



# Forest Livelihood Briefs

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## DEVELOPING COMMUNITY-BASED FOREST ENTERPRISES IN NEPAL



Photo from TFPPPL, Ramechhap

Women CBFE members making Bael fruit juice.

### Summary

Developing community-based forest enterprises (CBFEs) is an ideal development intervention in poor forest communities as they have the potential to generate income and employment for the poor while supporting sustainable management of forest resources. This potential is limited by various constraints, many of which are unique to forest-based enterprises. In Nepal, there has been an increase in interest and efforts to develop forest-based enterprises following the institutionalization of various community-based forest management programmes; unfortunately, these initiatives are being impeded by several different factors. This policy brief summarises the important constraints affecting CBFEs in Nepal based from a study involving 28 different types of CBFEs. It identifies key areas for intervention and suggests specific developmental and regulatory interventions for the government and other key organisations involved in promoting CBFEs.

### CBFE development in Nepal

The potential for the establishment of forest-based enterprises in Nepal increased with the enactment of Nepal's Forest Act of 1993 and its Forest Rules of 1995 which institutionalized community-based forest management (CBFM) as the national platform for forest management. The institutionalisation of CBFM through various programmes is a positive step towards forest-enterprise development, as the programmes resulted in clearer forest access rights and assisted the organisation of forest product producers, commonly known as forest user groups (FUGs). As of July 2007 there were some 15,000 organized community FUGs, and increasing. With their improved access rights to forest resources, forest users in Nepal are increasingly involved in the commercialization of forest products through forest-based enterprises, which are referred to here as community-based forest enterprises (CBFEs). Like any starting industry, however, the CBFEs face various constraints. We identified these constraints to CBFE development by examining three enterprise development processes and objectives: establishment and formalisation of business organisations, increasing production of and value-addition to forest products, and achieving profitability and improved sustainability of business enterprises. This presentation of constraints aims to guide support targeted to FUGs in general, specific forest products and their value chain, and particular business operations, respectively.

### Constraints to business start-up and formalisation

*Limited scale.* A primary constraint to FUGs is their limited scale – in terms of membership and financial capital, and land area. Their limited scale can be further attributed to the design of the CBFM programmes. For instance, the Leasehold Forestry Programme targets the poorest who depends on small and often infertile parcels of land and who obviously would have limited money to contribute to the total business capital. Moreover, the number

of members in a Leasehold FUG often ranges from only 7-10 households— a number manageable for services provision but hardly viable to form a profitable business organisation.

*Informal, having no legal business status.* To overcome their limited scale, most FUGs formed inter-groups and networks. But despite forming larger groups, networks still have limited ability to make business transactions as a group especially with formal organisations such as banks and exporters because they do not have a legal group identity. To gain legal status, FUGs or their networks must be registered as cooperatives or companies but again this requires capital which many poor FUG members do not readily have.

## Constraints to increasing production and value-addition

Increasing the volume of production or the value that FUGs get out of their forest products is not easy for various reasons.

*Restrictive regulations:* There are bans on harvesting and/or commercializing several NTFPs. For instance, the sale of some tree-based NTFPs such as the leaves of Yew *Taxus baccata* and herb-based NTFPs such as the roots of Spikenard in their raw form is illegal.

*Limited cultivation technology:* Many forest products are sold in their raw form revealing the lack of cultivation technology for many forest products especially products collected from the wild.

*Poor harvesting practices and overharvesting:* Collected forest products such as Daphne, Shorea leaves, Rhodendron, and

Myrica, are often subjected to poor harvesting practices and overharvesting. In many cases, these are triggered by incursion of outside collectors.

*Royalties and taxation:* Production is also constrained by royalties and taxation regimes, especially by District Development Councils (DDCs) and District Forest Offices (DFOs). DDCs impose tax at a rate of 10% of the royalty earned by the DFO. Furthermore, an extra tax (NRs 1–3/kg, depending upon the product) is charged to the traders when the same product goes outside the district. For example, the *Tejpat* (*Cinnamomum tamala*) leaf sells for only NRs 8/kg but the royalty imposed is NRs10/kg. The bark sells for NRs 25/kg but the royalty tax imposed is NRs 20/kg.

*Small and degraded land areas:* For cultivated forest products, aside from limits to land area, cultivation could be limited by the lack of fertile land, especially for Leasehold FUGs whose leased lands are often degraded. Again, this is directly attributed to the policy within the Leasehold Forestry Programme to lease only degraded land.

*Restrictive export requirements:* For some products, value-addition is hindered by costly business requirements for tapping the export market. For example, in order to be able to export Cinnamon and Citronella essential oils to India, enterprises need to have a letter/certificate of origin of the respective product endorsed by the Federation of Nepalese Chambers of Commerce and Industry (FNCCI), which is almost impossible for a small cooperative to obtain. Only companies registered with Department of Industry (DOI) or with the Department of Cottage and Small Industry Office (DCSIO) can

**Table 1.** General constraints to CBFEs achieving enterprise sustainability

Objective/process	Constraints
<b>Income generation</b>	
Business start-up	<ul style="list-style-type: none"> <li>Many FUGs and networks still in the process of registering as formal business enterprises; weak business planning, even in high-investment enterprises run by cooperatives and private companies</li> </ul>
Production arrangements	<ul style="list-style-type: none"> <li>Implementation of rules is still weak in many CFUGs; for LFUGs, land is degraded and less productive; limited cultivation of NTFPs, for various reasons such as the lack of cultivation technology</li> </ul>
Financing	<ul style="list-style-type: none"> <li>Strong dependence on grants; few have accessed (or can access) loans as a source of capital; limited members' contribution to total capital</li> </ul>
Marketing	<ul style="list-style-type: none"> <li>Marketing remains weak, especially for FUGs and networks.</li> </ul>
Management	<ul style="list-style-type: none"> <li>Limited capacity, particularly in negotiating with traders and transacting with banks and other formal organisations needed for CBFEs to expand.</li> </ul>
<b>Income distribution</b>	
	<ul style="list-style-type: none"> <li>Many of the CBFEs do not yet specifically target the poorest; executive committees - the main policy-making body of FUGs - still largely comprises the local elite</li> </ul>
<b>Resource sustainability</b>	
	<ul style="list-style-type: none"> <li>Weak implementation of regulations on overharvesting; many CBFEs are still sourcing forest products from adjacent government forests which are more likely to be prone to depletion</li> </ul>

obtain such a letter from the DOI with the recommendation of FNCCI.

## Constraints to achieving enterprise profitability and sustainability

In the long run, in order for CBFEs to contribute towards poverty alleviation, they need to generate profit, ensure equity in the distribution of income and ensure that the resources are not depleted. The constraints to achieving these goals are presented in Table 1 with more detailed descriptions of constraints in their different areas of business operations (e.g. start-up, financing, marketing, production, etc.).

## Directions for intervention

By addressing the constraints presented above, support for CBFEs in Nepal can be directly targeting the establishment and formalisation of FUGs. (i.e. networking, registration as cooperatives or companies, design of benefit sharing, etc.); improving production of forest products and the share of CFUGs generated from a particular forest industry and value-chain; or improving enterprise capacity in their various business management functions such as finance, marketing, human resource, production.

## Support for business establishment and formalisation

*FUGs:* Given their limited scale, FUGs need to join together to form larger organisations. And because they are not legal business organisations (as defined by existing business laws), they need to be assisted in the process of registering as a cooperative or company.

*Networks:* Support for networks need to target their capacity to manage external grants, particularly record keeping and transparency, not just to satisfy the requirements of their supporting organisations but also to maintain trust among the FUG members. In addition, in their transition to becoming formal business organisations, they need support in designing their organisations to ensure equity among members.

*Cooperatives:* Like FUGs, cooperatives could gain from merging to form larger organisations as this would further improve their cost efficiency and bargaining power. Cooperative unions could be formed based on similar forest products, location, or input needs for the purpose of enhancing enterprise operations.

*Companies:* Given their larger and more specialized operations, support is needed to ensure a reliable supply of quality raw materials. Since companies do not necessarily produce their own raw materials, they need to be linked and make agreements with producers to be able to maintain an adequate volume and quality of raw materials.

## Increasing production and value-addition

Pro-poor enterprise development can also be seen to involve a series of value-addition with the aim to increase the value generated by an industry as well as the CBFEE's share of the total value generated.

*Wild-collected products:* A practical way to increase production of products collected from the wild including those that are banned and restricted is to cultivate them. For products that are yet to be cultivated, however, interventions can



A woman weaving mat using local grass.

Photo by Bishnu Hari Pandit

include promotion of sustainable harvesting practices such as the estimation of a sustainable level of harvesting for a certain forest product in a particular area and the zoning of CFUG land whereby a parcel of the forest is designated for harvesting or production while another is protected.

*Cultivated products:* For cultivated products (e.g. broom grass, lemon grass, cinnamon etc.), production could be increased through the adoption of new cultivation technology (i.e., intensification), or expansion of the area cultivated (i.e., extensification). The former requires investment in research on plant propagation and cultivation while the latter implies changes in the provisions of CBFM programmes towards handing over larger and more fertile blocks of forest land.

*Processed products:* There are various opportunities to improve processing of forest products which may not only mean transforming the product into different forms but could include other value-addition activities such as sorting, drying and other forms of quality control.

## Improving management and entrepreneurial capacity

To improve business operations and profitability of the CBFEs, interventions need to address their various weaknesses and business management needs. Supporting agencies may need to establish a business-development services organisation especially to assist CBFEs with their marketing concerns, including looking into the possibility of branding the products coming from the FUGs, searching for and developing a niche market for the various products, and tapping the export market. A combination of these and other marketing strategies may be pilot tested but will require the assistance of an organisation that specializes in providing these services.

## Specific recommendations

*Policy support:* At the policy level, interventions should be directed at reviewing and rationalizing existing laws affecting CBFEs. Many of these are mentioned earlier such as the harvesting regulations for specific forest products, the rate and arrangement for taxation and collection of royalty fees between the DFOs and DDCs, the requirements in exporting essential oil, as well as various CBFM Programme provisions. CBFM programmes especially the Leasehold Forestry programme should grant more productive and larger areas of forest land.

Follow-up interventions (i.e., expansion and specialization of CBFEs) should now attempt to replicate the efforts to establish CBFEs. Related policies such as on banking to FUGs should also be reviewed particularly to find alternatives to collateral

since FUGs do not own the land handed over to them. These policy reforms should be accompanied by improvement in the policy-making processes, encouraging more participation of other stakeholders such as donors but especially of forest user groups and CBFEs.

*Capacity building for line agencies:* Support for enterprise establishment basically is capacity building for the line agencies mandated to develop and regulate the CBFEs: these are the DFOs and DLSOs, DCO, and DSCIO and Dol. DFOs should be supported in their capacity to process applications for Community Forestry or Leasehold Forestry and to ensure that the FUGs make and follow their community management plans (i.e., monitoring). The same applies to the rest of the line agencies. More importantly, the role of these line agencies should be clarified and defined with regard to CBFEs. For example, the authority that DFOs have over FUGs should be clarified when the FUGs are registered under the DCO or DSCIO, so as to avoid confusion among these agencies or duplication/omission of support to CBFEs.

*Donor support:* In addition to influencing key forest policies and the CBFM programme provisions for the poor, donors could encourage the institutionalisation of a constant dialogue among the stakeholders to promote pro-poor-focussed CBFEs. Donors could also contribute to building the capacity of service providers including government line agencies, non-governmental organisations and private business service provider organisations. They could support the establishment of for-profit marketing organisations that will specialize in marketing forest products, not just to Kathmandu but, especially, outside the country. As more CBFEs are established, donors could also collaborate with government agencies to provide the necessary support such as a venue for training and shared learning among organisations promoting CBFEs.

*CBFEs federation and greater involvement in policy-making:* CBFEs should influence policy-makers and government line agencies to act for their favour. They could do this by strengthening (i.e., increasing membership, improving cooperation) their existing umbrella organisations (e.g. Federation of Community Forest Users Nepal (FECOFUN) and Nepal Federation of Forest Resources User Groups (NEFUG). They could seek better representation in forestry policy-making processes and thus be able to lobby for further reforms that are more favourable to them.

## Endnotes

This brief was prepared by Adrian Albano, Bishnu Hari Pandit, Chetan Kumar and Brian Belcher. Thanks to Bruce Campbell for guidance and Alois Mandondo and Karah Wertz for their comments and suggestions.



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