Small-scale forest enterprise development in Nepal

Overview, issues and challenges
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## Acronyms and abbreviations

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<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>AAH/AAC</td>
<td>Annual Allowable Harvest/Annual Allowable Cut</td>
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<tr>
<td>AFE</td>
<td>Agriculture and Forest Enterprise</td>
</tr>
<tr>
<td>ANSAB</td>
<td>Asia Network for Sustainable Agriculture and Bioresources</td>
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<tr>
<td>BaFIA</td>
<td>Bank and Financial Institutions Act</td>
</tr>
<tr>
<td>CF</td>
<td>Community Forestry</td>
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<td>CFE</td>
<td>Community-based Forest Enterprise</td>
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<td>CFUG</td>
<td>Community Forest User Group</td>
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<tr>
<td>DAG</td>
<td>Disadvantaged Group</td>
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<tr>
<td>DCSI</td>
<td>Department of Cottage and Small Industries</td>
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<tr>
<td>DFO</td>
<td>Division/District Forest Office/Officer</td>
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<tr>
<td>DoI</td>
<td>Department of Industry</td>
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<tr>
<td>FAO</td>
<td>Food and Agriculture Organization of the United Nations</td>
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<tr>
<td>FECOFUN</td>
<td>Federation of Community Forest Users Nepal</td>
</tr>
<tr>
<td>FenFIT</td>
<td>Federation of Forest based Industry and Trade</td>
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<tr>
<td>FUG</td>
<td>Forest User Group</td>
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<tr>
<td>FY</td>
<td>Fiscal Year</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<tr>
<td>GoN</td>
<td>Government of Nepal</td>
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<tr>
<td>ha</td>
<td>Hectare</td>
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<tr>
<td>HBTL</td>
<td>Himalayan Bio-Trade Private Limited</td>
</tr>
<tr>
<td>I/NGO</td>
<td>International/Non-Governmental Organization</td>
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<tr>
<td>kg</td>
<td>Kilogram</td>
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<tr>
<td>MAP</td>
<td>Medicinal and Aromatic Plant</td>
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<tr>
<td>ml</td>
<td>Millilitre</td>
</tr>
<tr>
<td>MoFE</td>
<td>Ministry of Forests and Environment</td>
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<tr>
<td>MoFSC</td>
<td>Ministry of Forests and Soil Conservation</td>
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<tr>
<td>MSFP</td>
<td>Multi Stakeholder Forestry Programme</td>
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<tr>
<td>NEHHPA</td>
<td>Nepal Herbs and Herbal Products Association</td>
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<td>NPC</td>
<td>Nepal Planning Commission</td>
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<td>NPR</td>
<td>Nepali Rupees</td>
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<td>NSCFP</td>
<td>Nepal Swiss Community Forestry Project</td>
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<td>NWFP</td>
<td>Non-wood Forest Products</td>
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<td>OP</td>
<td>Operational Plan</td>
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<tr>
<td>OWL</td>
<td>Other Wooded Land</td>
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<tr>
<td>PLI</td>
<td>Political, Legal and Institutional</td>
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<tr>
<td>SDC</td>
<td>Swiss Agency for Development and Cooperation</td>
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<tr>
<td>Abbreviation</td>
<td>Full Form</td>
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<td>--------------</td>
<td>------------------------------------------</td>
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<tr>
<td>SFM</td>
<td>Sustainable Forest Management</td>
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<tr>
<td>SSFE</td>
<td>Small-scale Forest Enterprise</td>
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<tr>
<td>STC</td>
<td>Swiss Technical Cooperation</td>
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<tr>
<td>SWOT</td>
<td>Strength, Weakness, Opportunity, Threat</td>
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<tr>
<td>VDC</td>
<td>Village Development Committee</td>
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This publication is part of FAO’s work on forestry with focus on small-scale forest enterprise development and poverty reduction. This work was developed under FAO’s Strategic Programme on Reducing Rural Poverty.

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Executive summary

This publication is part of a regional assessment commissioned by the Food and Agriculture Organization of the United Nations (FAO) in Asia on small scale forest enterprise (SSFE). The focus on Nepal is of utmost importance as this country is one of the poorest in the region. More than 70 percent of its population rely on subsistence farming with a heavy dependence on forest goods and services for their livelihoods. This scoping study maps out the prospects and challenges of SSFEs in Nepal and formulates recommendations for their future development.

Following the introduction of community forestry in the 1980s, Nepal’s forest cover gradually improved from 39.6 percent in early 1990 to 44.7 percent by the end of 2015. Concurrently, community forest user groups have spread across the country with over 20,000 user groups involved in forest management and in SSFEs. Private entrepreneurs have also invested in this area. At present, a total of 14,708 SSFEs in Nepal employing 85,000 individuals annually are contributing to the local and national economies.

The growth of SSFEs in Nepal can be attributed to five primary factors. First, the introduction of community forestry has contributed to halting deforestation and forest degradation. Second, the community forest institutions that emerged across the country were instrumental in the establishment of SSFEs and in the promotion of sustainable forest management. Third, the market for forest products and services has increased, providing incentives to rural communities and individuals to venture into SSFEs. Fourth, the substantial support provided to forestry projects by the Government of Nepal (GoN) and external agencies has encouraged the development of SSFEs across the country. Fifth, and most importantly, the GoN recognized forest-based enterprises as one of the means to address poverty, and has gradually created a more enabling political and institutional environment for SSFEs.

This study looks into details at three representative cases of SSFEs to better understand their organization, management, resource governance, production, harvesting, technologies used, financing, and benefit sharing schemes. These cases show that the SSFEs governance frameworks in Nepal are still evolving, particularly in the case of those managed by groups. In addition, although most SSFEs in Nepal are struggling to generate a profit, they are sensitive to ensuring equitable benefit sharing, especially for the poor, women and other marginalized and forest-dependent groups.

The study formulates the following recommendations for the successful development of SSFEs in Nepal:

• provide enabling policy and institutional arrangements to boost the productivity and effectiveness of SSFEs by facilitating their partnership with the private sector and their access to funding, technology and markets;
empower SSFEs, entrepreneurs and forest managers by developing capacity in appropriate technical and managerial skills and by facilitating their access to business development services such as for market information, legal advice on business development, information on product quality standards, and product marketing and branding; and

foster a conducive business environment that promotes SSFE development, reduces the administrative burden, offers economic incentives and encourages investment.
1 Introduction

Nepal embarked on a journey toward entrusting forest rights to local communities in the 1970s. Historically, forest rights were largely vested in the state. Most uses of forested land and products were subject to stringent and direct regulation by government forest agencies. As a result of political, legal, regulatory and institutional reforms, however, Community Forest User Groups (CFUGs) have been granted a significant range of forest use and management rights. Today, Nepal’s community forestry (CF) is widely regarded as an archetypal model for halting deforestation and forest degradation. In particular, the role of CF in legal advocacy, capacity building and the institutionalization of democratic governance and norms more broadly cannot be denied. In addition, CFUGs are using their new proprietary rights to create or attract a variety of forest-based enterprises, including for timber processing, tourism and processing and marketing of non-timber forest products.

Past experience and a number of studies show that communities can develop and manage profitable small-scale forest enterprises based on sustainable forest management (SFM), provided the right conditions and incentives are in place. For the purposes of this study, the term ‘small-scale forest enterprise’ (SSFE) encompasses community-based forest enterprises (CFEs), individuals and forest smallholders involved in the production, processing and commercialization of forest products (e.g. timber, non-wood forest products). Community forestry appears to have the potential to deliver significant economic benefits for local communities, contributing to livelihoods, food security and overall rural development. This potential, however, has yet to be fully realized and significant obstacles to this transition still exist.

In this context, the Food and Agriculture Organization of the United Nations (FAO) commissions studies to take global stock of national and regional initiatives promoting the commercialization of forest products through SSFEs. Thus far, FAO has conducted stocktaking studies in Latin America and the Caribbean and in Africa. This study represents one of a number of stocktaking activities conducted in Asia on SSFEs.

This study aims to shed light on the number of SSFEs operating in Nepal, the overall investment environment as it pertains to SSFEs, their scale(s) of operation and scope in the context of national change. More specifically, the study aims to achieve the following objectives:

• improve understanding of the commercialization of timber and other forest products by SSFEs in Nepal and the primary related factors enabling or impeding this;
• improve understanding of the existence, characteristics and lessons learnt by initiatives promoting commercial use of timber and other forest products by SSFEs in Nepal; and
• recommend measures for a sustainable management system/approach for SSFEs that contributes to improving livelihoods for Nepal’s local communities.
Following the introductory section outlining the context and rationale for conducting this study, Section Two provides an overview of SSFEs, including a brief history of the evolution of CF in Nepal. It also provides a concise, comprehensive analysis of SSFE development, status and trends, including the political, legal and institutional (PLI) environment governing SSFEs in Nepal and the prospects for SSFE development. Section Three outlines the methodology adopted for this study. Three cases are discussed at length in Section Four, while Section Five discusses key issues and challenges facing SSFEs, along with a SWOT (Strength, Weakness, Opportunity, Threat) analysis. Section Six provides concluding remarks and recommendations.
2 An overview of small-scale forest enterprises in Nepal

This section presents different modalities of SSFEs currently operating in Nepal, their status and the governing PLI frameworks.

2.1. EVOLUTION OF COMMUNITY FORESTRY IN NEPAL

The history of forest management in Nepal is characterized by a gradual progression towards diverse types of community-based modalities. Until the mid-1970s Nepal’s forest management was characterized by systems that helped to reinforce the power of the state over forest resources. State ownership and control of all forest resources alienated local people from forests and increased mistrust between state agencies and the public at large. As a result, deforestation accelerated throughout the country, primarily in Nepal’s southern lowlands, known as the Terai.

The late 1970s marked the beginning of an era of decentralization and community-based forest management (CBFM) in Nepal. The introduction of the National Forestry Plan in 1976 introduced the idea of ‘handing over’ management responsibility for forest patches to local governments (called Panchayat) in the name of ‘Panchayat Forests’ and ‘Panchayat Protected Forests’ (Fox, 1993). The rationale behind this decentralization was to halt accelerating deforestation and forest degradation and improve access to forest resources by local communities. The emergence of participatory discourses and increased international pressure for the devolution of state authority led to the enactment of the Decentralization Act (1982). This further empowered the Panchayat to manage local resources, including forests (Regmi, 1984). The introduction of these new forest policies attracted many donors to the forestry sector (Hobley, 1996). The initial enthusiasm for the Panchayat Forests and Panchayat Protected Forests was short-lived, however. These experiences helped to convince early CF leaders to advocate for the transfer of rights directly to local communities. Established champions of participatory approaches advocated for further devolution of forest management to the community level. Many people within the bureaucracy were also seeking an innovative approach to improve forest protection. In the meantime, the first national CF workshop was organized in 1987. Its objectives were to reflect on ongoing processes and experiences to devise a new policy framework, as well as policies and operational strategies to support community-based forest management. Those voices advocating for further devolution dominated the workshop (Shrestha and Britt, 1998). Following this, the Master Plan for the Forestry Sector was enacted in 1989.
Furthermore, the tenure reform process gained momentum following political upheaval in the 1990s, resulting in the overthrow of the Panchayat system and the establishment of a multiparty parliamentary system. The elected leaders strongly supported the devolution agenda and introduced strong legal foundations for forest management. Consequently, the Parliament passed the 1993 Forest Act that formalized and legalized diverse forms of decentralized and community-based forest management modalities in the country. The Act recognized CFUGs as self-governing, independent, autonomous, perpetual and corporate institutions, meaning they could acquire, possess, transfer or otherwise manage movable or immovable property (HMG/MoLJ 1993: Article 43). Under the Act, the District Forest Office (hereinafter referred to as the Division Forest Office (DFO) after state restructuring under federalism) has the power to hand over responsibility for forest management to identified user groups ‘who are willing and capable of managing any part of national forests’ (HMG/MoLJ 1993). The Act was later operationalized by the 1995 Forest Regulations and Operational Guidelines. In addition to these legal instruments, CF policies and practices in Nepal are also shaped by regular National CF Workshops (1987, 1993, 1998, 2004, 2008, 2014), the Government of Nepal’s (GoN) five-year development plans and donor agency strategies.

Since the enactment of the Forest Act (1993), the GoN has gradually transferred management responsibility for portions of national forest – particularly in the mid-hills – to local communities, based on an agreed operational plan (OP). According to DoF (2017), a total of 1 813 478 hectares (ha) of national forest have now been handed over as community forests. The scale of involvement by people and communities in CF is also significant: about 1 450 000 households (19 361 CFUGs or 35 percent of the population of Nepal) are involved in the CF management program (DoF 2017). The scope of CF activities in Nepal has increased substantially from its early focus on forest protection and subsistence use to a more integrated approach accommodating wider socio-economic objectives, including leadership development at the local level (FAO, 2011; NPC, 2017). Given the large scale of CF operations in Nepal, their influence and impact on improving forest conditions and rural livelihoods through the provision of forest products and establishment of SSFEs is perhaps not surprising.

The contribution of forest-based enterprises to Nepal’s 2008 Gross Domestic Product (GDP) was estimated to be above 2.5 percent, while the overall contribution of the forest sector was around 4.3 percent (FAO, 2011). This relative contribution could be in slight decline at present due to the growth in Nepal’s remittance and service sector. Studies have shown that CF contributes to the objectives of a diverse range of sectors beyond forest management (Kanel and Niraula, 2004; Pokharel et al., 2007; MoFSC, 2013; Nightingale and Sharma, 2014). Small-scale forest enterprises, particularly CFEs, have traditionally served as a means of sustaining rural livelihoods in Nepal. A wide body of literature shows that engagement in business enterprises by CFs generates benefits to locals and their communities. These enterprises are considered integral to fostering household economic growth (Subedi et al., 2002; Thapa, 2007; Bajracharya et al., 2012; Pandit et al., 2009; Acharya and Acharya, 2007; Rasul et al., 2012) while also improving
social equity, community development and conserving natural resources (Subedi et al., 2002; Timsina, 2005; Sharma et al., 2016). As a result, there is increasing recognition of SSFEs’ potential to contribute to income and employment opportunities for poor and disadvantaged groups and facilitate the country’s economic development. A number of factors have contributed to this, including: the regeneration of forest areas, greater willingness by local forest managers to experiment and the existence of policies promoting income generation from forest products.

Based on the new Constitution of Nepal promulgated in September 2015, the forests are managed at four levels: Federal, Province, Local governments and diverse types of forest user groups. Article 51 of the Constitution of Nepal (2015) elaborates the policies of the State. Key policies that entail and broach the forest governance aim at:

i. conserving, promoting, and making sustainable use of forests, wildlife, birds, vegetation and biodiversity by mitigating risks to environment from industrial and physical development;

ii. maintaining forest area for ecological balance;

iii. adopting appropriate measures to abolish or mitigate existing or possible adverse environmental impacts on the nature, environment or biological diversity; and

iv. pursuing the principles of environmentally sustainable development.

Pursuant to Article 57 of the Constitution, schedules 5 to 9 provide the list of exclusive and concurrent power of the federal, state and local governments. In this regard, forest management is included under the federal power, state power and concurrent power of the federation and state as well as all three governments. Since the local government does not hold an exclusive right over forest, the regulatory framework provided by the federal and state legislatures is key for defining its rights. The cabinet clarified further about the rights of different governments in the unbundling report of 2017. Authority of management of ‘national forest’ is primarily vested in the state government which means that the state government can formulate forestry laws for national forests. Both the unbundling report and the Local Government Operation Act 2017 promulgated by the federal parliament give clear mandates to local governments to regulate and facilitate CBFM systems such as community forests, leasehold forests, buffer zone community forests, and collaborative forest management groups. In addition, local government can collect royalty defined by the federal fiscal laws and can levy some charges from timber and non-wood forest products (NWFPs) when traded outside of their jurisdictional areas.

In addition to the arrangements in the Constitution, a number of legal and institutional instruments are currently being prepared to implement the Constitution. The policy debates are numerous but often polarized based on multiple stakeholder interests. The debates are often dominated by political ideologies and sentiments without adequate substantiation by the systematic analyses of the public discourses, legal analysis, and empirical materials. Furthermore, the power sharing arrangement for forest governance amongst the aforesaid four levels is proving to a bone of contention since such an arrangement will have repercussions, not only on which forest will fall under whose jurisdiction. Consequently, this will also impact SSFEs and their functioning. In this
context, public debates and discourses on the agenda, informed with critical research showing the avenues and opportunities to further democratizing forest sector governance within the federal system, are vital.

2.2. FACTORS CONTRIBUTING TO THE EMERGENCE OF SMALL-SCALE FOREST ENTERPRISES IN NEPAL

The literature shows five key factors – resources, market, policy, institutions and external support – have assisted Nepal’s SSFEs to develop and expand. Each is discussed in brief below.

- **Resources:** Seriously degraded during the 1960s and 1970s, the quality and quantity of Nepal’s forests have now substantially improved. The area under forest and other wooded land increased from 39.6 percent (in 1994) to 44.74 percent (in 2015), with a total stem volume of 982 million m³ and an average growing stock of 164.76 m³/ha (DFRS, 2015). As discussed in section 2.1, overall ecosystem services, including biodiversity and carbon storage, have also increased. These improvements can be attributed to: the introduction of CF and CBFM schemes; migration; remittances; shifting livelihoods away from forest use, policy and program initiatives introduced by the GoN and its partners. This explanation is largely consistent with the growth of SSFE since the late 1990s.

- **Markets:** In recent years, the market for a diverse range of forest products and services has increased. Nepal’s timber price (USD $50/cubic foot), for example, is one of the highest in the world and it currently imports timber from Myanmar, Malaysia and Cameroon (THT, 2016). There is growing global demand for medicinal and aromatic plant products. Similarly, around 45 percent of foreign tourists to Nepal visit protected areas, indicating an expanding market for eco-tourism. Four factors have contributed to this growing market for forest products/services: i) Nepal’s location between China and India – two giant and growing economies; ii) growing road networks expanding into hill districts; iii) increasing remittances and a growing middle class; and iv) globalization, enabling export of many medicinal and aromatic plants (MAPs) to Europe and Japan in addition to long-standing markets in China and India.

- **Policy:** Until the early 1990s, Nepal’s forest policies were heavily influenced by its history of deforestation and forest degradation. Emphasis was therefore placed on protection and subsistence use. Later policies gradually encouraged sustainable harvesting, processing and value addition. The government’s Periodic Plans, Poverty Reduction Strategy, 2011 Enterprise Development Policy, 2015 Forest Policy and 2016 Forest Sector Strategy have increasingly emphasized trade, enterprise development and commercial use of forest products. This policy orientation has encouraged SSFEs, both directly and indirectly.

- **Institutions:** CFUGs are Nepal’s most robust institutions. Functioning well even during the violent conflict and prolonged political transition, they have continued to grow from just 29 groups in 1990, to 11 102 in 2000, 17 742 in 2010 and 19 361 in 2017. A similar rise can be observed in other forest user group types.
Cooperatives, for example, have grown to 34,000 over the last 50 years. Following the political change that brought a multiparty parliamentary system to Nepal in 1990, the government adopted an open liberal economy that encouraged the proliferation of private companies, many of which engaged in the forest sector. These institutions provided a solid base upon which to establish and operate SSFEs at the local level. Recently, the government has recognized CFUGs and all organized forest user groups as enterprise units in their own right. Thousands of CFUGs and hundreds of cooperatives are now engaged in SSFE.

- **External support**: Financial and technical support from the government and development partners through various projects has been instrumental in developing and expanding Nepal’s SSFEs. As Lamsal et al. (2017) identified, external donors have adopted five lenses or approaches through which to promote SSFEs: i) sustainable livelihoods; ii) community-based enterprise; iii) integrated enterprise; iv) value chains; and v) market development to relieve poverty. In general, these external agencies assisted local communities by providing training, institutional support, market linkages and information. Many also offered capital investment in machinery and other resources. They noted, however, that most of these approaches were only partially successful. A previous study of 16 cases showed that while more than 17 international agencies have provided support to Nepal’s SSFEs, most were unable to continue operating after external project support ceased. While sustainability is a crucial question, there is no doubt that external support has played the most influential role in stimulating entrepreneurship among forest communities and individuals.

### 2.3. COMMERCIALIZATION OF FOREST-BASED PRODUCTS AND THEIR MARKETS

Nepal is situated between two economic giants – China and India – whose large and growing economies have a direct impact on the functioning and longevity of many Nepalese enterprises, given their demand for Nepalese products. Nepal’s SSFEs produce semi-processed products, which are then exported to China and India for the production of processed goods.

According to the foreign trade statistics published by the Department of Customs of the GoN (DoC, 2015), Nepal imported goods worth NPR 786.2 billion and exported goods totaling NPR 85.2 billion in 2014-2015. Of these, China accounted for 12.63 percent of total imports and 2.42 percent of exports. Similarly, India was responsible for 64.56 percent of total imports and 65.35 percent of total exports. Table 1 depicts the trend of Nepalese trade with China and India between 2011-2015, demonstrating Nepal’s trade dependence on these countries over the years.

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1 Nepalese Rupee (NPR) = 0.0096 USD (approximately).
The trade figures also indicate that Nepal exported forest-based products\(^2\) to China and India amounting for around 3 percent of its total exports in fiscal year (FY) 2014-2015. Moreover, Nepal imported forest-based products from China and India amounting to less than 1 percent of its total imports. These figures indicate that a market exists for Nepalese forest-based products in China and India. Moreover, the figures for the year 2014/15 for these two countries, which show Nepal imported forest-based products worth NPR 435 984 000, also demonstrate the size and scale of this market in Nepal itself. Customer access to these forest-based products has also increased significantly in recent years due to the GoN’s investment in development infrastructure, particularly transportation.

Throughout the years, the GoN has invested heavily in improving road networks throughout the country. Nepal’s core village road network has been expanded to cover a total of 31 904 km, while the core district road network currently stands at 25 728 km (DoLIDAR, 2016). This has not only improved transportation of people, goods and services but has also contributed to increased urbanization throughout the country, the result of which has been a steep rise in demand for, and access to, consumable products. This has been complemented by increased local purchasing power through remittances. As for city dwellers, there has been an observable trend towards healthier lifestyles through the use of natural and/or organic consumable products. Furthermore, the urban trend of visiting different regions in Nepal for short visits or holidays is a positive sign for ecotourism-based SSFEs. The domestic market is continuously expanding. Moreover, the Silk Road Economic Belt and the 21st-century Maritime Silk Road, also known as ‘One Belt, One Road’ proposed by China, has been hailed as a landmark development in increasing connectivity and cooperation among countries of Europe and Asia. Nepal and China have also signed an agreement to promote the initiative jointly, and this will have positive ramifications on the business of SSFEs. If the infrastructure is built under ‘One Belt, One Road’, it is bound to help open up more economic opportunities for Nepal. If the connectivity is maintained with Asia and Europe as per the vision of this new Silk Road, it will open up more doors for business including that of SSFEs. Enhanced connectivity to be brought by this initiative will bring down transport costs for both export and import transactions for Nepal. This,

\(^2\) Please see Appendix 4 for details regarding import and export figures to and from China and India pertaining to forest-based products in the Nepalese context.
combined with changing attitudes and preferences and increased awareness about the uses of natural products, bodes well for the ongoing existence/longevity/strength of SSFEs and their commercial success too.

When considering the prospects for SSFEs in Nepal, it is important to note that forest and other wooded land (OWL) together represent 44.74 percent of the total area of the country, with an average growing stock of 164.76 m$^3$/ha (DFRS, 2015). Of 8856 flowering plants in Nepal, 690 species are recorded as medicinal and aromatic plants (MAPs) (Sharma et al., 2017). The growing stock of forest resources, along with a rich diversity of MAPs, is a positive sign for SSFE operations, as it ensures continued supply of forest resources for production.

2.4. MODALITIES OF SMALL-SCALE FOREST ENTERPRISES

Studies have shown a high degree of variation in the modalities and institutional structures of SSFEs (Subedi et al., 2002; Antinori and Bray, 2005; Koirala et al., 2013). Studies also suggest that there is no single right way to manage SSFEs, as each variant may emerge as a creative response to local problems and conditions (Bray et al., 2006). This holds true in the context of Nepal. SSFEs have been differentiated and categorized by different studies based on product types, ownership structures and forest resources utilized in the production of a variety of products and services.

As mentioned in previous sections, the Department of Cottage and Small Industries (DCSI) bundles together SSFEs as agriculture and forest enterprises (AFEs) that are further classified based on the products they manufacture. These include furniture SSFEs, NWFP-based SSFEs, sawmills and plywood and veneer processing enterprises (DCSI, 2016). In terms of ownership structure, SSFEs have been categorized as sole proprietorship (one CFUG or individual within one CFUG), consortium of CFUGs, cooperatives, private limited companies and a CFUG (or consortium of CFUGs) licensing or leasing to the private sector (Subedi et al., 2002; Pandit et al., 2009; Acharya, K.P, Dangi, R.B., & Acharya, M. 2012; Rai et al., 2016; Sharma et al., 2017). In terms of utilization of forest resources, SSFEs are categorized as timber-based, NWFP-based, ecosystem services-based and agroforestry-based (Subedi et al., 2014; Rai et al., 2016). Even though different names are used for SSFEs in Nepal, all are registered under one of the four modalities as per the requirements of the PLI frameworks set out by the GoN. These PLI frameworks, which govern the registering and functioning of SSFEs in Nepal, include the Enterprise Policy 2010, Industrial Enterprise Act 2017, Cooperative Act 1998, Companies Act 2006, Bank and Financial Institutions Act (BaFIA) 2017, Food Act 1967, Trade Policy 2015 and Forest Policy 2015. These frameworks not only lay out the different modalities of SSFEs, but also list the documentation requirements for SSFE registration and functioning. Nepal’s SSFEs can therefore be defined as forest-based enterprises producing a wide range of products and operating under one of the four modalities (microenterprise, cooperative, company and forest owners as entrepreneurs), as defined by the GoN’s PLI frameworks. Table 2 summarizes these four SSFE modalities.
TABLE 2
Modalities of SSFEs in Nepal

<table>
<thead>
<tr>
<th>Basis of categorization of SSFEs</th>
<th>Modalities of SSFEs</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>As recognized by the PLI frameworks of the GoN</td>
<td>Microenterprise</td>
<td>Many forest-based enterprises have registered and been operating as cottage and small enterprises in Nepal based on previous legal arrangements under the Industrial Enterprise Act 1992. The character of these enterprises is similar, including existing microenterprises operating according to the Industrial Enterprise Policy 2010. Based on the experiences and lessons learnt from these previous legal and policy instruments, the new Industrial Enterprise Act 2017 has incorporated provisions on microenterprise registration and operation. This has helped to create opportunities for the establishment and operation of forest-based microenterprise, particularly at local levels. SSFEs owned by CFUGs (or a consortia of CFUGs) are registered under this modality.</td>
</tr>
<tr>
<td>Cooperative</td>
<td>Forest product-based cooperative societies can provide services to their members and produce goods from forest products as per their by-laws. These are approved by cooperative division offices as per the Cooperative Act 1992. Cooperative societies successfully collect financial resources from their members for the establishment of SSFEs. This SSFE modality has proven more beneficial to poor households, women and marginalized groups as it has given them a platform for involvement in the enterprise for employment and livelihood (MoF, 2016). About 200 forest-based cooperative societies currently exist in Nepal, the majority of which process herbs and other non-wood forest products (NWFPs) (MoF, 2016). Similarly, a handful of these cooperative societies are also operating timber-based enterprises with the involvement and investment of CFUGs. However, such enterprises are required to register as an enterprise under the Industrial Enterprise Act 2017 for the processing of forest products. According to the Income Tax Act 2002, an income tax exemption for forest product-based cooperative societies is guaranteed. As a result, CFUGs and locals are more interested in generating investment for the operation of forest product-based cooperative societies.</td>
<td></td>
</tr>
<tr>
<td>Company</td>
<td>According to the Company Act 2006, the aim of any company is to generate profit from enterprises. Thus generated, these profits make it easy to collect sufficient investment from shareholders to invest in the enterprise, trade and business. Some CFUGs have solely or jointly established companies to operate SSFEs, trade and business based on the legal provisions of the Company Act 2006. The company model provides an opportunity to promote joint ventures between CFUGs and individuals/private investors for the establishment and operation of an SSFE, trade and business. Experience has shown that such modalities successfully add value to the trade and business of the production of the enterprise as a whole. A number of SSFEs manufacturing handmade Nepali paper, essential oil and juice have been operating in this modality. The company model also promotes transparency through its own memorandum and regulations: there is no tax exemption for SSFEs operating under this modality. Most privately owned SSFEs providing ecosystem services are registered under this modality.</td>
<td></td>
</tr>
</tbody>
</table>

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4 Sec. 3 of the Companies Act 2006.
An overview of small-scale forest enterprises in Nepal

2.5. STOCKTAKING OF SMALL-SCALE FOREST ENTERPRISES

The Department of Industry (DoI) of the GoN has been collecting and publishing limited data regarding various enterprises in accordance with standard industrial classification based on a system of national income accounting. Enterprises in Nepal are collectively categorized as manufacturing, energy, agriculture and forestry, minerals, tourism, service and construction. This classification includes agriculture and forestry enterprises (AFE)s in a single category.

In 2017, DCSI indicated that a total of 209 275 cottage and small industries (CSIs) were established by the fiscal year (FY) 2014/15. Of the 209 275 enterprises, 45 549 (22 percent of the CSIs in Nepal) were AFEs. Of these 45 549 AFEs, 12 591 (around 28 percent) were SSFEs. Further categorization of these enterprises indicated that the largest portion were furniture enterprises (69 percent) followed by NWFP–SSFEs (17 percent), sawmills (13 percent) and plywood and veneer producers (less than one percent). The database for FY 2015/16 provided data on Nepal’s CSIs without further classification by industry type. Taking this constraint into consideration, the trend from FY 2014/15 was assumed. It was estimated that around 7 660 enterprises were AFEs, of which 2 117 were SSFEs. It is therefore estimated that the total number of SSFEs in Nepal by the end of FY 2015/16 was 14 708.

The average fixed capital for SSFEs registered with DCSI (without industry type categorization) was Nepali Rupees (NPR) 333 000/- with an operational capital of

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6 Section 30a of the Forest Act 1993 (Second Amendment, 2016).
7 Separate, disaggregated data for the forestry sector, particularly on investment, employment and output, is not available on a time series basis.
8 Detailed sub-categorization by ‘product type’ was available; an additional 24 317 enterprises were registered in FY 2015/16 for which detailed categorization was not available.
9 Please refer to Appendix 3 for the complete list of SSFEs registered at the Department of Cottage and Small Industries (FY 2014/15).
NPR 334,000/ (approx.). These enterprises employed approximately six individuals (including the entrepreneurs) and produced output worth approximately NPR 1.3 million each (DCSI, 2016). An estimation based on extrapolation of these figures indicated these SSFEs had a total capital investment worth NPR 9.8 billion by FY 2015/16, providing employment for around 85,000 people in Nepal.

**BOX 1**

**Small-scale forest enterprises in Nepal: Some numbers and what they mean**

- By the end of FY 2015/16, the total number of SSFEs was 14,708, providing employment to around 85,000 individuals.
- These SSFEs had a total capital investment worth NPR 9.8 billion, with each producing output valued at up to NPR 1.3 million. By multiplying the total number of registered SSFEs by output per SSFE (i.e. 14,708 x NPR 1.3 million), the estimated total output of SSFEs is NPR 19.12 billion.
- The capital output ratio (based on the data above) is very low, at 0.51, indicating that only 51 units of capital are needed to produce 100 units of output. Moreover, the GoN estimated the combined Incremental Capital Output Ratio (ICOR) for the agriculture and forestry sector at 2.6, while the average ICOR for the non-agroforestry sector was 5.5 (NPC, 2017).
- Both these indicators show Nepal’s agriculture and forest enterprises are highly labour intensive, with significant employment generation potential at low capital investment. There are, however, problems for Nepal’s SSFEs on both the supply and demand side, notably sustainable and uninterrupted supply of raw materials and assured market demand for SSFE products, both at home and abroad.

In this regard, Subedi *et al.* (2014) conducted a relatively comprehensive study on forest-based enterprises, focused on private sector investment, employment and output in the forestry sector. Using primary as well as secondary data from the GoN and other sources, the study estimated there were 41,062 SSFEs in Nepal (including those operated by the CFUGs). Inclusion of community-managed forests such as community forests, leasehold forests and collaborative forests is logical in the Nepalese context because these forestry regimes are also involved in economic and financial transactions pertaining to timber and NWFPs.

This discrepancy in the estimated number of SSFEs in Nepal (41,062 as per Subedi *et al.* (2014) and 14,708 as per DCSI (2016)) can be explained by the uncertainties surrounding their establishment and existence: not all SSFEs are registered with Nepal’s Department of Industry (DoI) or DCSI. Many SSFEs remain unregistered (but continue to operate) due to their small size and the exhaustive, time-consuming and tedious administrative process that often discouages enterprises from registering with the DCSI system. As a result, a number of SSFEs are operated by CFUGs without registration.
As was the case with previous plans, the recent government plan has acknowledged problems on both the supply and demand side (NPC, 2017). Many SSFEs reportedly face problems within a few years of establishment, eventually leading to their closure (Rai et al., 2016). Timber-based SSFEs face problems related to irregular supply of raw materials and market access due to inconsistent government policies and practices (Subedi et al., 2002; Rai et al., 2016; Sharma et al., 2017). In the case of NWFP-based SSFEs, resources – both raw materials and capital inputs – are inadequate to ensure sustainability and economies of scale (Koirala et al., 2013; Sharma et al., 2017). Opportunities to pool the resources of CFUGs are constrained by institutional and geographic factors.

2.6. POLITICAL, LEGAL AND INSTITUTIONAL ARRANGEMENTS

The Constitution of Nepal (2015) guarantees every citizen the freedom to practice any profession, carry on any occupation and establish and operate any industry, trade and business in any part of the country. The government can, however, pass legal provisions to prohibit any industry/enterprise, trade and business which may be contrary to the public health, decency or morality of the general public or to prescribe any condition or qualification for carrying on any industry/enterprise, trade, occupation, employment or business (Article 17 of the Constitution). The Constitution, however, prioritizes domestic investment for the development of the national economy through public, private and cooperative sector partnerships during the investment and industrial phase. It also prioritizes the protection of physical development, forests, biodiversity and the environment (Article 51(g)(5)).

Various small-scale, forest-based microenterprises, cottage industries and cooperatives have made significant contributions to the generation of employment and income at local levels, as well as enhancing the national economy by promoting the export of enterprise-based forest products (MoF, 2016). Various policies and legal and regulatory frameworks have been formulated in Nepal to promote these forest-based industries, including small-scale forest-based microenterprises, cottage industries and cooperatives. Such policies and legal and regulatory frameworks have created an environment conducive to the establishment and operation of different types of SSFEs, particularly at the local level. The Enterprise Policy 2010 and Annex 9 of the Industrial Enterprise Act 2017, for example, recognize AFEs as a nationally prioritized enterprise. Based on this recognition, such enterprises will have sufficient opportunities to utilize incentives and tax exemptions for their development. The Industrial Enterprise Act 1998, Companies Act 2006, BaFIA 2017, Food Act 1967, Trade Policy 2015 and Forest Policy 2015 also include various provisions to create a conducive environment for the establishment and operation of SSFEs. However, some gaps and issues in the existing policy and legal frameworks need to be addressed in order to promote SSFEs in the future. One of such issues is the weak harmonization between legal frameworks covering enterprises, the environment and investment, including taxes and incentives. Box 2 provides an example highlighting this issue, which relates to the registration of a furniture and sawmill producing SSFE.

10 Constitution of Nepal (2015), Article 17(2).
Despite the flexible provisions for the registration of forest-based microenterprises in the Industrial Enterprise Act 2017, the DCSI has issued a circular to help users meet the provisions of the Enterprise Procedural Manual 2016\textsuperscript{11} for the registration of furniture-based and timber processing SSFEs. This manual imposes additional conditions for registration and also contains provisions that contradict those of the Industrial Enterprise Act 2017. The new circular requires SSFEs to obtain an approval letter from the Ministry of Forests and Soil Conservation (MoFSC) (hereinafter referred to as the Ministry of Forests and Environment (MoFE) after state restructuring under federalism) permitting the collection of raw materials from national forests. Centralized procedures are complex and it is hard to collect such approvals from central agencies specifically for the establishment and operation of SSFEs.

Additional procedural hurdles for SSFE registration include the submission of a land ownership certificate and citizenship card during the registration process. The primary rationale for this requirement is the prohibition of illegal investment, but such provisions have created problems for poor and landless people, as they are highly unlikely to possess a land ownership certificate. Likewise, CFUGs do not possess land ownership certificates for land falling within a CF territory. The CFUGs want to register SSFEs in their name based on their registration certificate (which recognizes them as a legal entity). In practice, however, the citizenship card of at least one person is required for the registration to proceed; not all individual members of the CFUG need to show their citizenship cards. This is why many of the SSFEs in Nepal are jointly operated by CFUG members but the SSFE in question is legally only registered under one or two individuals’ name(s). In order to promote collective and community investment in future SSFEs, these procedural barriers must be removed.

Because SSFEs are a nationally prioritized enterprise, the Industrial Enterprise Act 2017 includes a provision to provide land for the establishment of SSFEs. In practice, however, obtaining land from the central government for this purpose is procedurally complex, particularly for the landless and poor, rural women’s groups and CFUGs. Because of their weakness and/or limited capacity, their ability to access this provision is very limited.

\textsuperscript{11} This circular was issued on 3 April 2017.
Selling forest products\textsuperscript{12} (mainly timber) from private forests requires a lengthy administrative process, leading to delays in supply. Several administrative layers and procedures must be undertaken before timber from private landowners reaches entrepreneurs (or the market). Once a photocopy of landownership and a survey map is approved by the village development committee (VDC), it is submitted to the DFO. The DFO’s forest sector office then coordinates with the land revenue and land survey office to verify land ownership. A field survey is organized jointly by these agencies along with the respective area forest office, which finally issues a clearance certificate for the surveyed private land. Once verified, the sector forest office provides an opinion to the DFO regarding approval for harvesting forest products.

Though apparently straightforward, this process is lengthy. Coordination between the DFO, land revenue and land survey offices is slow due to the requirement for a joint field visit and difficulties securing a time for respective staff from these agencies to take time out from their regular duties. Likewise, frequent staffing changes in the relevant areas of these agencies adds an additional administrative irritant for owners seeking permission. Most importantly, despite this lengthy and complicated process, the total volume of the forest product in question might not be significant (i.e. two to three trees from one piece of private land).

The institutional arrangements pertaining to SSFEs and their activities in Nepal are varied. Three national government agencies with primary responsibility for the promotion and service delivery of SSFEs and other forest-based enterprises are: DCSI within the MoI; the Forest Enterprise Division within the MoFE; and the Department of Cooperative and Office of the Company Registrar. At the district/local level, responsible agencies that also have authority to regulate SSFEs as per existing legal and regulatory frameworks are: the Office of the Cottage and Small Industry; Divisional Office of the Cooperative; DFO; and local governments.

\textsuperscript{12} In Nepal, a number of flora species, both timber and non-wood forest products, are listed as threatened at both national and/or international levels – for instance, the CITES flora list. In Nepal, the Department of National Parks and Wildlife Conservation (DNPWC) and Department of Forests are the management authorities, while the Natural History Museum and Department of Plant Resources are the scientific authorities of fauna and flora respectively (CITES Act 2073, Article 16 and Article 18 respectively). According to Article IX of the CITES Convention, permits and certificates for trade in flora (and fauna) are issued by the Management Authorities and Scientific Authorities advising the Management Authorities on the effect of trade on status of CITES listed species. For the list of flora species that are included in the CITES list, please visit http://dpr.gov.np/publications/checklist-of-cites-listed-flora-of-nepal/
3 Methodological approach

This section presents the methodological approach used in this study, including the approach and criteria for the selection of case studies, respondents and key informants.

3.1. EMPIRICAL APPROACH

Information for this study was largely obtained through literature review, interviews with a total of three SSFEs and nine key national actors. This included consultations with national and international non-governmental organizations (NGOs) working on issues related to SSFE development in Nepal, and informal contacts with forestry professionals familiar with the subject matter.

The literature review comprised the following:

- review of SSFEs in the context of CF in Nepal (legal documents and relevant published and grey literature (such as project and review reports and reports commissioned by government) related to SSFE/Community forest enterprises in developing countries, particularly in Nepal;
- published and grey material on functioning of key government authorities (District Forest Office, Small and Cottage Industry Office, Company Register’s Office), their established institutional practices, issues of misinterpretation, spaces for discretionary decisions and how these facilitate or obstruct the establishment and operation of SSFEs;
- secondary data from relevant government sources, the Central Bureau of Statistics and similar sources.

A comprehensive literature review from multiple sources is important because it helps to provide an up-to-date understanding of the subject and its significance for SSFEs in Nepal. The literature review also helped to identify the methods used in previous research on this topic, which is integral to making comparisons in this study’s findings. Moreover, since the study aims to provide an overall outlook on Nepal’s SSFEs as a whole, a thorough review of published (and/or unpublished) literature is critical.

Separate checklists were prepared for (i) interviews to be conducted with three SSFEs for documentation of three case studies; and (ii) interviews with key national actors.

13 Please see Appendix 5 for the list of individuals consulted for the purpose of this study.
14 Please see Appendices 1 and 2 for checklists prepared for interviews with SSFEs and key national actors respectively.
The interviews with SSFEs were key to eliciting information on strengths, weaknesses, opportunities and threats, as well as to gauging current performance and identifying impediments to their development.

It is important to validate information collected from SSFEs from field visits. Following collection and analysis of the data, interviews were conducted with key national actors, along with other SSFE experts in the Nepalese context, to triangulate data. The adopted study pathway is presented in Figure 1.

FIGURE 1
The Study Pathway

- **Literature Review**
  - Published and grey literature (such as project and review reports and government commissioned reports)
  - Secondary data from the Central Bureau of Statistics and related government ministries and departments

- **Evolution of community forestry in Nepal**
- **Evolution of community forestry enterprises and SSFE development in the country**
- **Context and overview of SSFEs in Nepal: Different range of modalities**
- **Status (and trends) of SSFE (numbers of SSFEs, investment scale, employment generated, volume of production)**
- **Evolution of policy, legal (and regulatory) and institutional (PLI) environment governing SSFEs in the country**
- **Prospects of SSFE development in Nepal**

- **Determination of criteria for the selection of case sites**

- **Selection of the three case sites from five case sites being proposed**

- **Fieldwork (interviews using the checklist, review of official documents of the SSFE(s), and field observation)**

- **Interview of key national actors using a Checklist especially prepared for these interviews**

- **Synthesis of the cases**
  - Support system (finance, technology, market access) to SSFEs in Nepal
  - Prospects of livelihood improvement via SSFEs in Nepal

- **Finalization of the Checklist to be used for information collection from three SSFEs (as case studies)**

- **Writing of the report and submission**
### 3.2. CASE STUDIES

As discussed in Section 2, time and financial constraints meant that not all varieties of SSFE modalities could be evaluated. As a result, a total of three SSFEs have been documented in this study. These case studies were selected based on the following criteria:

i. community groups, individuals or forest smallholders engaged in or with the right to engage in production and commercialization of timber and other forest products;

ii. existence of SSFE commercially utilizing timber and other forest products and services;

iii. community groups, individuals or forest smallholders with at least one year’s experience as an SSFE;

iv. community groups, individuals or forest smallholders with a management committee for the SSFE;

v. community groups, individuals or forest smallholders with a mechanism for sharing benefits derived from the SSFE; and

vi. primary products of interest are timber and other forest products generated from forests managed by local communities, individual forest smallholders or co-managed with state authorities.

**FIGURE 2**

Study sites by district in Nepal
I. Everest Gateway Herbs Private Limited, Jiri, Dolakha district, Nepal

Everest Gateway Herbs Private Limited is located in Jiri in the mountainous district of Dolakha, Nepal. It has been in operation for more than a decade and manufactures wild crafted, handmade artisan paper indigenous to Nepal. Such handmade paper is produced utilizing Lokta (*Daphne bholua* and *Daphne papyracea*) and Argheli (*Daphne edgeworthia*) from surrounding community forests. This SSFE has a consortium CFUG-private/individual shareholding structure with a strong pro-poor, benefit-sharing scheme in place.

II. Bishasaya Community Wood Apple and Fruit Processing Enterprise, Sunawal, Parasi district, Nepal

The Bishasaya Community Wood Apple and Fruit Processing Enterprise is located in the Terai region in Sunawal of the Parasi district of Nepal Parasi. This enterprise was established with the objective of creating employment for local people and income to the CFUG by utilizing the wood apple (*Aegle marmelos*) abundant within the CF. The enterprise is solely run and managed by the CFUG itself. Given the sole-CFUG-proprietorship, the benefit-sharing mechanism of this enterprise differs from that of other modalities of CF or non-CF run enterprises in Nepal.

III. Banepa Sawmill and Veneer Private Limited, Banepa, Kavre district, Nepal

Banepa Sawmill and Veneer Private Limited is located in the Banepa municipality of the hilly district of Kavre. This SSFE has been in operation for more than a year. Kavre district is one of the major hubs for private forestry in the country. It is a private, timber-based SSFE utilizing timber from private individuals and surrounding CFUGs. SSFEs and other timber-based enterprises located in this district play a vital role in the supply of timber and associated products to the Kathmandu valley.

The three cases selected for this study are diverse in terms of their ownership modalities (private ownership, sole CFUG ownership and ownership by a consortium of CFUGs and private companies), product types (handmade paper, logs and sawn wood and wood apple marmalade juice) and utilization of forest resources (timber and NWFPs). The three cases were also selected to ensure diversity in terms of geographical location (the handmade paper SSFE is located in the mountainous region, the timber-based SSFE in the hilly region and the wood apple SSFE in the Terai or plains). There are documentation limitations, however. None of the three SSFEs were willing to disclose all of their financial information relating to revenues and costs. As a result, information pertaining to earnings and costs are missing in some cases.
4 Case studies

CASE 1:
EVEREST GATEWAY HERBS PRIVATE LIMITED

Background
Established in 2003, Everest Gateway (henceforth “company”) is a paper processing company established in joint partnership among CFUGs, local investors (including CFUGs) and private entrepreneurs. Located in Jiri in the Dolakha district, the company manufactures handmade paper (referred to as “Nepali” paper) produced from *Lokta* (*Daphne bholua*) and *Argbeli* (*Daphne edgeworthia*). Prior to the company’s establishment, a few local contractors were involved in the trade of *Lokta* and *Argbeli* in Jiri VDC. These contractors acquired a permit from the VDC to collect these resources. However, their collection remained unchecked, resulting in species over-exploitation.

Realizing that forest resources, the majority of which were handed over to communities around 1997, were depleting, the CFUGs began internal deliberations regarding the
management of these resources. The CFUG committees and their members carried out a series of meetings to explore ways to manage their forest. With the support of members, CFUGs undertook resource mapping and inventory and submitted a report to the DFO for approval. The report identified *Lokta* and *Argheli* as the most commercially viable biomass from these forests. Following a series of discussions between CFUGs and the DFO, a pro-poor enterprise based on *Lokta* and *Argheli* was proposed.

**Organizational management**
The company has adopted a community-private partnership operating model. Formally registered in 2004, it is comprised of four different shareholder groups: seven CFUGs,15 126 identified poor households from within the CFUGs, local entrepreneurs and private entrepreneurs. Though the private sector was not initially engaged in running the company, its involvement was subsequently recognized as crucial, particularly in terms of product marketing and ensuring financial sustainability. The Chair of the management committee of the company notes:

> Initially, Everest Gateway’s share structure did not include any private investors. However, after five years of operation, we were struggling to find the market for our product. Luckily, Everest Gateway received an offer from a private group of investors who were interested and assured the management committee and CFUGs of a stable market for our product. The private sector also assured the existing shareholders of aiding in quality maintenance and ease in marketing of finished products. After a series of discussions, 20 percent shares were allotted to the private investors.

The volume of harvested raw materials is based on the amount prescribed in the operational plans (OPs) of the relevant community forests. The user groups have direct access to forest resources and harvesting rights, provided they abide by the provisions stipulated in these OPs. The CFUG executive committee determines the timing and duration of forest product collection; this too is carried out on the basis of the rights vested by the Forest Act 1993. Nevertheless, the CFUGs cannot sell or transfer the management rights of the community forest to any individual or groups.

The company’s organizational structure and its activities are guided by a management/business plan. This outlines the targets the company intends to meet at the end of each year. A management committee is in place to oversee the company’s operation while ensuring its targets are met. In terms of social inclusion, representatives on the management committee include the poor, women and marginalized communities.

The raw materials (i.e. *Lokta* and *Argheli*) are supplied by the seven community forests. The forest management practices are carried out based on these OPs. This is also the case regarding management of *Lokta* and *Argheli*. Of the two, *Argheli* has been more successfully regenerated, as *Lokta* grows in slightly higher altitudes, making it difficult to manage.

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15 The seven CFUGs involved are Baisakheshwor, Hanumanteshwor, Thulonagi, Kalobhir, Kyangse, Buddha and Pathibhara.
Resource production and marketing

The collection of raw materials is primarily carried out by the identified 126 poor household members (from seven CFUGs); other individuals are given an opportunity to collect only after this initial collection has taken place. *Lokta* and *Argheli* are collected from surrounding CFs, guided by a detailed resource inventory and mean annual resource increment in the forests managed by the seven CFUGs to ensure sustainability of these raw materials in the long run. Details regarding which CFUG contributed what amount is clearly recorded in the company’s book of records. At present, for 1 kg of *Lokta*/*Argheli* (dry weight), NPR 5/- is paid to CFUGs.

Once collected, the *Lokta* and *Argheli* are dried out in the sun. They are then placed in a container and mixed with chemicals, sieved and processed and eventually dried under the sun once more for the manufacture of handmade paper. Local men and women who possess the technical knowhow through a mixture of their own indigenous knowledge and training provided by Swiss Technical Cooperation (STC) (during the company’s establishment) are in charge of production.

Approximately 15-16 tons of *Lokta* and *Argheli* are processed each year. Processing, primarily heating/boiling, costs NPR 1 200-1 500 per 100 kg of raw material. Taking processing and labour costs into account, the company’s total 2016/17 revenue amounted to NPR 1.5 to 1.6 million and its total profit was 1-2 percent of revenue. Handmade paper is sold in “Kori”. (1 Kori = a 200-sheet bundle of handmade paper, each sized 30x20 inches). The company’s business plan contained an expectation that it would produce handmade paper processed from raw materials weighing 25 tons (in dry weight) per year. This has since been recognized as neither feasible nor sustainable. When fully operational from October/November to May/June, Everest Gateway has the capacity to produce 1 000 to 2 000 Kori. The company has been producing 1 000-2 000 Kori of handmade paper for the last 7 years. At present, Everest Gateway only produces handmade paper in the form of sheets or bundles; it does not produce specialized items such as calendars, diaries or notebooks.

Handmade paper manufactured from *Lokta* fetches higher market prices for its superior quality. However, the volume of *Lokta* produced is much lower than *Argheli*. A member of the management committee recalls that more than 1 200 *Lokta* saplings were planted by locals during the 2014 monsoon season (June-August) but, despite the care and protection provided, none survived. Later, they became aware that *Lokta* can only regenerate naturally, as it only grows within a specific altitudinal range. In this regard, the company has now halted the production of handmade paper produced from *Lokta* to aid and accelerate its natural regeneration.

In its initial three years of operation, the company struggled to sell any handmade paper. In its fourth year, an exporting company called Tibetan Handicraft located in Nepal. 

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16 Nepali handmade paper is packed in 200 sheets as a Kori containing different weights of paper (5, 10, 15 and 20 grams). So there is no single unit that can convert Kori to tons/dry weight.

17 Except in the year 2015 due to the major earthquake (Gorkha earthquake) that struck Nepal. In 2015, Everest Gateway produced less than 700 Kori of handmade paper.

18 This company is also one of the private shareholders of Everest Gateway.
Kapan of Kathmandu approached the enterprise and agreed to buy its handmade paper. The enterprise no longer sells its paper to this company, however, because a better price was offered by Himalayan Bio-Trade Private Limited (HBTL), to which Everest Gateway now sells all its handmade paper. Whatever the company can produce, HBTL currently buys, and representatives from HBTL travel to Jiri themselves to collect the product. Everest Gateway is not therefore engaged in product transportation.

From an economic perspective, the current demand for Everest Gateway’s handmade paper (around 6,000 Kori per year) exceeds its capacity to supply (merely 900 Kori every year). The company is therefore missing out on the opportunity to cater to the needs of the market. There are a multitude of reasons contributing to the company’s limited production. Another member of the management committee says:

Firstly, the resource constraint in the CFs combined with strict time window for their collection has hindered Everest Gateway in meeting the market demand. For the longevity of Everest Gateway and sustained supply of raw materials, regulations clearly stipulating harvesting season of Lokta and Argheli ought to be in place. Secondly, we need sunlight in ample amount to manufacture these papers. Our production is heavily reliant on weather, which is always unpredictable. We do not possess alternative (and advanced) technology that can substitute sun-drying or
air drying. Therefore, if there is more rainfall in a particular year, our production will definitely go down. And thirdly, the issue of availability of human resources is another aspect that needs to be addressed. Many of the youth, mostly men, have emigrated to the Gulf nations and other countries for employment. This has led to shortage of human resources necessary for Everest Gateway’s operation. Furthermore, because of continuous cash flow in the form of remittances, the locals also do not seem to be very motivated to put in their efforts in the labour-intensive nature of the production of handmade paper.

The company has not encountered a financial crisis as such and has some contingent plans in place to secure finance. The first option (the company’s preference) would be to raise the value of each individual share to secure capital funds. The increase would be based on the percentage share agreed during the initial phase of the company’s operations. Another option could be to invite additional private investors to invest in the company. That, however, would be contingent on consensus between all existing shareholders. Accessing loans from financial institutions, however, is not easy for community forestry as long as they present collateral from private parties or individuals. In fact, banking/financial institutions do not recognize “groups” of any sort when disbursing loans in Nepal. As a result, this applies for CFUGs too. Hence, one or two individuals belonging to a CFUG put their fixed asset(s) as collateral to make it possible to qualify for loans.

In the past, the company’s management committee members provided training to other entrepreneurs. As a result, products made from handmade paper such as lampshades, bags, hats and jackets are now sold on the local market. The management committee plans to provide similar training more frequently in the future, both within and outside Jiri.

Despite the management committee’s attempts to protect young Lokta and Argheli saplings and prevent their over-exploitation, representatives from other local enterprises operating in Kathmandu and elsewhere are willing to purchase them at any size. One of the members of the management committee says:

This is a challenge that Everest Gateway and the CFUGs are facing at the moment. We believe that nothing can be done about this unless the locals themselves become self-aware and conscious about the importance of resource sustainability.

**Benefit sharing**

The company employs ten full-time staff to manage processing and marketing and another 20-25 people to collect and transport raw materials from the forest. It processes about 15 tons of raw material annually. Wage rates for the collection of raw material are currently based on weight at USD 1/kg for Argheli and USD 1.5/kg for Lokta. Poor CFUG members are given priority to carry out this work. The CFUGs charge a levy of NPR 10/kg for these raw materials, benefiting from both the income derived from raw materials and the dividend based on their share in the company.

Profit is divided among shareholders based on their share in the company. The dividend will differ depending on total production per year.
Impacts of the enterprise
The company’s presence has had a variety of positive impacts. First and most importantly, it has generated employment both in the form of full-time staff and additional workers employed for collection and transportation of raw materials. These benefits have been critical to the 126 identified households. Second, the company utilizes local raw materials and its operations have been a major motivating factor for CFUG members to carry out forest management. Third, CFUG members have received training and other capacity building opportunities, primarily attributed to the presence of the enterprise. Finally, the enterprise values the sustainability of the raw materials, demonstrated by its stringent adherence to a management place containing a resource inventory and mean annual increment of resources.

External support
The external support provided by the Swiss Agency for Development and Cooperation (SDC) was crucial to establishing the company. In addition to conducting training and workshops relating to enterprise operations, the Nepal Swiss Community Forestry Project (NSCFP) invested 25 percent of the shares of 126 poor households through its equity fund. Through the NSCFP, SDC’s total investment amounted to NPR 500 000 (approx.). Moreover, although community forestry user groups were the primary stakeholders in the NSCFP, other implementing partners were the Ministry of Forest and Soil Conservation, the Department of Forest and District Forest Office, all of which are government entities. The role of local DFO government officials in approving forest management plans is pivotal to Everest Gateway’s extraction and harvest of raw materials. Moreover, Asia Network for Sustainable Agriculture and Bioresources (ANSAB), an NGO based in Kathmandu, was looking for opportunities to invest in forest-based enterprises. When they became aware of its interest, the CFUGs reached out to ANSAB, which agreed to provide technical support towards the establishment of an SSFE.

Enabling environment
In order to operate, the company is required to abide by a number of pre-defined legal and administrative requirements. As a first step, the CFUG company shareholders approach the DFO with their respective OPs for inspection. These CFUGs are then required to pay taxes/royalties to the DFO, after which they are handed a “Release Order”. This allows the CFUGs to extract the amount (in dry weight) of Lokta and Argheli stipulated in their OPs. Following extraction, the CFUGs sell the raw materials to the company producing the handmade paper. The company is required to submit a report to the DFO clearly showing how much handmade paper was produced from the collected Lokta and Argheli. Once it approves this report, the DFO provides the company with another Release Order upon payment of the required royalty sum. The handmade paper is then loaded and transported to Kathmandu by HBTL. There have been instances where representatives of HBTL have been forced to bribe security personnel at checkpoints en route, despite having paid the required royalties and taxes to the DFO.
A member of the management committee of the company says:

We recently found out that there is duality in terms of rules and their applications. Everest Gateway and the CFUGs involved have to pay royalties twice. But when an enterprise located in Kathmandu, which does exactly the same thing as Everest Gateway, tries to get such release orders, it only incurs royalty once. We do not want to challenge this because we are fearful of the repercussions that this might have on our enterprise’s future. Furthermore, the issue of having to pay money at different checkpoints to get our finished products to Kathmandu is almost like an accepted norm. Neither the management committee of Everest Gateway nor HBTL that transports the handmade paper can do anything except pay extra money at these checkpoints despite having paid the necessary royalties to the DFO earlier. Corruption is making things difficult for the enterprise. Since these costs have no documentation, these expenses are recorded in accounting records as miscellaneous expenses.

Not surprisingly, the attitude toward government officials from company members, the CFUGs involved and their membership is not positive. Government officials are seen as creating unnecessary hurdles citing “legal requirements”. In addition, neither the company nor its members can recall ever having received government-sponsored skills development training in Jiri.

**Case Synopsis**

Among the various enterprise operating models, the pro-poor model has demonstrated tangible benefits in the form of improving economic conditions for the poor. This is evident in the case of Everest Gateway. Placing local communities (or CFUGs) in the foreground with regard to investment, production and management of an enterprise has had a demonstrably positive impact on the livelihoods of the poor and marginalized. Certain factors will shape the success of any forest-based enterprise. First, given the evolving market and changing demands, an alternative partnership modality seems key to ensuring better market and financial investment. This was borne out in the case of Everest Gateway, initially a community-led enterprise, which eventually had to seek private investors to sustain its business. Private sector involvement is instrumental in this regard, especially in cases where communities lack capacity to explore superior markets and safeguard the financial viability of their business.

Second, resource sustainability is fundamental to the maintenance of any forest-based enterprise. An absence of concrete plans to sustain resources (or raw materials) will eventually affect the overall functioning of the enterprise. In the case of Everest Gateway, the overall production of handmade paper had to be downsized due to depleted Lokta resources. As a result, the business operated in a limited capacity. Most importantly, the issue of resource sustainability must be planned for during the enterprise’s establishment phase. Planning during this initial phase should also consider the geographic scope of available raw materials (or resources).
Third, the market plays a crucial role in determining the growth of an enterprise. A limited market means the enterprise has much less scope for growth as well as sustainability. This is particularly dependent on the capacity of local communities to explore and link the enterprise with potential markets. Nevertheless, good road networks and proper transportation facilities also play a crucial role in linking the enterprise to the market. In case of Everest Gateway, although HBTL has been buying all paper produced by the company, there is nevertheless a risk associated with relying on a single buyer, mainly due to the fact that buyers look for competitive prices for the same product.

Another factor to consider is the enterprise’s capacity for product diversification. Had Everest Gateway had the right technology and capacity in place to produce specialized items from Nepali paper including handbooks, lampshades, calendars and pens and it could directly link to a bigger market (i.e. cities). Limiting its production to paper sheets has, however, forced the company to rely on particular buyers.

Fifth, apart from meeting lengthy administrative requirements, forest-based enterprises must navigate a risky operating environment including a multi-layered taxation system (both formal and informal). Enterprises are forced to pay royalties in the name of donations (either to security personnel or Chundre Mundre). These costs go undocumented. Such malpractice has primarily affected small-scale forest enterprises with yearly transactions below NPR 1 million or so. Everest Gateway is no exception to this problem; multi-layered formal and informal taxation has imposed a financial burden on the company.

CASE 2:
BISHASAYA COMMUNITY WOOD APPLE AND FRUIT PROCESSING ENTERPRISE

Background
Situated in Sunawal in the Parasi district, Bishasaya CF has been engaged in forest conservation activities since 1997, but the forest was not formally handed over as a CF until 2011. With a population of 8 402, a total of 1 687 households are members of the CF. Bishasaya Community Wood Apple and Fruit Processing Enterprise (Bishasaya Wood Apple) was established in 2008.

Prior to the establishment of Bishasaya Wood Apple, numerous NGOs and government-funded forest projects had provided 20 poor female CFUG members with training to extract pulp from fruit and process it into juice. Upon seeing the potential of an enterprise utilizing the abundantly available wood apple (Aegle marmelos) within the CF (191.28 ha), the CFUG decided to establish Bishasaya Wood Apple. The CFUG also received funding from the aforementioned government and non-government agencies to purchase equipment. Nepal’s enterprise promoting institution, the Micro Enterprise Development Programme (MEDEP), also assured the CFUG it would explore and guarantee supply to the market. At present, the CFUG has a rented building housing its production unit. The CFUG has registered Bishasaya Wood Apple as a cottage industry with the DoI. The CFUG itself is operating Bishasaya Wood Apple on a voluntary basis.
**Organization and management**

Bishasaya enterprise and its activities are guided by a management/business plan outlining the targets it intends to meet at the end of each year. A ten-member sub-committee oversees the operation of Bishasaya Wood Apple and ensures its yearly targets are met. It meets regularly – two or three times a month based on need – to discuss the company’s activities. The committee is diverse in terms of caste and ethnicity and includes Brahmins, Chhetris, Indigenous ethnicities and Dalits, historically deemed untouchables in Nepalese society. It also includes a good gender balance; three of the seven committee members are female.

The members of the CF invested their own funds to found Bishasaya Wood Apple. One member of the management committee recalls:

> It was surprisingly not very difficult to persuade members of the CF to invest in this enterprise. The 20 women who had acquired the skills required were instrumental in getting support from other CFUG members.

In addition to the funds invested by CF members, the total investment during its establishment amounted to NPR 300,000/- (approximately) (CF Poverty Alleviation Program: NPR 100,000/-; Forestry and Agriculture Program: NPR 50,000/-; DFO through the Multi Stakeholder Forestry Program (MSFP): NPR 100,000/-; CF members: NPR 50,000/-).

Wood apples are perennial resources utilized by Bishasaya Wood Apple. However, a limited number of wood apple trees were available within the CF territory even prior to the establishment of the CFUG and afterwards. As a result, there have been instances when Bishasaya Wood Apple has been unable to meet demand for its marmalade juice. Moreover, the management committee has noted that estimating the quantity of harvestable wood apple has become increasingly difficult over the last five years or so. In addition, the fruit’s ripening period is becoming increasingly uncertain. The committee says there could be two reasons for this: climate change and aging wood apple trees. Hence, CFUG members have been planting wood apple saplings over the last few years. Another member of the management committee says:

> The enterprise has the potential to produce more marmalade juice than it has been producing at present. But this is not possible because we do not have enough wood apple trees. Thus, the CFUG members agreed to plant at least 100 to 150 wood apple saplings each year in 1.5 ha of the CF land. They are growing and the ones planted in the first batch of the last five years should start to bear fruits this year or the year after. We are excited because this could potentially lead to Bishasaya Wood Apple attaining economies of scale in the next few years!

However, the prospect of having to wait several years makes CFUG members nervous. One of the CFUG members (also a member of the management committee) says:
We cannot wait for the newly planted trees to bear fruits. We are thinking of partnering with our surrounding CFUGs and agree on terms for them to supply us with wood apples from their CFs. If an agreement can be reached, we will not have to produce below our capacity.

Much like Everest Gateway, CFUG members reserve the right to manage and utilize forest products. The CFUG operational plan guides the management and harvesting of forest products, including wood apple. Based on the operational plan approved by the DFO, the CFUG executive committee determines the timing and duration of forest product collection. As long as the sustainability of the resource is ensured, the collection of wood apples by CFUG members is permitted during prescribed months each year. The sale of community forest property or transfer of forest management rights by CFUGs to a third party or individual is, however, deemed illegal in this case.

**Resource production and marketing**

Bishasaya collects wood apples from within its CF territory. Ripening during the months of May and June, wood apples cannot be collected throughout the year. Locals collect the ripened wood apples on a voluntary basis. The volume of wood apples harvested for juice production is recorded. The collected wood apples are brought to Bishasaya Wood Apple’s production center. At present, around 15 poor women are employed for about three months to remove the apple pulp and prepare the juice. The pulp is then mixed with sugar, water and preservatives and boiled in the machinery. Upon reaching the required consistency, thickness and taste, the juice is left to cool and then packaged into 700-ml-capacity plastic bottles. Locals, particularly the poor, women and school-going children are involved in collection and paid NPR 12-15/kg.

To date, Bishasaya Wood Apple has been managed entirely by Bishasaya CF and its members, utilizing the wood apples available within its CF boundary. If demand for the product increases in the near future, Bishasaya Wood Apple is not sure it has the production capacity (in terms of wood apples and machinery/technology) to meet growing demand. As a result, and since acquiring its GoN quality assurance certificate, the company is open to partnering with a private entity in order to improve its access to new and larger markets. One member of the management committee said:

Generating employment to the poor was our number one goal and will continue to be so. Since benefitting the poor is our top priority, we did not mind bearing a little loss, which could be compensated from other sources of CFUG income. We had an impression of the private sector as being solely profit-oriented and that is why we didn’t want to partner with them till now. However, we now think it is important that we partner with a private entity in order to expand our markets and make larger profits while still ensuring that the poor and the marginalized are prioritized.

In 2016/17, Bishasaya Wood Apple had a net annual income (after taxes) of NPR 152,500/-. Table 3 provides a breakdown of revenues and costs.
TABLE 3
Breakdown of Bishasaya Wood Apple’s revenues and costs

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales (units)</td>
<td>10,000</td>
</tr>
<tr>
<td>Unit selling price</td>
<td>NPR 90</td>
</tr>
<tr>
<td>Cost of goods sold per unit</td>
<td>65</td>
</tr>
<tr>
<td>Total revenue</td>
<td>NPR 90,000</td>
</tr>
<tr>
<td>Total cost of goods sold</td>
<td>NPR 650,000</td>
</tr>
<tr>
<td><strong>Gross Profit</strong></td>
<td><strong>NPR 250,000</strong></td>
</tr>
<tr>
<td><strong>Less: Expenses</strong></td>
<td></td>
</tr>
<tr>
<td>– Rent and utility bills (at NPR 5,000 per month)</td>
<td>(NPR 60,000)</td>
</tr>
<tr>
<td>– Taxes:</td>
<td></td>
</tr>
<tr>
<td>• Sunawal municipality</td>
<td>(NPR 1,000/year)</td>
</tr>
<tr>
<td>• Department of Food Technology and Quality Control, GoN</td>
<td>(NPR 500/year)</td>
</tr>
<tr>
<td>• DCSI, GoN (NPR 5,000/-, spread over five years)</td>
<td>(NPR 1,000)</td>
</tr>
<tr>
<td>– Miscellaneous costs*</td>
<td>(NPR 35,000)</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td><strong>NPR 97,500</strong></td>
</tr>
<tr>
<td><strong>Net Profit</strong></td>
<td><strong>NPR 152,500</strong></td>
</tr>
</tbody>
</table>

* costs pertaining to advertisement and transportation

The management committee says the enterprise has been unable to market its product efficiently. It has faced additional challenges over the last five years, as noted by a member of the committee:

During Bishasaya Wood Apple’s inception, the CF wanted to produce a “Ready to drink” wood apple juice. Upon finding out that it was a rather expensive technology, we resorted to preparation of a wood apple marmalade (concentrated drink) that need to be diluted with water to drink. This has a smaller market as compared to a “Ready to drink” juice. Consequently, our market is smaller than what it could have been. Another obvious constraint is the limited and seasonal supply of wood apples from our CF. The product is mostly consumed locally in Sunawal and is transported to markets in nearby cities of Butwal and Bhairahawa of Rupandehi district.

Nepal’s general public is well informed about the health benefits of wood apple, which helps with product marketing. While Bishasaya Wood Apple invests in advertisement, its marketing is predominantly through word of mouth. Recently, however, the uncertainty surrounding the sustainable availability of wood apples has led some committee members to question continuing the enterprise in the absence of external assistance.

The enterprise is currently breaking even, but hopes to turn a profit in the near future. The CFUGs have a couple of options with regard to accessing finance – potentially necessary for the company’s growth. First, the enterprise was initially supported by international agencies, including the DFO’s Multi Stakeholder Forestry Programme...
Small-scale forest enterprise development in Nepal (MSFP). It still hopes to access similar external support in order to secure further financing. Likewise, the enterprise is entirely owned and operated by Bishasaya CF’s CFUG members. Apart from funds derived from the enterprise itself, the CF secures funding from membership fees and the sale of timber. The enterprise is therefore likely to secure further investment from the core CFUG fund. Private sector involvement has also been considered as an alternative means of securing additional finance.

Benefit sharing
At present, Bishasaya Wood Apple follows the provisions in the CF’s OP regarding benefit sharing. The profits are distributed among CF members with special preference given to the identified forest-dependent poor households, women and the marginalized. Any remaining funds or profits are invested in the physical expansion of the enterprise. Given the company is currently only breaking even, there is no benefit sharing among CF members. Instead, the CFUGs, which are currently operating in a community building, are investing savings in the construction of their own building from which to run the enterprise.
The enterprise also plans to invest in its expansion once it starts making a profit. The wages of workers and collectors will also be raised based on overall profit. Though they are given bonuses during major festivities (mainly during Dashain), there is no provision for bonuses beyond this.

**Impacts of the enterprise**

Bishasaya Wood Apple has directly benefited members of Bishasaya CF in two primary ways. First, it has generated employment for those CFUG members in Bishasaya involved in wood apple collection. Likewise, although the enterprise is not currently generating much profit, whatever profits are made are directed to the CFUG fund, thus providing additional income for Bishasaya CF. In addition, given that wood apple juice is considered to provide several health benefits, its purchase and consumption provides benefits to society more broadly. Lastly, the enterprise does not have a negative environmental impact because the production of marmalade juice simply involves extracting juice from wood apples readily available in the forest.

**External support**

The enterprise was initially supported by Nepal’s Farm Forest Facility program and Multi Stakeholder Forestry Program (MSFP), which organized training related to enterprise establishment and marketing. The multi-stakeholder MSFP design process aimed to contribute to poverty reduction whilst tackling climate change in Nepal. Funded by the governments of Finland, Switzerland and the UK, it built on over 20 years of forestry work by GoN. MSFP’s main beneficiaries were Nepal’s rural communities, especially poor and disadvantaged households and those deemed most vulnerable to climate change. The MSFP explicitly targeted these groups by working with a variety of existing and new forestry groups to create an additional 80,000 jobs and bring an estimated 1.7 million people out of poverty. The establishment of Bishasaya Wood Apple was an example of such an investment, receiving support from GoN officials, national NGOs (as implementing MSFP partners) and local level organizations partnering with these NGOs. While capacity building activities have not been provided in recent years, the enterprise plans to invest in technology and capacity building in the near future.

**Enabling environment**

The management committee had to endure a lengthy registration process during Bishasaya Wood Apple’s establishment. Owing to the complexities involving registering an enterprise under CFUG ownership, Bishasaya Wood Apple was registered under the name of one of the management committee’s current members. Furthermore, a variety of taxes has made it difficult for Bishasaya Wood Apple to remain financially sustainable, especially during the first three years of its operation when it experienced losses. The management committee has, however, decided to continue paying these taxes, both because the enterprise earns enough to absorb these expenses and because they do not want to be blacklisted for lack of payment.
Bishasaya Wood Apple’s management committee reported that it had not encountered any problems dealing with the DFO since the enterprise’s establishment. The coordinator of the management committee said:

The DFO has been quite supportive of our endeavors in uplifting the livelihoods of the CF members and others in the village. This might, however, have been an entirely different story if the product was timber-based as regulations are much tighter for such enterprises.

The committee says that since they produce wood apple juice, neither DFO officials nor security personnel are as strict as they would be if their product were timber-based. Additionally, as the capital contribution and training provided by GoN assisted the CFUG to establish Bishasaya Wood Apple, the management committee has a positive opinion of the support it has received from government authorities to date.

Case Synopsis
The pro-poor enterprise model run by the CFUG has demonstrated tangible benefits for its members, including by improving the economic situation of women and the poor and marginalized. Despite the fact that community-led enterprises provide such community benefits, enterprise sustainability requires an alternative partnership modality. Private sector involvement has proven to work out well, including in the case of Bishasaya. The private sector’s role has been particularly crucial in terms of linking enterprises with markets. This has in turn increased the scope of enterprises to make larger profits and ensure market competitiveness.

Second, running an enterprise with limited geographic scope might pose sustainability risks. This is especially the case for forest-based enterprises whose raw materials require several years to regenerate. Bishasaya Wood Apple, for example, could not meet demand, predominantly due to the limited number of wood apple trees in the forest.

Third, a lack of modern technology has limited the production scope of some enterprises. Bishasaya illustrates this point. The enterprise is operating with limited technological capacity and cannot compete in a market which includes better and finished products. As a result, its product is geared towards a certain audience, though better and bigger markets exist in the cities.

Fourth, lengthy administrative procedures for registering the enterprise under collective ownership has made it difficult to operate community-run enterprises. As a result, ownership must remain with an individual, which can undermine the sense of collective action among community members. In addition, multiple taxes have imposed a financial burden on enterprises already struggling to remain viable.

Fifth, timber-based enterprises usually undergo closer scrutiny from forest officials than enterprises based on NWFPs. This is perhaps due to the fact that timber is associated with high financial transactions and non-transparent harvesting eventually leads to deforestation. This applies in the case of Bishasaya, where communities did not experience harassment by forest officials. However, a lack of support by concerned
agencies in terms of resource promotion has limited its production and undermined resource sustainability.

CASE 3: BANDEPA SAWMILL AND VENEER PRIVATE LIMITED

Background
Nepal’s Kavre district is a major hub for private forestry in the country. A number of timber-based SSFEs utilize timber from private forests as well as surrounding CFUGs. SSFEs and other timber-based enterprises located in the district play a vital role supplying timber and associated products to the Kathmandu valley where demand for timber-based products is the highest in the country.

The owner of Banepa Sawmill reflects on how the enterprise came into being:

Banepa Sawmill was established in 2004. I had worked in this industry since the mid-1990s and I acquired first-hand experience of what it was like. I saw the potential of establishing a sawmill and veneer business of my own. First, it would be able to utilize untapped timber resources lying around. Secondly, the demand in Kathmandu for timber-based products was on the rise. Thirdly, I had the knowledge and more importantly the network that I knew would help me to establish this company. And finally, I could make profit while providing employment to a handful of locals.

Banepa Sawmill is registered as a sole proprietorship forest-based enterprise.

Organization and management
The owner invested his own funds as start-up capital to establish Banepa sawmill. He does not have a management committee in place and, when asked about the reason for this, he replied:

I make the decisions. This is my company. However, I do seek advice from my network of experienced professionals including FenFIT Nepal. Being a part of this circle helps me to get reliable information pertaining to the market conditions (demand and supply) in Kathmandu. The demand in Kathmandu is what drives my production of sawnwood and sawdust. I do have a business plan but to be honest, my production plan is determined by what is available (timber-wise) and the market situation.

Banepa Sawmill sources its timber from private and community forests in the Kavre and Sindhupalchowk districts. Community forests abide by the provisions stipulated in applicable operational plans, whereby CFUG members harvest the timber and sell it to sawmills and individual buyers. The harvest and sale of timber from community forests requires a permit from the relevant DFO. The DFO verifies the total amount and the processes adopted based on the provisions in the CFUG operational plans. In the case of private forests, the owner reserves the right to harvest the products, including
timber, from his/her private land. The trees are usually naturally grown; there are very few cases of forest management on private land. Nevertheless, owners of private land must seek a permit from the relevant DFO if they wish to sell timber produced there.

Selling forest products (mainly timber) from private forests involves a lengthy administrative process, leading to delayed supply. Before timber from private land owners reaches entrepreneurs (or the market), several layers of administrative procedure must be met. Once a photocopy of land ownership and a survey map are approved by the VDC, they are submitted to the DFO. The DFO’s forest sector office then coordinates with the land revenue and land survey office to verify land ownership. A field survey is organized jointly by these agencies along with the respective area forest office, which finally issues a clearance certificate for the surveyed private land. Once verified, the sector forest office provides an opinion to the DFO regarding approval for harvesting forest products.

The sawmill also supports forest management practices in Kavre’s nearby community forest, including by investing NPR 100 000 (USD 1 000) for 1 300 saplings and plantations in the nearby community forest. The company also has a plan to invest in forest management practices in Kavre and Sindhupalchowk’s private forests.

Banepa Sawmill currently employs eight staff, four of whom are full-time employees. All its employees are men. Despite ample demand and availability of raw materials, however, the company has faced a crisis of skilled human resources in recent years. As a result, only one out of two machines are operating at present. The company is willing to invest in capacity building activities in order to meet the market’s increasing demand for timber. The owner notes:

I am ready to invest in training for my staff but I have not come across any programs for capacity building in Nepal. If we could get our staff to participate in such trainings, I strongly believe we could operate in full fledge and meet the demand.

Resource production and marketing
Over its 13 years of active production and operation, Banepa Sawmill has derived 75 percent of its raw materials in the form of logs from Kavre district and the remaining 25 percent from the Sindhupalchowk and Dolakha districts. Ninety percent of these logs are derived from private forests, while 10 percent are acquired from CFs. Banepa Sawmill is engaged in processing the sawnwood and sawdust of species such as Alnus nepalensis, Pinus patula., Pinus roxburghii, Schima wallichii, Melia azedarach, Madhuca longifolia, Choerospondias axillaris and Fraxinus floribunda.

Banepa Sawmill only processes timber species approved by the DFO in the region and never accepts endangered or threatened species. Furthermore, Banepa Sawmill intends to obtain more logs from surrounding CFs in coming years, with a special emphasis on sustainably harvested logs. This is important as it relies on round logs for production, the sustainable supply of which is vital over the long term.

Banepa Sawmill’s annual production capacity for the year 2015, along with selling prices per cubic feet (cft), is presented in Table 4.
TABLE 4
Banepa Sawmill production for the year 2015

<table>
<thead>
<tr>
<th>S.N.</th>
<th>Main species of timber utilized (Local and scientific names)</th>
<th>Volume produced per year in cubic feet (cft)</th>
<th>Average selling price per cft (in NPR)</th>
<th>Total value (in NPR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Utis (<em>Alnus nepalensis</em>)</td>
<td>15 000 (50% of total production)</td>
<td>450/cft</td>
<td>6 750 000/year</td>
</tr>
<tr>
<td>2.</td>
<td>Sallo (Pine species)</td>
<td>9 000 (30% of total production)</td>
<td>750/cft</td>
<td>6 750 000/year</td>
</tr>
<tr>
<td>3.</td>
<td>Chilaune (<em>Schima wallichii</em>)</td>
<td>6 000 cft/year</td>
<td>375/cft (on average)</td>
<td>2 250 000/year</td>
</tr>
<tr>
<td>4.</td>
<td>Bakaino (<em>Melia azedarach</em>)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>Mahua (<em>Madhuca longifolia</em>)</td>
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<tr>
<td>6.</td>
<td>Lapsi (<em>Choerospondias axillaris</em>)</td>
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<td></td>
<td></td>
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<tr>
<td>7.</td>
<td>Lakuri (<em>Fraxinus floribunda</em>)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

It is important to note that the owner paid NPR 425/cft, NPR 750/cft and NPR 350/cft for Utis, Sallo and other species mentioned in Table 4 respectively. Therefore, the owner has created a certain margin for profit (between cost price and selling price). Thus, annual profits generated from Utis, Sallo and other species are NPR 375 000/-, NPR 450 000/- and NPR 150 000/- respectively, totaling NPR 975 000/ year. Banepa Sawmill also makes NPR 340 000/year from selling sawdust, and sells 20 trucks of sawdust each year at NPR 17 000/- per truck. Therefore, Banepa Sawmill makes a gross yearly profit of NPR 1 315 000/-. With regard to access to financing, the proprietor uses his private property as collateral to access loans from various financial institutions such as banks.

Banepa Sawmill also incurs costs in multiple forms. The average production costs incurred for all species is NPR 45/cft. A breakdown of the SSFE’s total tax burden is presented in Table 5, below.

TABLE 5
Royalties and taxes paid to the GoN

<table>
<thead>
<tr>
<th>S.N.</th>
<th>Name of species</th>
<th>Royalty rate (NPR)</th>
<th>Tax to GoN (NPR)</th>
<th>Total tax (NPR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Utis (<em>Alnus nepalensis</em>)</td>
<td>425/cft</td>
<td>13/cft</td>
<td>15 000*13 = 195 000</td>
</tr>
<tr>
<td>2.</td>
<td>Sallo (Pine species)</td>
<td>750/cft</td>
<td>26/cft</td>
<td>(9 000*26) = 234 000</td>
</tr>
<tr>
<td>3.</td>
<td>Chilaune (<em>Schima wallichii</em>)</td>
<td>375/cft</td>
<td>26/cft</td>
<td>6 000*13 = 78 000</td>
</tr>
<tr>
<td>4.</td>
<td>Bakaino (<em>Melia azedarach</em>)</td>
<td>75/cft</td>
<td>9.75/cft</td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>Mahua (<em>Madhuca longifolia</em>)</td>
<td>75/cft</td>
<td>9.75/cft</td>
<td></td>
</tr>
<tr>
<td>6.</td>
<td>Lapsi (<em>Choerospondias axillaris</em>)</td>
<td>75/cft</td>
<td>9.75/cft</td>
<td></td>
</tr>
<tr>
<td>7.</td>
<td>Lakuri (<em>Fraxinus floribunda</em>)</td>
<td>75/cft</td>
<td>9.75/cft</td>
<td></td>
</tr>
<tr>
<td>8.</td>
<td>Sawdust</td>
<td>500/truck</td>
<td>20*500 = 10 000</td>
<td></td>
</tr>
</tbody>
</table>

Total taxes paid 517 000

Moreover, both accounted and unaccounted costs in the form of donations to political parties, organizations, clubs, bank interest, rent, labour and machinery maintenance should be taken into account when calculating net profits.
Benefit sharing
Banepa Sawmill is run based on a sole proprietorship model, meaning profits are not shared among various actors. There are, however, other means by which the company invests/shares its profits. Most importantly, the company currently employs eight individuals (all male) four of whom work as part-time employees. Moreover, it also invests in forest management in one of the community forests in Kavre district. The private and community forests from which the company sources its timber also receive revenue.

Impacts of the enterprise
The operation of Banepa Sawmill has benefited a wide group of people in several ways. Employment generation is one of the enterprise’s important contributions. Apart from employees who are paid directly by the enterprise, other groups involved in harvest, collection and transportation also derive benefits. Besides, the enterprise also supports afforestation activities by providing seedlings to a nearby CFUG. In the long term, Banepa Sawmill also plans to support private forests. Banepa Sawmill’s presence has been beneficial for people in and around the area. In fact, it has benefited people residing in Kavre as well as those from the adjacent Sindhupalchowk district. With regard to its environmental impact, the owner ensures species harvested for timber processing are not on the GoN’s list of prohibited species. Furthermore, in order to ensure sustainability,
the enterprise is committed to purchasing timber from CFUGs (and private sources) that practise sustainable forest management.

**Enabling environment**
Like most timber-based enterprises in Nepal, Banepa Sawmill has found the government approval processes for the production and movement of logs and sawn timber cumbersome. The need for multiple approvals often requires the proprietor to visit local DFO officers. These delays are combined with formal and informal charges associated with the approvals. The need for multiple approvals also delays operations and timber marketing. Uncertainty associated with these approvals also increases risk. In addition, private tree growers are required to provide land ownership certificates and citizenship cards to the DFO, even though the majority of private tree growers in Nepal only have one or two trees growing on their land. The process for acquiring these documents from each private tree grower is time-consuming and the approval process is even slower.

An authorized DFO official is also required to inspect logs derived from either private owners or CFUGs to ensure administrative requirements pertaining to timber measurement, felling, species, etc. are fully met. This can be problematic for several reasons. First, it is difficult to get an appointment with an authorized official. Second, no provision is made for participation by the proprietor/entrepreneur (or his/her representative) during timber measurement and/or felling. Third, the figures relating to these measurements seem to be based on the official’s discretion rather than objective measurements. These requirements delay the log sawing process and, in many instances, some logs are spoiled as a result.

**Case Synopsis**
As a result of the restrictions and procedural requirements every entrepreneur must endure, operating timber-based enterprises in Nepal is not easy. Lengthy administrative procedures to obtain permission to harvest and transport timber logs impose a burden on entrepreneurs. Apart from regular processes, the task of inspecting private land for timber harvesting is particularly time-consuming. This is partly due to the limited human resources in the DFO capable of carrying out its responsibilities. More important, however, are the mandatory processes entrepreneurs are legally required to follow. The primary impact of these processes is on the quality of the timber logs, which continue to degrade the longer they remain un-utilized.

Likewise, unaccounted costs in the form of donations to various agencies are ultimately incurred by the consumer in the form of increased timber prices. Apart from government taxes, almost every timber entrepreneur incurs informal taxes during log transportation, including paying rent to *Chundre Mundre* (local gangs) and even bribing security personnel. In addition, entrepreneurs are harassed throughout the timber value chain, which is quite often frustrating and intimidating.

The case of Banepa Sawmill also illustrates the high transaction costs entrepreneurs incur while collecting timber from various districts. The limited timber available from private lands (and community forests) from a single district (or location) increases the
cost of transporting timber logs. This is compounded by the legal and administrative procedures the entrepreneurs must undergo while transporting timber from multiple districts.

Another important factor influencing the sustainability of timber-based enterprises is the availability of skilled human resources and machinery and equipment necessary to ensure smooth operations. A lack of modern equipment limits both production and the enterprise’s capacity to compete in the market. Likewise, skilled human resources are an important means of minimizing damage to logs and other products and ensuring their quality.
5 Small-scale forest enterprises in Nepal: Issues and challenges

5.1. EXISTING POLICY ENVIRONMENT
Nepal is currently undergoing state restructuring under federalism after the promulgation of its new Constitution since 2015. Federalism demands substantial changes in forest governance and in the process, a number of laws and regulations are currently being drafted, government organizational restructuring is underway, and debates over governance modalities are yet to be settled. In this regard, it is of utmost importance that principles and governance arrangements for the various existing forest tenure types under federalism be outlined which would be useful in defining the forest governance architecture, particularly when federalism has clearly recognized local, state and federal as autonomous governments. This is vital for SSFEs as such arrangements will have direct and indirect implications on multiple fronts such as access to and extraction of forest resources, revenue generation, taxation, and benefit sharing.

Regardless, Nepal’s PLI framework at present is more conducive to the local management of forest resources than in the past, with poverty reduction a common objective. The establishment of SSFEs is seen as an appropriate way to achieve this objective. The Forest Policy (2015), Industrial Enterprise Act (2017), Company Act (2006) and some provisions in Nepal’s fiscal laws have created ample opportunities for the establishment and operation of SSFEs at the local level. Local people and communities can use these opportunities to establish and operate their respective SSFEs. The Forest Policy 2015 has prioritized forest-based industries involving private and community entrepreneurs.” In addition, Nepal’s taxation, royalties, subsidies and insurance provisions can also contribute to enriching SSFEs. For example, some legal provisions grant tax exemptions to SSFEs and forest product-based cooperatives. However, under the new federal structure of the country, there is a possibility that the SSFEs will have to pay more taxes on their respective revenues to different tiers of the government – local, provincial and federal. The government has established several agencies to support SSFEs at both the central and local level. However, ad hoc interpretation of the PLI framework has affected administrative procedures for timber/NWFP harvesting, processing, transport and marketing and constrains the operation and management of SSFEs more generally. Moreover, a lack of legal awareness has plagued forest entrepreneurs. As a result, they have not acquired the full benefits available in existing PLI provisions.

A review of literature and the three case studies illustrate that existing legal and administrative procedures do not encourage SSFEs. At present, they are required to
furnish multiple documents, visit various forest offices at multiple levels (Department, DFO, Ilaka), and pay multiple royalties and taxes, all of which take a minimum of several months to complete. Given the predominantly informal nature of Nepal’s rural economy it is really a challenge to obtain all the required documents. Similarly, relevant government agencies rarely process applications in a timely manner, mainly due to i) inadequate staffing, especially of skilled professionals; ii) confusion and overlapping regulatory provisions, which are often subject to several interpretations; and iii) weak staff accountability cultivated by political transition and poor governance. Entrepreneurs, frustrated by such a lengthy and exhaustive process, either resort to bribing officials or give up altogether.

Problems with the existing PLI framework governing SSFEs stem from the fact that Nepal’s forest laws are open to multiple interpretations by the DFO and its officers. Interpretation also varies between different DFOs. As a result, changes within the DFO have been known to affect rules and regulations for tree harvesting, processing and marketing. A conducive policy framework is therefore not sufficient, in and of itself, particularly when the bureaucracy’s attitude and behaviour are unpredictable and inconsistent. The imposition of multiple taxes on SSFEs is another hindrance. This has been reflected in all three case studies (Everest Gateway, Bishasaya Wood Apple, and Banepa Sawmill). The various interpretations of PLIs both within and among DFOs, ministries and departments has proven to be a major setback to the growth of SSFEs in Nepal.

Despite acquiring a release order from the DFO, Everest Gateway, Bishasaya Wood Apple and Banepa Sawmill all have to make payments at checkpoints (SSFEs in possession of release orders shouldn’t pay anything when transporting raw materials and/or finished goods to and from the SSFE). These orders appear to be blatantly disregarded by officials at checkpoints. Mr. Ganesh Karki, Chair of FECOFUN, says:

> The CFUGs have been protecting forests with a huge investment of time, effort and sacrifices. They must benefit from improved resources and emerging market. Unfortunately, they have often been discouraged by legal and regulatory constraints and lack of needed support system.

Mr. Shyam Dhakal, Chair of FenFIT concurs, saying:

> The government often talks about economic growth and employment through forestry development. However, our friends often complain of regulatory constraints and administrative hassles from different government agencies.

Additional procedural hurdles must be overcome to register SSFEs, harvest raw materials and transport finished goods. Banepa Sawmill is illustrative of this. Even when the owner collects just a couple of trees from individual farmers, he is required to obtain their land title certificate and a land survey map, ensure officials go to the field and verify it and conclude individual contracts – a huge administrative burden for just a couple of trees. All three businesses documented in this study were required to
submit a land ownership certificate and citizenship card during the registration of their enterprises. The main reason behind this is to prohibit illegal investment in an SSFE, but such provisions have created problems for the poor and landless, because they are highly unlikely to possess a land ownership certificate. Likewise, the CFUGs do not possess land ownership certificates for land falling within a CF territory. The CFUGs want the power to register SSFEs in their name based on their registration certificate (which recognizes them as legal entities). In practice, however, they are required to submit the citizenship cards of every concerned citizen during the registration process. The documentation requirements during the registration of Everest Gateway, for example, were lengthy and confusing, because multiple CFUGs were involved in founding the enterprise. Similar issues applied in the case of the Banepa Sawmill, which was legally required to acquire the land ownership and citizenship certificates of every private tree grower from whom it obtains timber. Because this process is so time-consuming, and in order to reduce the DFO’s paperwork requirements, Banepa Sawmill has produced a document stating that all its timber is harvested from one or two private growers.

5.2. SUPPORT SYSTEM
Several international development agencies and external development partners working in the field of forestry and rural development have helped to establish SSFEs with the approval and/or support of GoN and participation by local communities. The involvement and support of these development agencies were guided by their respective approaches to addressing problems associated with initial capital, resource management and poverty. The establishment of Everest Gateway, for example was supported by STC and ANSAB through capital investment and initial training. Likewise, Bishasaya received support for its establishment from MSFP19 and MEDEP, among others. However, much remains to be done in support of SSFEs.

Most of the SSFEs in Nepal are operating with limited human resource and technological capacity. The problem is not merely lack of machinery or technology but a lack of capacity to operate them efficiently. This has prevented SSFEs from meeting their targets and, in cases such as Everest Gateway and Bishasaya Wood Apple, has inhibited product diversification. Moreover, forest user groups (FUGs), which were designed to nurture and protect forests and ensure subsistence use, are insufficiently equipped to deal with the market forces of demand and supply. Leadership of these groups is based on seniority (who can do the best policing), inclusive principles and availability. In addition, their operations are largely ad hoc and based on trust and informality. Consequently, those FUGs operating enterprises or in possession of marketable products are increasingly struggling to adapt to these new challenges. At present, participation by FUG leaders is largely voluntary. The poor financial performance of most of these community-run enterprises is alarming and necessitates the exploration of a suitable institutional modality to provide appropriate incentives to ensure complete commitment by FUG leaders and encourage participation by those with relevant expertise in enterprise operations (Sharma et al., 2017). Lamsal et al. (2017) support this recommendation and have identified five

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19 MSFP was a multi-donor funded project.
major approaches, namely: sustainable livelihood; community forest-based enterprise; integrated enterprise; value chain; and market for poor. They concluded that as these approaches often fail, a more comprehensive approach is required to overcome the problems of SSFE sustainability. Addressing problems with supply could be easier for SSFEs than addressing demand, where products must pass through a series of value chain nodes before reaching consumers. The role of the private sector appears to be significant, as illustrated by Everest Gateway and Bishasaya.

Finally, most of Nepal’s SSFEs are limited to collection and very simple processing using locally available technologies and basic machinery. Their development is further hampered by the high purchase and maintenance costs and limited availability of machinery, as well as problems surrounding adoption of advanced technologies. Everest Gateway, for example, has been unable to diversify its product range due to its reliance on sunlight to dry its handmade paper. Furthermore, CFUGs and entrepreneurs wishing to establish SSFEs lack the capacity to formulate business plans. Business development services aimed at preparing business plans, facilitating tax payments, distributing information on marketing and value chain development and providing access to legal services are some areas that must be strengthened in the future.

5.3. BENEFIT SHARING AND PROSPECTS FOR LIVELIHOOD IMPROVEMENT

Benefit sharing in the context of SSFEs is multifaceted. First, SSFEs ensure that resource managers (CFUGs or private individuals) are paid fairly for the utilization of raw materials from their respective forests. Second, SSFEs employ individuals on a full-time, part-time or seasonal basis, depending on the nature of the SSFE’s operations. Third, any savings or profits made from SSFE operations are invested in activities or projects that contribute to improving the livelihood of the community as a whole. For instance, in the case of an SSFE that has CFUG’s involvement, any saving/profit is transferred to the CF fund. The CF fund is then distributed to prioritized list activities as per the CF’s management plan or OP, according to which 25 percent is to be invested in forest management, 35 percent in pro-poor targeted provisions and the remaining 40 percent in community infrastructure. This system of distributing CF revenues/funds is both legally formalized and locally acceptable, providing a solid foundation for equitable benefit sharing.

In addition to providing employment opportunities, privately-owned SSFEs can generate additional community benefits, as in the case of the privately-owned Banepa Sawmill. The products of community-managed SSFEs have been distributed as subsidies, thereby providing scope to benefit all, particularly the forest-dependent poor, women and the marginalized. SSFEs not only utilize forest resources – which were otherwise consumed by locals or left unused – to manufacture various products, but in doing so have mobilized locals and their skills. These SSFEs have provided local people with alternative livelihoods through part-time/full-time employment. Two of the cases documented in this study (Everest Gateway and Bishasaya) have also provided additional benefits to CFUG groups as well as collectors.

Nepal’s SSFEs also have an important role distributing benefits among the CFUGs. This will, however, depend on institutional factors, leadership characteristics and
arrangements for benefit sharing contained in individual OPs. The funds generated from the sale of products are distributed according to an SSFE’s existing shareholding structure or the procedures outlined in the relevant OP. The use of these funds to support local schools, drinking water schemes, community infrastructure and livelihood-related activities seek to benefit all CF members, especially the poor, women and the marginalized. However, unless these disadvantaged groups are empowered to take an active part in decision-making, they may not be able to access these legitimate benefits.

One of the challenges faced during the course of this study was to obtain exact figures regarding SSFE production (units), revenue and expenses/costs. A culture of recordkeeping was not always present. This was especially true in the case of Everest Gateway and Bishasaya Wood Apple. This, when coupled with lack of transparency regarding benefit sharing – especially in CFUG-run SSFEs – is problematic. This not only has ramifications for enterprise efficiency and longevity but also social cohesion and harmony. A lack of transparency can incite mistrust between committee members and the community as a whole, potentially leading to social conflict.

5.4. RESOURCE SUSTAINABILITY

Nepalese forests contain a rich diversity of flora and fauna. This provides SSFEs with the opportunity to establish a variety of enterprises producing a wide range of products. However, a lack of proper management and planning for resource sustainability has prevented many SSFEs from optimizing production. Lessons from this study indicate that SSFEs face problems on both the supply and demand side. All three enterprises – Everest Gateway, Bishasaya, and Banepa Sawmill – suffer from resource constraints that have made it impossible to meet market demands. The unpredictable and unsustainable supply of raw materials (Lokta and Argheli at Everest Gateway; wood apple at Bishasaya; and timber at Banepa Sawmill) has prevented these SSFEs from meeting their production targets and hence meeting market demand. Another constraining factor is the restriction on the volume of resources that can be extracted per year set by CFUG OPs and the DFO.

The rate of SSFE establishment has increased in recent years. This has led to concerns that the natural resources, though abundant at present, may not be able to withstand increased rates of harvest over the long-term. In CFUG-run SSFEs, The OP has a significant role in addressing the issue of resource sustainability. It assesses the annual increment of forest resources in its CF and uses this to calculate annual allowable harvest or cut (AAH or AAC). The AAH guides on what portion of a particular forest resource can be extracted or harvested per season. Despite these OP provisions, the threat of diminishing resources remains prevalent.

Diminishing timber and NWFP resources due to over-exploitation present another significant threat. In the case of Everest Gateway, despite strict regulations on the collection of Lokta and Argheli, some locals continue to harvest them throughout the year for sale to local independent contractors. This has exacerbated the shortage of raw materials for handmade paper production. The CFUG members have, however, taken important steps to protect dwindling Lokta stock (as outlined previously, CFUGs tried to plant Lokta saplings but realized the specimen could only regenerate naturally). At
present, Everest Gateway does not produce paper from *Lokta* to allow it to regenerate vigorously. Similarly, in Bishasaya, local people have planted hundreds of wood apple seedlings over the last five years to address the issue of resource sustainability. The privately-owned Banepa Sawmill also plans to purchase more timber from surrounding CFs practicing sustainable forest management. Similarly, some NWFP-based SSFE such as the NWFP-based SSFEs such as Everest Gateway and Bishasaya has cultivated more conservation-friendly attitudes, as well as a sense of resource ownership.

### 5.5. MANAGEMENT CHALLENGES

Nepal’s SSFEs take a variety of forms, engaging in financial transactions ranging from thousands to millions. All face management challenges in one form or the other. Based on the evidence gathered from the three case studies, several management challenges can be observed, which also apply to Nepal’s SSFEs more broadly.

First, enterprises run solely by communities face multiple challenges in terms of business sustainability. A lack of capital investment in particular places limits on SSFE expansion. With an evolving market and increasing demand, an alternative partnership modality seems critical to ensuring better market access and financial investment. This was evident in the cases of Everest Gateway and Bishasaya, in which private sector investments were critical to their financial viability and long-term sustainability.

Second, resource sustainability has been a challenge for SSFE operations. While geographical limitations play a role in dwindling raw materials in some instances (e.g. *Lokta* for Everest Gateway and wood apple expansion for Bishasaya), in others a lack of finance has limited the overall management of resources, thus affecting sustainability. This has also had an impact on enterprise expansion and the ability to meet market demand.

Third, the absence of recordkeeping is another important enterprise management factor. This not only raises the question of transparency, but also has serious implications for overall benefit sharing in terms of profits. A culture of recordkeeping was absent in both Everest Gateway and Bishasaya, making it difficult for CFUG members to respond to questions regarding the enterprise’s financial trends, including profit-making.

Fourth, lengthy legal and administrative procedures for registering an enterprise under collective ownership have made them difficult to operate. In addition, multiple taxes have imposed an additional financial burden on enterprises already struggling to remain viable. However, this does not mean that privately-run enterprises are free from such hassles. Lengthy administrative procedures to obtain permission to harvest and transport timber logs has imposed a significant burden on entrepreneurs. Beyond the regular administrative processes, arranging an inspection of private lands to obtain permission to harvest timber is even more time consuming. This is partly due to the limited human resources available in the DFO capable of carrying this responsibility. More important, however, are the mandatory processes entrepreneurs are legally required to follow. The primary impact of this is on the quality of timber logs, which continue to degrade the longer they remain un-utilized. Informal rent-seeking by police and local gang members impose an additional burden, the ultimate cost of which is borne by the public.
Fifth, a lack of skilled human resources and technology has affected the overall operation of SSFEs in Nepal. This was evident in all three case studies, in which the enterprises are operating absent skilled human resources (as in case of Banepa sawmill) or conventional technology (as in case of Everest Gateway and Bishasaya), thus limiting their expansion. Moreover, a lack of modern equipment ultimately limits an enterprise’s market competitiveness. In the case of timber enterprises, a lack of skilled human resources (among others) can result in log damage and low quality products.

The SWOT analysis of SSFEs in Nepal based on the discussions above are presented in Figure 3.

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Mobilization of locals and provision of part-time/full-time employment</td>
<td>• Seasonal nature of production: unsustained supply of raw materials</td>
</tr>
<tr>
<td>• The management committee is inclusive in terms of gender, caste and ethnicity in CFUG-run SSFEs</td>
<td>• Problem of scale of operation: Limited technical capacity, machinery and materials to produce and process products</td>
</tr>
<tr>
<td>• Investment in social development activities such as road construction, donation to schools, etc.</td>
<td>• Demand for the product is not consistent</td>
</tr>
<tr>
<td>• Utilization of forest resources with emphasis on sustainable extraction of resources</td>
<td>• Culture of recordkeeping not always prevalent</td>
</tr>
<tr>
<td>• Follow all legal/administrative procedures and rules</td>
<td>• Benefit sharing mechanism not always transparent</td>
</tr>
<tr>
<td>• The forest is a rich and diverse source of materials used for the production of various products</td>
<td>• Negative attitude to private investors by CFUG members</td>
</tr>
<tr>
<td>• Mission of the SSFE guided by livelihood enhancement of locals instead of mere profit maximization</td>
<td>• On paper, the GoN has put in place a favourable policy to support SSFE but not so when it comes to application</td>
</tr>
<tr>
<td>• Utilization of forest resources with emphasis on sustainable extraction of resources</td>
<td>• Corruption</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>• GoN’s MoFE’s “Forestry for Prosperity” motto is positive for establishment of more SSFEs in the country</td>
<td>• Diminishing timber and NWFP resources due to over-exploitation</td>
</tr>
<tr>
<td>• Increasing private sector interest in SSFEs</td>
<td>• Competition from larger forest-based enterprises</td>
</tr>
<tr>
<td>• Members are committed to seeing SSFE growth for the common good</td>
<td>• Substitution of timber products with synthetics for timber-based SSFEs</td>
</tr>
<tr>
<td>• Civil societies and research organizations are supportive of the role of SSFEs in local livelihood improvement</td>
<td>• Climate change discourse may lead to more restrictive forestry measures</td>
</tr>
<tr>
<td>• Other market channels can be explored</td>
<td></td>
</tr>
<tr>
<td>• CF-run SSFEs have the right to plant and own trees and NWFP species which is guided by their OPs</td>
<td></td>
</tr>
<tr>
<td>• Possibility of the local government taking control of forests and forest-related activities in the new federal governance structure of the country</td>
<td></td>
</tr>
</tbody>
</table>

**FIGURE 3**

**SWOT analysis of SSFEs in Nepal**
6 Conclusion and recommendations

The evolution of community-based forest management in Nepal has been facilitated by a series of PLI reforms, resulting in the establishment of a diverse range of SSFEs. Based on a literature review, interviews with key national experts and three case studies, this study has attempted to provide a general outlook for SSFEs in terms of their number, modalities, issues and challenges.

Studies have identified the five major factors catalyzing the development and establishment of SSFEs in Nepal as follows: resources, market, policy, institutions and external support. In addition, the role of community forestry in promoting and developing SSFEs cannot be overlooked. Indeed, the establishment of SSFEs in Nepal was triggered by advocacy for the devolution of tenure rights to communities by CF members and leaders. Moreover, the once-stringent policy environment has evolved to become more conducive to such enterprises, allowing SSFEs to expand and flourish.

SSFEs, particularly CFEs, have traditionally served as a means of sustaining rural livelihoods in Nepal. These studies show that SSFEs generate benefits for locals and their communities. They are seen as vital to nurturing the economic growth of households in Nepal while also improving social equity and community development and conserving natural resources. Hence, there is increasing recognition that SSFEs have the potential to contribute to income and employment opportunities for poor and disadvantaged groups and facilitate the country’s economic development. The contribution of SSFEs to Nepal’s GDP in 2008 was estimated to be above 2.5 per cent. The total number of SSFEs by the end of FY 2015/16 was 14,708, providing employment to around 85,000 individuals. These SSFEs had a total capital investment worth NPR 9.8 billion, with each SSFE producing output of up to NPR 1.3 million. Nepal SSFEs adopt various modalities and scales. Product type, ownership structure and the nature of their utilization of forest resources are the three principle dimensions of SSFE modalities in Nepal. However, all fall under four broadly defined modalities guided by the PLI frameworks currently in existence in Nepal, namely: (i) microenterprise; (ii) cooperative; (iii) company; and (iv) forest owners as entrepreneurs.

The overall tone of the national discourse pertaining to SSFEs can be deemed positive. Both the Forest Policy 2015 and Forest Sector Strategy 2016 explicitly note the importance of forest-based enterprises to livelihood enhancement. Because such enterprises are nationally prioritized, the Industrial Enterprise Act 2017 includes a

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20 These figures are definitely underestimated because as mentioned in the report, many SSFEs operate without legal registration. As a result, their contribution is not accounted for.
provision to provide land for the establishment of SSFEs. In addition, the mottos “Forestry for Prosperity” (MoFE) and “One Community Forest, One Enterprise” (FECOFUN) indicate recognition by GoN, as well as civil society, of the importance of SSFEs. Furthermore, a number of policies and strategies indicate the GoN is relaxing regulations that have hitherto deterred private sector involvement. As a result, the private sector seems more interested in establishing SSFEs, including by partnering with CFUGs to establish and operate SSFEs across the country.

Nepal’s SSFEs work within a PLI framework that may appear supportive and conducive on paper, but is not always so in practice. However, the makeshift interpretation of the PLI framework has led to exhaustive administrative procedures for timber/NWFP harvesting, processing, transport and marketing, constraining the general operation and management of SSFEs. These various interpretations among different DFOs, ministries and GoN departments have proven to be a major inhibitor of SSFE proliferation. A conducive policy framework alone, therefore, is not a sufficient condition for the unrestricted operation of SSFEs, particularly when bureaucratic attitudes and behaviour are unpredictable and inconsistent. In this regard, the imposition of multiple taxes on SSFEs, aimed at contributing to the GoN’s goal of poverty eradication, is ironic. Implementation distortion and rapid changes in PLI frameworks have imposed further risks on SSFEs and have, in many cases, had a lasting effect on the managerial, financial, economic and ecological aspects of their operations. Finally, SSFEs face a number of challenges related to limited scales of operation, resource constraints, lack of infrastructure and service provisioning, reliance on outdated technology, lack of human capacity and skills and managerial practices.

These shortcomings must be addressed. The vibrant and sustainable rural economy required for rapid economic growth and sustainability can be achieved in Nepal and other analogous developing countries through SSFEs. In this respect, some recommendations have been presented below.

- **Explore suitable institutional modalities:** As Nepal’s SSFEs are primarily and largely promoted by donor projects, they tend to focus on inclusion, equity and resource sustainability over profit. While most are not economically viable, and many cease to operate after project support ends, they are still reluctant to bring in private investment and management. At the national level, intense debates regarding private vs. community management are ongoing. At the same time, individual SSFEs are too small and struggle to gain economies of scale with regard to extraction of raw materials and market reach. Bishasaya Wood Apple provides a good example of this tension. In this context, there is an urgent need to explore suitable institutional SSFE modalities in different contexts. In particular, modalities including private sector partnerships and networking and resource pooling among neighbouring CFUGs should be explored through an active research approach.

- **Support for capacity building:** SSFEs are a low priority for urban entrepreneurs with good business skills. Most SSFEs are run by communities or individuals with relatively limited managerial and technical skills. They face tremendous competition from larger manufacturers in business dealing, quality, price, etc.
A large portion of current investment in skills training has been wasted, due to high emigration of trained young people from Nepal. Serious gaps in skilled personnel and entrepreneurs exist in rural areas. Well-designed capacity development interventions targeting those who are already undertaking initiatives can help sustain and expand current SSFEs and encourage the development of more.

- **Reform forest policy and tenure:** Despite the devolution of management rights to local communities and the generally positive tone of forest policy statements, SSFEs often suffer from excessive bureaucratic intervention, resulting in constrained and unpredictable supply of raw materials. This includes delays as a result of the lengthy and exhaustive permit issuing process, impractical environmental standards, transportation hurdles and sudden harvest cessation. In order to encourage the establishment and operation of SSFEs by user groups and individuals, reforms are required to: allow CFUGs to exercise their resource assessment, planning and management rights; simplify compliance with environmental standards; increase transparency in the permit process for government forests; and grant autonomy to FUGs to set product prices and deal with the market. The other side of the coin is equally important. Many SSFEs are suffering as a result of decreasing supply and degrading quality of raw materials. Environmental standards should be integrated into local management planning, which should also consider sustainable harvesting.

- **Business development service including technology and finance:** Individual entrepreneurs and FUGs are in dire need of business development services, along with financial and technological support. No specific government institutions are in place to provide dedicated support to SSFEs, such as information, counseling, legal advice, development and branding assistance, marketing and access to services such as power supply and communication. An integrated mechanism combining these services with appropriate technology and a range of financing options would assist the establishment and operations of SSFEs, as well as substantially reduce their transaction costs.

- **Promote safe and fair business environment:** Political instability, weak accountability of state and non-state institutions, rampant corruption and illegal activities have ruined Nepal’s investment climate in particular and business environment more generally. This is particularly the case for SSFEs. While overcoming these problems seems ambitious, the adoption of small measures, even at the local level, could be beneficial. For example, e-bidding and a single window tax policy could represent a major step towards checking corruption and illegal activities around SSFE investment. In addition, maintaining a strong digital database could help to keep track of the status of existing enterprises and also improve planning for future interventions in support of SSFEs. As the country moves towards a federal system, collaborating with local governments, which are keen to demonstrate their strong performance, could be a viable strategy for the promotion of SSFEs. These could include establishing administrative services such as registration, issuing permits and organizing local periodic hat-bazaars (small local markets), among others.


LFP. 2008. *Seven years of the Livelihoods and Forestry Programme Enhancing rural livelihoods through forestry in Nepal: Contributions and Achievements*. Livelihood and Forestry Program. DFID. Kathmandu Nepal


Programme (MSFP) on behalf of a Joint Venture MSFP of Rural Reconstruction Nepal (RRN) and Forest Action (FA) Nepal, Kathmandu.


Appendix 1: Checklist for SSFE interviews

CONTEXT: HISTORY AND CURRENT STRUCTURE
1. Name of the SSFE
2. Date of establishment
3. Number of members (and/or CFUGs and/or villages) involved
4. Population of the villages involved
5. Size of the (community) forest (ha) from which the SSFE derives products
6. Number of years SSFE in active production

ORGANIZATION AND MANAGEMENT
1. Availability of simple management/business plan for the community forest or any forest stand providing forest products (timber, NWFP) to the SSFE: ☐ Yes ☐ No
2. Presence of a management committee for the SSFE: ☐ Yes ☐ No
3. Human capacities existing in the SSFE (core members and their capacities)

<table>
<thead>
<tr>
<th>S.N.</th>
<th>Members of the management committee</th>
<th>Education level</th>
<th>Main role (leadership, planning, accounting, organizing, advocacy etc.)</th>
<th>Special training (technical and financial services) in SSFE management (☐ Yes or ☐ No)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
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<td>9.</td>
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</tbody>
</table>
4. Number of men in the management committee of the SSFE

5. Number of women in the management committee of the SSFE

6. Source of capital/initial investment for the SSFE
   - Contribution by members
   - Village elites
   - Outside donor/I/NGO support; please specify
   - Credit from bank/financial institutions
   - Government

7. Does the SSFE operate in sole proprietorship or partnership?
   If “Partnership”, refer to questions 8 and 9. If not, skip to question 10.

8. Nature of partnerships of the SSFE, if any:
   - Public
   - Private persons/businesses
   - Other cooperatives
   - Other(s), please specify

9. What benefits derive from the partnership?
   - Financial
   - Technical support
   - Material support
   - Other(s), please specify

10. Are you happy with the management of your SSFE?  □ Yes  □ No
    If “No”, what needs to be improved?
    - The way people are organized/People management
    - Financial management
    - Transparency in decision-making
    - Types of projects financed (if any)
    - Timely organization of annual/general/other meetings
    - Inclusiveness in the management committee (in terms of gender, caste, ethnicity, etc.)

PRODUCTS AND MARKETING OF THE SSFE

1. Product(s) sold:
   - Logs
   - Sawnwood
   - NWFP…specify?
   - Recreation
   - Others, please specify

2. Buyers:
   - Local merchants
   - Neighbouring country markets/Export
   - National/Government merchants from other towns in the country
   - Others, please specify

3. Destination of products:
   - Local markets
   - Markets in other towns in Nepal
   - Neighbouring country markets/Export
   - Others, please specify
For **Timber**, please fill the table below:

<table>
<thead>
<tr>
<th>S.N.</th>
<th>Main species of timber utilized</th>
<th>Volume produced per week/month/year (m³) <em>(Please specify)</em></th>
<th>Average price per m³ (in NPR)</th>
<th>Total value (in NPR)</th>
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</table>

For **Sawnwood**, please fill the table below:

<table>
<thead>
<tr>
<th>S.N.</th>
<th>Main species from which sawnwood is extracted utilized</th>
<th>Unit of measurement and Volume produced per week/month/year (Please specify)</th>
<th>Average price per unit (in NPR)</th>
<th>Total value (in NPR)</th>
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For **NWFPs**, please fill the table below:

<table>
<thead>
<tr>
<th>S.N.</th>
<th>Main species</th>
<th>Unit of measurement and Volume produced per week/month/year (Please specify)</th>
<th>Average price per unit (in NPR)</th>
<th>Total value (in NPR)</th>
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</tbody>
</table>

4. **Equipment used in timber production:**
   - [ ] Chainsaws  
   - [ ] Mobile miles  
   - [ ] Hand saws  
   - [ ] Others, please specify
PRODUCTION COSTS
1. Current taxes paid and amount per m³
2. Regeneration taxes per m³
3. Cost of production per m³
4. Total revenue earned per year
5. Other costs, please specify

BENEFIT SHARING MECHANISM IN PLACE (MORE THAN ONE CAN APPLY)
• Share to members of the SSFE, if collective enterprise
• Share to community development projects (percent)
• Share to forest management committee (percent)
• Share to savings in the bank (percent)
• Share to government (percent)
• Share to forest regeneration (percent)
• Please describe how profits are re-distributed among members (villages or individuals/members)

IMPACT OF THE SSFE ON ITS MEMBERS AND WIDER COMMUNITY
Did the SSFE make profits in the previous fiscal year? □ Yes  □ No
If “Yes”:
• What do the members do with the profits from SSFE?
• What are the projects supported/executed because of money from SSFE?
If “No”:
• How are you managing the operations of the SSFE whilst incurring losses?
• What will you do if the SSFE continues to incur losses in future years?
  □ Shut down SSFE operations
  □ Reach out for financial and technical support from the network (Federation of Community Forestry Users Nepal (FECOFUN), Asia Network for Sustainable Agriculture and Bioresources (ANSAB), Council for Technical Education and Vocational Training (CTEVT), and other national organizations, donors and I/NGOs)
  □ Others, please specify

EXPERIENCE AND SUPPORT AVAILABLE TO THE ENTERPRISE
1. What experience does the SSFE possess in operating a timber or NWFP SSFE?
2. Did you receive support in any form (financial, technical, etc.) to establish the SSFE? □ Yes  □ No
If “Yes”:
• Who provided such support?
• What support was/is provided to establish the SSFE and/or to ensure that it runs efficiently and effectively and who provides this support?
3. How is the SSFE managing/dealing with operational bottlenecks including procedures, technical and other institutional constraints?

4. Is the SSFE doing anything to ensure sustained supply of raw materials from the forest? □ Yes  □ No
   If “Yes”:  
   • What are you doing?
   If “No”:  
   • Why not? □ Abundance of raw materials  □ Yet to think about running the business sustainably and including it in the business plan
     □ Others, please specify

5. What are the main strengths of the SSFE? (state Yes or No to each option)
   a. You have the technical capacity and materials to produce and process products
   b. You have the financial capital and savings to run your business
   c. You have good business plans and management capacities
   d. You are well organized and the management committee is inclusive in terms of gender, caste, ethnicity, etc.
   e. You respect all legal/administrative procedures and rules
   f. You have a consistent market for your products
   g. Your forest is rich and you can always have timber to supply

6. What are the main weaknesses of the SSFE?
   a. You do not have technical capacity and materials to produce and process products
   b. You do not have the finance capital and savings to run your business
   c. You do not have good business plans and management capacities
   d. You are not well organized and the management committee is dominated by specific groups and not inclusive in terms of gender, caste, ethnicity, etc.
   e. You do not respect all legal/administrative procedures and rules
   f. You do not have a consistent market for your products
   g. Your forest is not rich and you don’t always have timber to supply

7. What are the main opportunities for the SSFE?
   a. Members are committed to seeing the SSFE grow for common good
   b. Government has put in place a favourable policy to support SSFE
   c. Outside support is in place to support SSFE
   d. Huge forest areas exist for the expansion of your SSFE
   e. Other market channels can be explored
   f. Right to plant and own trees and NWFP species
8. What are the main threats to the SSFE?
   a. Diminishing timber resources
   b. Competition from other suppliers
   c. Substitution of timber products with synthetics
   d. Tenure problems
   e. Cumbersome administrative procedures and operational red-tape
   f. Seasonal nature of production
   g. Others, specify

ENABLING ENVIRONMENT FOR SSFE
1. What is your appreciation of the existing legal/administrative rules governing SSFEs in your country?
   a. Too rigid
   b. Conducive to the development of SSFE
   c. No specific incentives for SSFE
   d. Need to be revised
      If you selected “d”, specify what kinds of measures are suitable.

2. Do you think the current enabling environment in your country (policy, legal, institutional) favours the development of SSFE? ☐ Yes ☐ No
   If “Yes”, explain what aspects of the PLI (policy, legal, institutional) help SSFEs and how they help them?
   If “No”, what are the major limitations pertaining to matters related to existing PLI measures for SSFEs? How can we tackle these problems?

Any other information you would like to share?
Appendix 2: Checklist for interviews with key national actors

CHECKLIST FOR INTERVIEWS WITH KEY NATIONAL ACTORS

☐ The evolution of CF in Nepal
☐ Policy and regulatory provisions and their rationale
☐ Regulatory and non-regulatory factors that promote or impede SSFEs
☐ Gaps in policy and practice
☐ Challenges associated with establishing and operating enterprises
☐ Future prospects for SSFEs in Nepal
Appendix 3: List of SSFEs registered at the Department of Cottage and Small Industries

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</thead>
<tbody>
<tr>
<td>Cane and wood furniture</td>
<td>4 949</td>
<td>428</td>
<td>511</td>
<td>591</td>
<td>419</td>
<td>46</td>
<td>89</td>
<td>96</td>
<td>126</td>
<td>7 255</td>
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<tr>
<td>Herb collection/processing</td>
<td>152</td>
<td>6</td>
<td>5</td>
<td>9</td>
<td>18</td>
<td>3</td>
<td>6</td>
<td>9</td>
<td>96</td>
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<td>77</td>
<td>82</td>
<td>156</td>
<td>302</td>
<td>1 690</td>
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<td>Hand paper and copy</td>
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<td>32</td>
<td>39</td>
<td>58</td>
<td>60</td>
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<td>0</td>
<td>15</td>
<td>26</td>
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<td>Allo processing</td>
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<td>1</td>
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<td>22</td>
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<td>Incense</td>
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<td>61</td>
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<td>609</td>
<td>432</td>
<td>635</td>
<td>783</td>
<td>1 321</td>
<td>1 2591</td>
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Source: DCSI (2017)
## Appendix 4: Import and export of forest-based products to and from China and India in Nepal

### Imports of forest-based commodities from China and India for FY 2014/15

<table>
<thead>
<tr>
<th>S.N.</th>
<th>Forest-based products</th>
<th>Country</th>
<th>Unit</th>
<th>Quantity</th>
<th>Value (in '000 NPR)</th>
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<tbody>
<tr>
<td>1</td>
<td>Wooden furniture of a kind used in offices (excluding seats)</td>
<td>China</td>
<td>Pcs</td>
<td>60 860</td>
<td>88 448</td>
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<td>2</td>
<td>Wooden furniture of a kind used in offices (excluding seats)</td>
<td>India</td>
<td>Pcs</td>
<td>11 303</td>
<td>24 566</td>
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<td>3</td>
<td>Wooden furniture of a kind used in the kitchen (excluding seats)</td>
<td>China</td>
<td>Pcs</td>
<td>5 108</td>
<td>10 640</td>
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<tr>
<td>4</td>
<td>Wooden furniture of a kind used in the kitchen (excluding seats)</td>
<td>India</td>
<td>Pcs</td>
<td>18 027</td>
<td>8 947</td>
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<td>5</td>
<td>Wooden furniture of a kind used in the bedroom (excluding seats)</td>
<td>China</td>
<td>Pcs</td>
<td>5 512</td>
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<td>6</td>
<td>Wooden furniture of a kind used in the bedroom (excluding seats)</td>
<td>India</td>
<td>Pcs</td>
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<tr>
<td>7</td>
<td>Wooden furniture</td>
<td>China</td>
<td>Pcs</td>
<td>83 340</td>
<td>160 827</td>
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<tr>
<td>8</td>
<td>Wooden furniture</td>
<td>India</td>
<td>Pcs</td>
<td>20 330</td>
<td>15 442</td>
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<tr>
<td>9</td>
<td>Furniture of bamboo or rattan</td>
<td>China</td>
<td>Pcs</td>
<td>486</td>
<td>141</td>
</tr>
<tr>
<td>10</td>
<td>Furniture of bamboo or rattan</td>
<td>India</td>
<td>Pcs</td>
<td>1 504</td>
<td>124</td>
</tr>
<tr>
<td>11</td>
<td>Agricultural forestry or bee-keeping machinery</td>
<td>China</td>
<td>Pcs</td>
<td>5</td>
<td>2 381</td>
</tr>
<tr>
<td>12</td>
<td>Agricultural forestry or bee-keeping machinery</td>
<td>India</td>
<td>Pcs</td>
<td>8 012</td>
<td>15 365</td>
</tr>
<tr>
<td>13</td>
<td>Natural gums, resins, gum-resins, natural resins</td>
<td>China</td>
<td>Kg</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>14</td>
<td>Natural gums, resins, gum-resins, natural resins</td>
<td>India</td>
<td>Kg</td>
<td>225 958</td>
<td>80 421</td>
</tr>
<tr>
<td></td>
<td><strong>Grand Total</strong></td>
<td></td>
<td></td>
<td>441 821</td>
<td>435 984</td>
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</tbody>
</table>
**Exports of forest-based commodities to China and India for FY 2014/15**

<table>
<thead>
<tr>
<th>S.N.</th>
<th>Forest-based products</th>
<th>Country</th>
<th>Unit</th>
<th>Quantity</th>
<th>Value (in ‘000 NPR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Wooden furniture of a kind used in the kitchen (excluding seats)</td>
<td>India</td>
<td>Pcs</td>
<td>54</td>
<td>16</td>
</tr>
<tr>
<td>2</td>
<td>Wooden furniture of a kind used in the bedroom (excluding seats)</td>
<td>India</td>
<td>Pcs</td>
<td>27 478</td>
<td>859</td>
</tr>
<tr>
<td>3</td>
<td>Wooden furniture</td>
<td>China</td>
<td>Pcs</td>
<td>1</td>
<td>14</td>
</tr>
<tr>
<td>4</td>
<td>Wooden furniture</td>
<td>India</td>
<td>Pcs</td>
<td>1 941</td>
<td>391</td>
</tr>
<tr>
<td>5</td>
<td>Furniture of bamboo or rattan</td>
<td>India</td>
<td>Pcs</td>
<td>17</td>
<td>24</td>
</tr>
<tr>
<td>6</td>
<td>Rosin and resin acids</td>
<td>India</td>
<td>Kg</td>
<td>13 947 516</td>
<td>1 773 878</td>
</tr>
<tr>
<td>7</td>
<td>Alkyd resins, in primary forms</td>
<td>India</td>
<td>Kg</td>
<td>85 600</td>
<td>13 160</td>
</tr>
<tr>
<td>8</td>
<td>Processed natural honey</td>
<td>China</td>
<td>Kg</td>
<td>3 740</td>
<td>699</td>
</tr>
<tr>
<td></td>
<td><strong>Grand Total</strong></td>
<td></td>
<td></td>
<td><strong>14 066 347</strong></td>
<td><strong>1 789 041</strong></td>
</tr>
</tbody>
</table>

*Source: DoC, 2015*
Appendix 5:  
Key national actors interviewed

<table>
<thead>
<tr>
<th>S.N.</th>
<th>Name</th>
<th>Designation</th>
<th>Organization</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Mr. Resham Dangi</td>
<td>Ex-Director General</td>
<td>Department of Forest, Ministry of Forest and Soil Conservation, Government of Nepal</td>
</tr>
<tr>
<td>2.</td>
<td>Mr. Prakash Lamsal</td>
<td>Under Secretary</td>
<td>Department of Forest, Ministry of Forest and Soil Conservation, Government of Nepal</td>
</tr>
<tr>
<td>3.</td>
<td>Mr. Ganesh Karki</td>
<td>Chair</td>
<td>Federation of Community Forest Users Nepal (FECOFUN)</td>
</tr>
<tr>
<td>4.</td>
<td>Mr. Shyam Dhakal</td>
<td>Chair</td>
<td>Federation of Forest based Industry and Trade (FenFIT)</td>
</tr>
<tr>
<td>5.</td>
<td>Mr. Madhav Humagain</td>
<td>Chair (Kavre)</td>
<td>Federation of Forest based Industry and Trade (FenFIT)</td>
</tr>
<tr>
<td>6.</td>
<td>Mr. Dil Raj Khanal</td>
<td>Environmental lawyer</td>
<td>-</td>
</tr>
<tr>
<td>7.</td>
<td>Mr. Bishnu Prasad Sharma, PhD.</td>
<td>Associate Professor</td>
<td>Department of Economics, Patan Multiple Campus</td>
</tr>
<tr>
<td>8.</td>
<td>Mr. Govinda Ghimire</td>
<td>Chair</td>
<td>Nepal Herbs and Herbal Products Association (NEHHPA)</td>
</tr>
<tr>
<td>9.</td>
<td>Ms. Rama Ale Magar</td>
<td>Chair</td>
<td>Himalayan Grassroots Women's Natural Resource Management Association (HIMAWANTI) Nepal</td>
</tr>
</tbody>
</table>
Appendix 6:  
List of key legal documents governing SSFEs in Nepal

BOX 3
Policies, and legal and regulatory frameworks governing SSFEs in Nepal

Policies
• Industrial Enterprise Policy 2010
• Trade Policy 2015
• Forest Policy 2015

Legal instruments
• Constitution of Nepal 2015
• Forest Act 1993
• Forest Regulation 1995
• Environmental Protection Regulation (EPR) 1997
• Environmental Protection Act 1997
• Consumer Protection Act 1998
• Industrial Enterprise Act 2017
• Cooperative Act 1998
• Companies Act 2006
• Bank and Financial Institutions Act (BaFIA) 2017
• Food Act 1967
• Income Tax Act 2002
• Directive on sales and distribution of forest products from community forestry 2016
• Directive on sales and distribution of forest products from government-managed forest
• Timber Import Standard 2017
• Cash Incentives Procedure 2015