector without compromising on the management of the resources. Moreover, the forestry sector should be on the government's list of priorities.
- ◆ There is a need to demonstrate to all parties, especially to potential investors, the SMFE sector's potential for growth and development.
- ◆ Various government institutions aimed at developing SMEs should be sensitised such that they begin to target forest enterprises in their programmes. These institutions include DEMAT, MARDEF, SEDOM, MEDI, MIRTDC, OVOP, and the Ministry of Trade and Private Sector Development.
- ◆ People must be convinced that producers of forest products can act sustainably and do not destroy the environment.
- ◆ The Department of Forestry should come up with a way of assuring sawyers of their access to the resource and ensure a greater awareness of licensing requirements for legal extraction of other forest resources.
- ◆ Better security of resource access for SMFEs should form a central part of a drive to increase their access to finance. Financial mechanisms should be developed that meet SMFE credit needs. This might include developing group lending schemes or encouraging institutions to provide micro-credit facilities to SMFEs so that they can grow. The government should consider facilitating credit guarantee schemes and creating a credit reference bureau to assist SMFEs to access loans from non-government finance institutions.
- ◆ In order to strengthen the capacity of SMFEs, there is a need to strengthen associations. This can be achieved through training, establishing full-time secretariats and helping the associations come up with innovative ways of assisting their members. Several groups can be combined to achieve economies of scale.
- ◆ The Department of Forestry needs to take on a much more proactive role in supporting forest businesses, rather than just monitoring and controlling forest use. For example, the Department of Forestry could develop standards and grades for different timber and wood products in terms of treatment (air dried or kiln dried), knots, grains, colour and size.
- ◆ Local and international NGOs have an important role to play in developing and strengthening the capacities of SMFEs. There is room for closer collaboration between the government and these NGO partners.

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## Small and medium forestry enterprises for poverty reduction and sustainability

Most international attention in forestry has been given to improving the conditions for large-scale or micro-scale forestry, and much less to the 'messy middle', which produces a high proportion of forest products and involves huge numbers of people. Ways need to be found by which small and medium forestry enterprises (SMFEs) can better contribute to sustainability and reduce poverty. IIED, with partners in Africa, Asia, Latin America and the Caribbean, has been investigating these issues. Country diagnostics show that the SMFE sector is of major significance for livelihoods; the net effect of myriad small players represents a substantial part of local economies. Yet these are largely invisible economies, and policy and programme developments almost completely ignore the SMFE sector. Raising the sector's visibility such that its impacts can be better assessed, and then going on to explore how the positive links to sustainability, livelihoods and poverty reduction can be enhanced, is a major challenge to which this initiative seeks to rise. The following reports in the *Small and medium forestry enterprises* series are available from IIED on request, and downloadable from [www.iied.org](http://www.iied.org):

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Malawi's population is mostly rural, and over half the country's population fall below the poverty line. Rural income generation is therefore a high priority. Beyond agriculture, small and medium forest enterprises (SMFEs) are among the only options for villages to improve their prospects. In recognition of this, the new Malawi Growth and Development Strategy places the forest sector under its first theme of 'sustainable economic growth'. Forest legislation echoes this ambition, allowing villages to make commercial use of village forest areas to achieve the government's commitment to alleviate poverty. But how do such policy intentions on paper translate into field reality?

This study surveys a thriving, albeit largely informal, SMFE sector in Malawi. It looks in detail at four promising subsectors: timber, cane furniture, tree fruit juices and woodcarving. This adds to, but does not investigate further, the vast SMFE fuelwood and charcoal trade, Malawi's third largest industry, which was the subject of a previous report in this series. It describes the challenges of growing pressure on the forest resource, weak capacity in government services, and disorganised small enterprises. But it also highlights some opportunities, simple steps that could make government forest services more SMFE friendly, and ways of organising SMFEs to better meet market demand while sustaining the resource.



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