

## Optimizing Forest Revenue Generation in Malawi: A comparative analysis of forest plantation fees, prices, and Policy options

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### Key Messages

- Low forest fees and prices that undervalue forests provide little incentive for sustainable management and efficient utilization of forest resources in Malawi.
- The concession fees, licensing fees, and prices of forest produce in Malawi are notably 5 to 20 times lower than those in other countries in the sub-Saharan Africa region.
- There is an urgent call to revise the 2010 Gazetted Forestry Fees and Royalties.
- The government should consider including an automatic inflation adjustment procedure in the amended fees since the forest plantation fees and prices are fixed in legislation that cannot be easily changed.
- The government should also take into consideration the following factors when revising the forest plantation fees structure: exchange rate devaluation, changing bio-physical, proximity to infrastructure, consumer price indices, GDP price deflators, international forestry product commodity prices, and wholesale or industrial price indices.

### 1. Introduction

Forest plantations play a critical role in the socio-economic development of most developing countries, including Malawi. Specifically, these plantations contribute significantly to the sustainable livelihoods of communities in proximity to the plantations through income generation and employment opportunities. In Malawi, forest plantations were established to meet the growing concerns of the increasing demand for timber, poles and firewood. The forest plantations have also been instrumental in revenue generation for the government. The Department of Forestry (DoF)

derives its revenue from sales of logs and firewood, royalties, license fees and many others.

Currently, the development and growth of the plantation forestry sector are still lagging due to corruption, lack of adequate resources to develop the plantations, forest fires, weak law enforcement and governance, lack of monitoring framework, lack of quality seeds due to limited research and development, poor relationship with communities surrounding forest plantations, lack of solid forest information and data management system, and lack of proper forest infrastructure among others.

The revenue that the government generates also depends on the country's forest pricing policy, which involves forest taxation, royalties, and charges. Low forest fees and prices that undervalue forests provide little incentive for sustainable management and efficient utilization of forest resources in the country. The current structure of the Malawi forest plantation fees and prices, compared to those from the sub-Saharan Africa (SSA) region, underestimate the forests' value and contribution to GDP. The present study attempted to provide empirical evidence to decision-makers on how the current structure of forest plantation fees and prices compares with those obtaining in some selected SSA countries. It uses data and reports collected from relevant government authorities as well as secondary data from Tanzania, Zambia, Rwanda and Kenya.

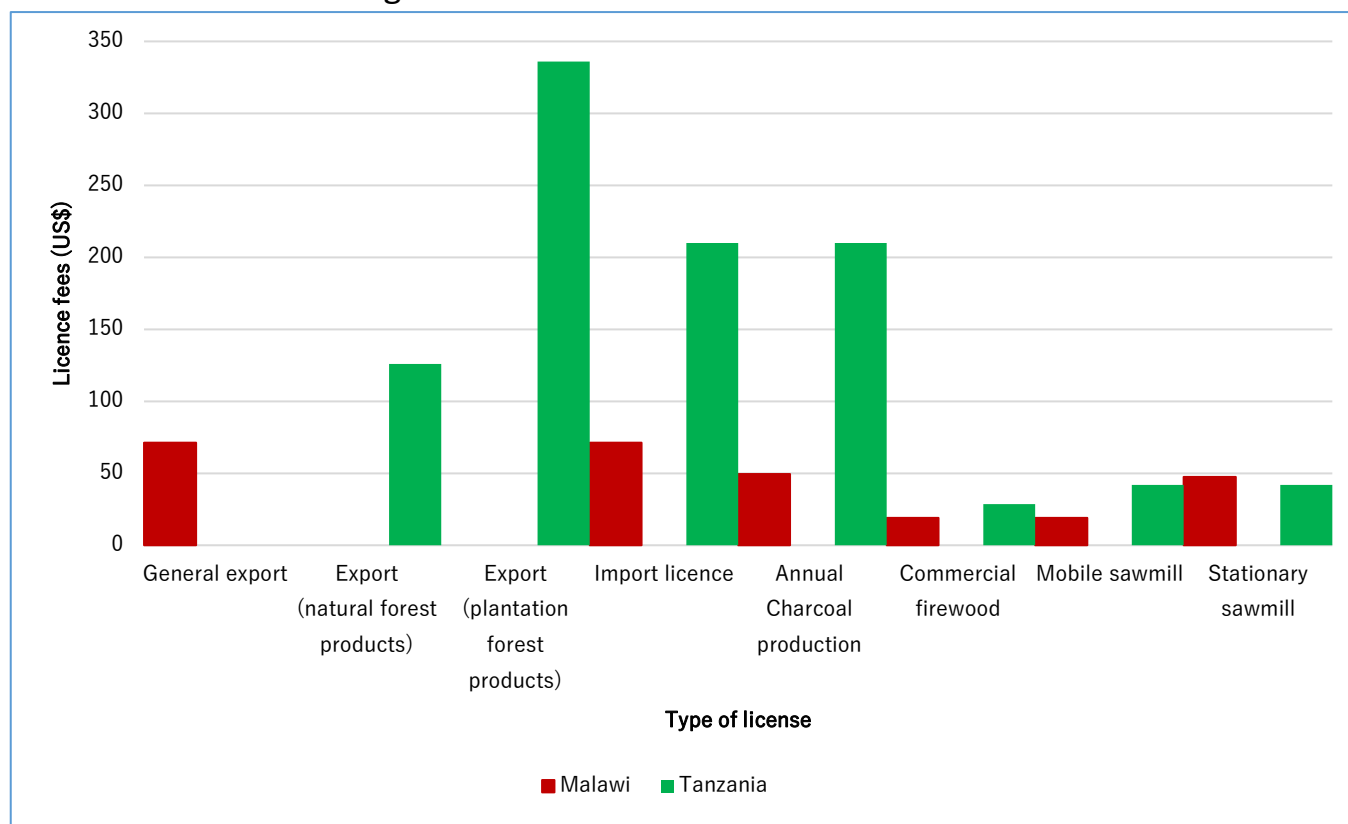
## **2. Comparing Forest plantation fees and pricing of Malawi and selected SSA countries**

**Concession fees are low:** Results on forest concessions show that forest concession licenses in different countries (Kenya, Zambia, and Tanzania) are issued to individuals, companies, or cooperatives, which are broadly categorized into various categories according to their level of operations or production capacities (small-scale, medium, and large-scale). These concession fees

are found in the legal instruments unlike in Malawi (the forest fees schedule does not indicate the concession fees by category). Further, the analysis of plantation fees and pricing structure for these countries has revealed some differences in the concession fees and licenses. In Malawi and Rwanda (concession fees vary from rural to urban areas, infrastructure, soil conditions, etc.), concessionaires pay concession fees per plantable ha per year at \$10 and \$4 to \$17, respectively.

**Licensing fees are low:** Figures 1 and 2 illustrate licensing fees and prices of various forest produce in Malawi compared to those of the SSA region. In terms of licensing fees, the results show that Malawi generally has low licensing fees compared to other selected SSA countries (Figure 1). Some license fees, such as charcoal licenses, conveyance permits, import and export licenses, and phytosanitary certificates, have significantly lower fees in Malawi. For instance, Malawi's commercial firewood license, export licenses, phytosanitary certificates, and charcoal production licenses are over five times less than those charged by Tanzania and Kenya. This could be due to how license fees are structured in other countries. For example, Tanzania export and import permits are based on the type of the product exported and the consignment type and may include inspection and permit fees. Conveyance fees in other countries are based on the volume or size of the vehicle, unlike Malawi, where fees are per consignment.

**Figure 1: License fees in Malawi and Tanzania**



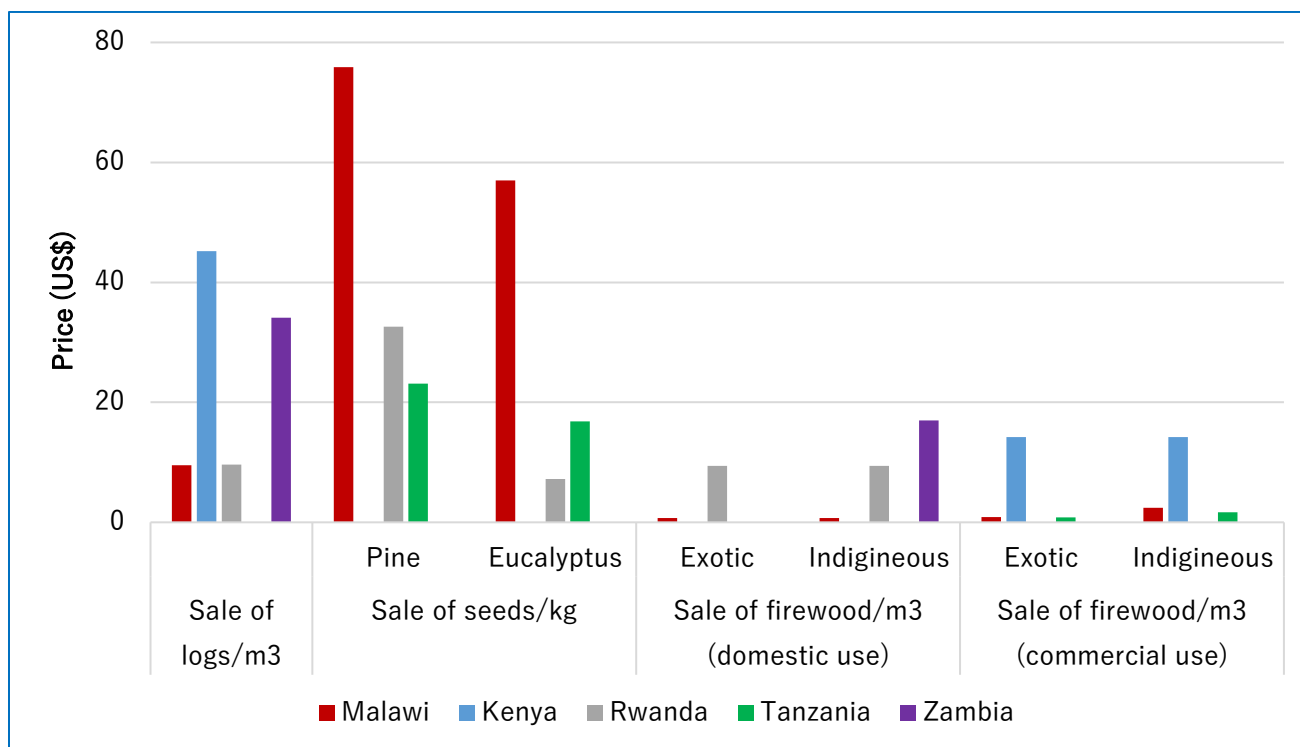
**Prices and charges on forest products are low:**

The prices of forest products in Malawi also differ from those in other selected SSA countries. For example, the price of pine per cubic metre (m<sup>3</sup>) in Zambia and Kenya is four to five times higher than that in Malawi. The prices for firewood in Malawi (both for domestic and commercial use) are lower by more than 10 to 20 times than in Zambia and Kenya. The pricing structures of the pine logs in Kenya are based on the diameter at breast height (DBH), while in Tanzania, charges on poles are based on running meters of poles if the DBH is more than 15cm.

**3. Factors to be considered in revising plantation structure fees**

The current plantation fees for Malawi were last revised in 2010 (Forestry Amendment Rules, 2010). Since then, there have been some developments that will necessitate revision of these fees. Below are some of the factors that some other countries within the SSA region have considered in adjusting their forest plantation fees and charges that Malawi should consider.

**Figure 2: Prices of forest products in selected countries**



***Inflation***

Malawi has devalued its exchange rate three times (2012, 2022 and 2023) and floated it the same since the fees were affected in 2010. When the Forestry Act was amended in 2010, the Dollar-Kwacha exchange rate was US\$1 to MK150. The rate is currently ten times more than it was in 2010. Malawi, an import-dependent nation, implies that the currency devaluation increases the cost of operations for managing the plantations. Devaluation increases operational costs due to the import-dependent nature of the country, affecting equipment, chemicals, fertilizers, and labor costs.

***Forest/Area conditions***

The bio-physical conditions of the plantation area, such as slope, should also be considered when

charging concession fees and revising the plantation fees and licenses. Steep areas make logging and firefighting difficult, requiring more labor and thus increasing operational costs.

***Proximity to Infrastructure***

Plantation fees should vary based on proximity to infrastructure like roads, electricity, and urban areas. Proximity to roads facilitates transportation and market access, while proximity to electricity allows for easier establishment of manufacturing/processing plants. The forest fees should reflect the advantages or disadvantages of proximity to crucial infrastructures.

***Other factors***

Gray (2002) suggested that the adjustment of forest fees should also be based on the following

parameters: consumer price indices, GDP price deflators, a survey of forest products, international forestry product commodity prices, and wholesale or industrial price indices.

#### 4. Conclusions

The forest plantations in Malawi have proven to be vital for socio-economic development, providing income and employment opportunities for local communities. The forest sector generates revenue for the government through various channels, such as log and firewood sales, royalties, and license fees. However, the sector faces numerous challenges that hinder its growth, including a lack of resources, forest fires, weak governance and regulatory issues. Addressing these issues and revising the fee structure has the potential to not only enhance the sustainability of the plantation forestry sector in Malawi but also contribute significantly to the country's overall economic development.

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Available at [www.mwapata.mw/working-papers](http://www.mwapata.mw/working-papers)

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