



Policy Dialogue on Community Institutions and Forest-based Enterprises: Prospects of Transformation

6 June 2023 | Hotel Himalaya

Nepal, blessed with approximately 45% forest coverage across its land, presents abundant opportunities for the utilization of forest products and the promotion of forest-based enterprises. This is especially significant in the context of community forestry, where more than 2.2 million hectares of national forest have been entrusted to over 22,000 forest user groups, encompassing approximately 32 percent of the country's total population.

Background

There is a growing realization in regards to declining vigor and dynamism in the community forestry (CF) programme in Nepal. As such, there are rising concerns among the government staff, CF leaders and professionals as it is lagging behind in meeting expected contributions to the sustainable development goals. In many cases, there is complete stagnation in the forest management and institutional functions. In fact, CF institutions have become passive, since the very socio-environmental foundations on which it was instituted have changed often creating a mismatch between what CF can deliver against local communities expectations. As a result, collective action over local forest commons appear to have declined while regulatory requirements continue to dis-incentivize communities and stakeholders to invest in CF. This calls for a well thought initiative that help reflect and acknowledge the growing crisis, and sensitize key stakeholders towards coordinated efforts in revisiting and refinement of CF so that it remains fully attuned to the changing context and becomes more relevant in the future.

The government and development partners including private sector and NGOs are engaged with CFUGs in this area. However, despite over three decades of conscious efforts, there is no major progress in processing, value addition and establishing an inclusive and equitable forest-based enterprise and trade. Institutional capacity of CF institutions, too small scale of operation, enabling regulatory environment and several factors outside forestry have constrained the development of this sector. In this backdrop, ForestAction Nepal seeks to bring together key policy actors and lead deliberative dialogues on priority policy agenda on CF in Nepal. The policy dialogue, supported by the Australian Government, is dedicated to Forest-based enterprises, trade and business which are believed to be the means to realise prosperity through CF.

Remarks by the Special Guest

In her speech, Her Excellency Ms. Felicity Volk, the Australian Ambassador to Nepal, addressed the gathering, emphasizing the longstanding partnership between Australia and Nepal in the field of community forestry. She vividly described this collaboration as seeds planted many years ago that have grown into flourishing forests, signifying the growth and strength of the friendship between the two nations over the past 60 years. She stressed the importance of continuing this partnership, highlighting its role in sustainable management of Nepal's natural resources and in supporting the livelihoods of its people.



While acknowledging the progress made, Ambassador Volk acknowledged the rapidly changing world and emphasized the need for community forestry (CF) to adapt to the evolving socio-economic, political, national, and international contexts. She referred to a previous gathering on the launching of the 'revitalizing community forestry' report where experts presented a comprehensive analysis on the challenges faced by CF in this changing landscape.

Ambassador Volk expressed her delight in witnessing that the report's findings had been earnestly received by senior policymakers, academicians, community forest groups, and various stakeholders. She highlighted the necessity of responding to the changing demographics and the diversification of livelihood options. Drawing upon Australia's experience, she emphasized the need to adapt forestry models to changing environments, such as the economy, biodiversity, ground water resources, and climate change. She cited Australia's forest management practices, including a 20-year agreement between industries and the government, ensuring the ecological integrity of forests through strict regulation of industrial use. Australia's investments in agro-forestry, forest certification programs, and research were also mentioned, along with the government support provided to forest-based enterprises through financial incentives and initiatives to support indigenous communities.

Refocusing on Nepal, Ambassador Volk highlighted the importance of promoting community-based forestry enterprises as a means to achieve prosperity from forestry. She emphasized the need for dialogues and knowledge exchange, inviting participants to share ideas and expertise for the mutual benefit of all stakeholders. She expressed hope that through such collaborative efforts, a transformation could be achieved in forestry practices, contributing to the well-being of Nepal and its people.

In her address, Her Excellency Ms. Felicity Volk demonstrated a holistic approach, combining the celebration of past achievements, acknowledging present challenges, and inspiring a vision for the future of community-based forestry in Nepal.

Presentation

The major points from the presentation by Dr. Srijana Baral and team are summarized below (see Annex for some specific presentation slides).

- 1) Contribution of small and medium enterprises (SMEs) to the Nepalese economy: In Nepal, SMEs contribute 22% to the gross domestic product (GDP) and employ around 1.7 million people. However, the import of wood and wood products has been increasing, reaching NRs. 17.82 billion in 2021/22, highlighting the need to promote domestic forest-based enterprises.
- 2) Complexity of Community Forestry Enterprises: There are various challenges pertinent to community forestry enterprises in Nepal including registration processes, lack of government financing for ideas, difficulties faced by women-based enterprises, and the unrecognized status of CF-based models as business entities. Additionally, governance dynamics often overlook science-based information from the community field, as evidenced by the focus on timber rather than Thakal and Sal-leaf inventory in Nawalparasi.
- 3) Steps in the Enterprise Ecosystem: The presentation outlined several steps in the enterprise ecosystem, including enterprise registration, access to forest resources, regular operation, marketing/sales, and benefit distribution. Each step presented its own set of challenges, such as regulatory and administrative requirements, forest tenure and sustainability, financing and insurance, competition with low-cost goods, and tax distribution. Diversification of Forest-based Enterprises: Besides timber, forest-based enterprises can encompass various Non-Timber Forest Products (NTFPs) such as essential oils, ayurvedic products, Yarsagumba, nurseries, eco-tourism and homestays, sawmills and furniture, plywood and veneer, kattha, resin and turpentine pine products, wood treatment, and seasoning.
- 4) Policy Recognition of Forest-based Enterprises: Several policies listed in the Nepal Rajpatra were highlighted, including the recognition of CFUGs' ability to establish forest-based enterprises alone or in cooperation with other CFUGs outside community forests. The policies also address the internal use of timber, auction processes for timber sale, and the requirements for listing forest-based industries at Divisional Forest Offices (DFOs).
- 5) Challenges Faced by CF-Enterprises: The presentation shed light on the challenges faced by CF-Enterprises, including issues of information leakage during auctions, lack of professional expertise, accountability concerns, and tensions between CFUG executive committees and enterprise subcommittees. Additionally, externally supported enterprises often weaken public stake and accountability, and there is a production-centric approach without sufficient market analysis and strategy.
- 6) Trade-offs and Organizing Paradoxes: The presentation-discussed trade-offs between social-environmental and economic-financial goals, termed "organizing paradoxes." It highlighted the need to balance socio-environmental objectives with profit and growth, the different leadership selection processes, and the allocation of benefits to enterprise growth, private investors, and community development.

- 7) Recommendations: The presentation provided recommendations for governments, CFUGs (Community Forest User Groups) and FECOFUN (Federation of Community Forestry Users in Nepal), and the private sector. Governments were urged to differentiate regulatory requirements based on business size, profit level, and environmental risks, and to provide a conducive policy environment and support systems for CFEs. CFUGs and FECOFUN were encouraged to undergo institutional transformation, develop partnerships with private companies, and strive for fair prices and economies of scale. The private sector was advised to see CFEs as potential collaborators and expand the forest economy through value addition.



Remarks from the Chief Guest

Dr. Rewati Raman Poudel
Secretary of Ministry of Forests and Environment



- Dr. Rewati Raman Poudel highlighted the ongoing process of revitalization and expressed optimism about the maturity and growth of the sector.
- He emphasized the potential for reaching an industrial scale in the second generation.
- Dr. Poudel underlined the importance of integrating business and enterprise literacy into community forestry discussions and events like this one.
- He stressed the need for capacity building and value addition in small-scale enterprises, including initiatives such as "amriso" for broom-making, as well as in agriculture and forestry.
- Dr. Poudel encouraged participants to consider the holistic picture and take a comprehensive approach to their endeavors.
- He emphasized the progression from start-ups to establishment and ultimately achieving sustainability.
- Dr. Poudel urged participants to think in terms of forward and backward linkages, emphasizing the importance of interconnectedness for success.
- He expressed his willingness to support and facilitate these initiatives through official mechanisms and stressed the need for long-term commitment rather than one-time events.
- Dr. Poudel called for technical support from the development sectors to aid in the implementation of these initiatives.
- He emphasized the importance of tangible outcomes and results, stating that without actual deliveries, workshops and events would be of no use.
- Dr. Poudel underscored the need for a holistic approach and expressed hope that recommendations would emerge from the event to be presented to the ministry.

Panel discussion



Thakur Bhandari
FECOFUN
(Chairperson)

Sabitri Khatri
Women Entrepreneur
(Hand-made paper)

Radhika Wagle
Joint Secretary and
Spokesperson,
Ministry of Industry,
Commerce and
Supplies

Shiva Wagle
Chief, Planning,
Monitoring, and
Coordination
Division (MoFE)

Madhav Mani Humagain
FENFIT
(General
Secretary)

a.) Sabitri Khatri, Women Entrepreneur (Hand-made paper)

During her speech, Ms. Sabitri Khatri shared her experiences and struggles as an entrepreneur in the hand-made paper industry. She highlighted the challenges faced during the enterprise registration process, including the need to travel extensively for consultations. Sabitri also mentioned the initial difficulties in sourcing raw materials from private sources. Despite these obstacles, she expressed pride in having traded products worth approximately 60-65k. Sabitri acknowledged the discouragement faced from some individuals but also emphasized the encouragement received from ForestAction. She concluded by stating her commitment to encouraging other women groups to operate enterprises such as Lapsi and Sisno.

b.) Madhav Mani Humagain, General Secretary, FeNFIT

Mr. Madhav Mani Humagain discussed the hurdles he encountered as an entrepreneur in the veneer industry. He highlighted the complexity of regulations and diverse rules across different districts. Madhav emphasized three specific reasons hindering the expansion of investments in forest enterprises: regulatory complexities in raw material collection and marketing, lack of alignment among acts, regulations, and policies, and high premium rates for insurance. He expressed concerns about the absence of a corporate culture due to policy and implementation-related attitudes, as well as the inconsistency of decisions between governments.

c.) Thakur Bhandari, Chairperson, FECOFUN

Mr. Thakur Bhandari, Chairperson of the Federation of Community Forestry Users in Nepal (FECOFUN), addressed the improvement of CF enterprise performance. He raised concerns about the lack of trust in CF from external entities and the unwillingness of the government to amend management plans and constitutions. Thakur also highlighted the challenges faced by CF user groups (CFUGs) during the preparation of management plans and constitutions due to uncertain and ad hoc government decisions. He noted that Forest Rule 2022 seized the rights of CFUGs and emphasized private sector involvement. Thakur emphasized the need to change conventional mindsets and advocated for subsidy support to CFUGs. He also expressed concerns about development agencies keeping communities away from their agendas.

d.) Radhika Wagle, Joint Secretary and Spokesperson, Ministry of Industry, Commerce and Supplies

Ms. Radhika Wagle, from the Ministry of Industry, Commerce, and Supplies, acknowledged her limited experience in the CF sector but committed to taking the raised questions to the decision-making level. She highlighted the provisions in the cooperative and forest acts for collective enterprises. Radhika recognized the existence of three tiers of government and suggested that solutions lie within the people facing accountability challenges. She emphasized the need to amend policies to facilitate the registration of collective forest-based enterprises in the name of groups, as individual ownership has been the prevailing practice. Radhika stressed the importance of stakeholders and the government coming together to discuss and reach a common understanding on these issues.

e.) Shiva Wagle, Chief, Planning, Monitoring, and Coordination Division (MoFE)

Mr. Shiva Wagle shared his experience of facilitating various forest-based enterprises, ranging from small-scale enterprises like Duna Tapari to sawmills. He highlighted the need to comply with policies beyond the forest department during the registration process. Shiva addressed the distinction between subsistence and commercial enterprises and emphasized four major challenges for collective enterprises. These challenges include mindset shifts from users to producers, conflicting motives between collective enterprises and individual-oriented businesses, insecurity of the share of CF chairs during leadership transitions, and the need for collaboration and coordination between various departments and policies in the value chain. Shiva expressed the positive stance of the Forest Ministry in creating employment opportunities through forest-based enterprises. He emphasized the importance of studying the actors and value chain linkages in forest enterprises. Shiva drew parallels between the collaboration needed in manufacturing a vehicle from different parts and the collaboration required among guiding departments and policies to operate forest-based enterprises successfully. He concluded by expressing the Forest Ministry's commitment to facilitating CF's needs and creating employment opportunities through forest enterprises.

Overall, the panel discussion shed light on the challenges faced by entrepreneurs in the forest-based enterprise sector. The speakers highlighted issues such as regulatory complexities, lack of alignment among policies, the need for mindset shifts, and the importance of collaboration among government, communities, and entrepreneurs. The discussions provided valuable insights into the prospects of transformation for community institutions and forest-based enterprises in Nepal.

Question and comments

Questions and Comments from the participants:

1) **Suhrid P. Chapagain, Entrepreneur:**

- We have been talking about CF as a business entity, but the major concern is how can it be registered?

2) **Parbata Gautam, FECOFUN:**

- We always say CF can't do business, but why don't we discuss how it can?

3) **Ram Bhandari, DFO:**

- Suggestion: CF falls under the jurisdiction of the provincial government. Similarly, small-scale enterprises are registered at the local government level, while medium to large enterprises are registered at the provincial and federal government levels. How can the local government be guided?
- Question to the Ministry of Industry: Why is there a separate registration process in different districts? Why isn't there a defined authority? Some districts register in the Divisional Forest Office (DFO), while others do not?
- Question to FECOFUN: Why do the majority agree that private sector involvement is required in the operation of enterprises?

4) **Lok Bahadur Kunwar, Ward Chair, Bhumlu Rural Municipality, Kavre:**

- Everything is well written in the document, but implementation is lacking. Forest department and industry department are not aligned in policies regarding collective enterprises, which creates problems during registration.
- The Chaubas sawmill has been registered in the name of representatives from four CFUGs. Can it be transferred to the CFUG's name?



5) Rabindra, Private Sector:

- Which department should I approach to register a forest-based enterprise?
- Nepal always has a constant forest area (44.74%), but we are importing timber from other countries. Aren't we incurring losses? When will we realize this?

6) Ram Prasad Gautam, Chair of Cluster Level Forest Management Committee (CLFMC) and Chair of Chautara-13:

- I have a decade-long experience in forestry, and I feel a strong connection to the forest.
- We have formed the CLFMC where one-third of the shares are invested by CFUGs.
- In practice, we have been unable to even collect fallen timber. Forest-based enterprises are distant from us. Currently, the Forest Officer has not approved the Operational Plans (OPs) of CFUGs due to the expiration of their five-year plans. When will they prepare new plans?
- My other question is how the CLFMC can be legalized?

Response from the panelists:

1) Ms. Radhika Wagle:

- Multiple policies guide the operation of enterprises. Depending on the scale, registration can be done at the local government level. However, it should be done in accordance with the enterprise policy.
- Currently, there is a provision to register enterprises in the name of individuals. Even the petrol pumps of the Nepal Army have been registered in the name of individuals.

2) Mr. Shiva Wagle:

- Timber selling requires an auction process, which can be time-consuming and viewed as a restriction by the District Forest Office (DFO). Timber marketing itself is not a problem, but the process takes time.
- Regarding imports, although the quantity and budget of imports are high, the import of round logs is low. The import of finished products is high due to lower costs and market competition.

3) Mr. Madhav Mani Humagain (Reasons why timber selling is problematic):

- The first reason is Huber's formula of Forest Rule 2022.
- Another reason is price difference: some CFUGs publish auction notices at Rs. 25, while others use different prices. The government should fix the maximum retail price (MRP) to create uniformity in prices.
- The failure of the Forest Corporation is also a reason. Although it may sound good in principle, involving the government in business operations has led to its failure.

4) Mr. Thakur Bhandari:

- Forest areas in Nepal are degrading in the name of ecotourism promotion.
- The Forest Rule has provisioned the right of CFUGs to utilize forest products as well. There should not be a debate on how to utilize either for subsistence or commercial purposes.
- Regarding clusters (responding to Ram Prasad Gautam), we have been advocating to strengthen the power of the local government (LG). Since the forest act does not consider the LG as an authoritative body, what will happen when you, as a ward chair, participate in forming clusters? Instead of focusing on clusters, let's try to ensure services from the Palika or LG.

Plenary discussion

“Can CFUG operate enterprises?”

Theme: Authority and Fragmentation

- The authority of registration held by the DFO raises concerns about fragmentation in the future.
- Community-owned businesses often face conflicts, while privately-owned enterprises tend to operate more smoothly.

Theme: Support and Investment

- Continuous support is crucial for establishing enterprises, especially for pro-poor, marginalized, and women groups lacking business ideas.
- It is important to differentiate between income generation and enterprises, not directly associating livelihood and income with enterprises.
- Enterprises require investment, business plans, and market assessments/studies prior to intervention.

Theme: Forest Product Certification and Research

- Exploring the certification of forest products and establishing testing mechanisms are significant challenges in forest product collection and utilization.
- Research and development play vital roles in addressing issues related to forest products.

Theme: Definition of Enterprise and Value Chain

- Defining enterprise involves considering profitability and market influence.
- The value chain includes separate roles for different actors at various steps, acknowledging that not everyone can handle every aspect.
- Enterprises have a high discount rate, indicating higher risks.

Theme: Failures and Assessments of CF Enterprises

- CF enterprises have often failed due to a lack of resource and market assessments before production.
- Market assessment should balance mainstream market demands with philanthropic products.
- Prioritizing market and resource assessments is essential, as collective actions for profit can lead to conflicts and questions about viability.

Theme: Future of Forestry Sector and Organizational Behavior

- Considering the future of the forestry sector and ensuring compliance with CFUGs' freedom.
- Addressing organizational behavior and supporting users in their entrepreneurial endeavors.

Theme: Selection of Entrepreneurs and CFUGs' Role

- Challenges exist in selecting motivated entrepreneurs, and CFUGs should focus on being producers rather than entrepreneurs.

Theme: Private Knowledge and Equitable Benefits

- CF's success can be attributed to enriched private knowledge, collective investment, and equitable benefit sharing.
- Promoting CF enterprises requires creating an enabling environment and ensuring private profit with equitable benefits.

Theme: Reenergizing CFUGs and Collaboration

- Reenergizing CFUGs is crucial, including conducting general assemblies and meetings.
- Collaborative efforts among communities, private sector, and government are necessary, recognizing weaknesses and finding common ground.

Closing Remarks by the Chair of the event, Mr. Nabaraj Pudasaini

Deputy Director General, Department of Forests and Soil Conservation (DoFSC)

- Strategic planning of DFOs requires submission from all seven provincial governments to proceed.
- Land use changes have occurred in 18,232 hectares of CF post-federalization, and infrastructural development in forest areas needs evaluation.
- Governance of CFUGs should be discussed and resolved before focusing on enterprises.
- Socio-economic changes and political federalization must be considered in the CF context.
- Research on village demographics, socio-economic factors, and political changes is necessary.
- Studying the gap in timber production between private forests and CF is crucial for understanding the existing disparities.



Annex 1: List of participants

Policy Dialogue on
"Community institutions and forest-based enterprises: Prospects of transformation"
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28.	Sujana Shrestha	PCTMCDB			

"Community institutions and forest-based enterprises: Prospects of transformation"

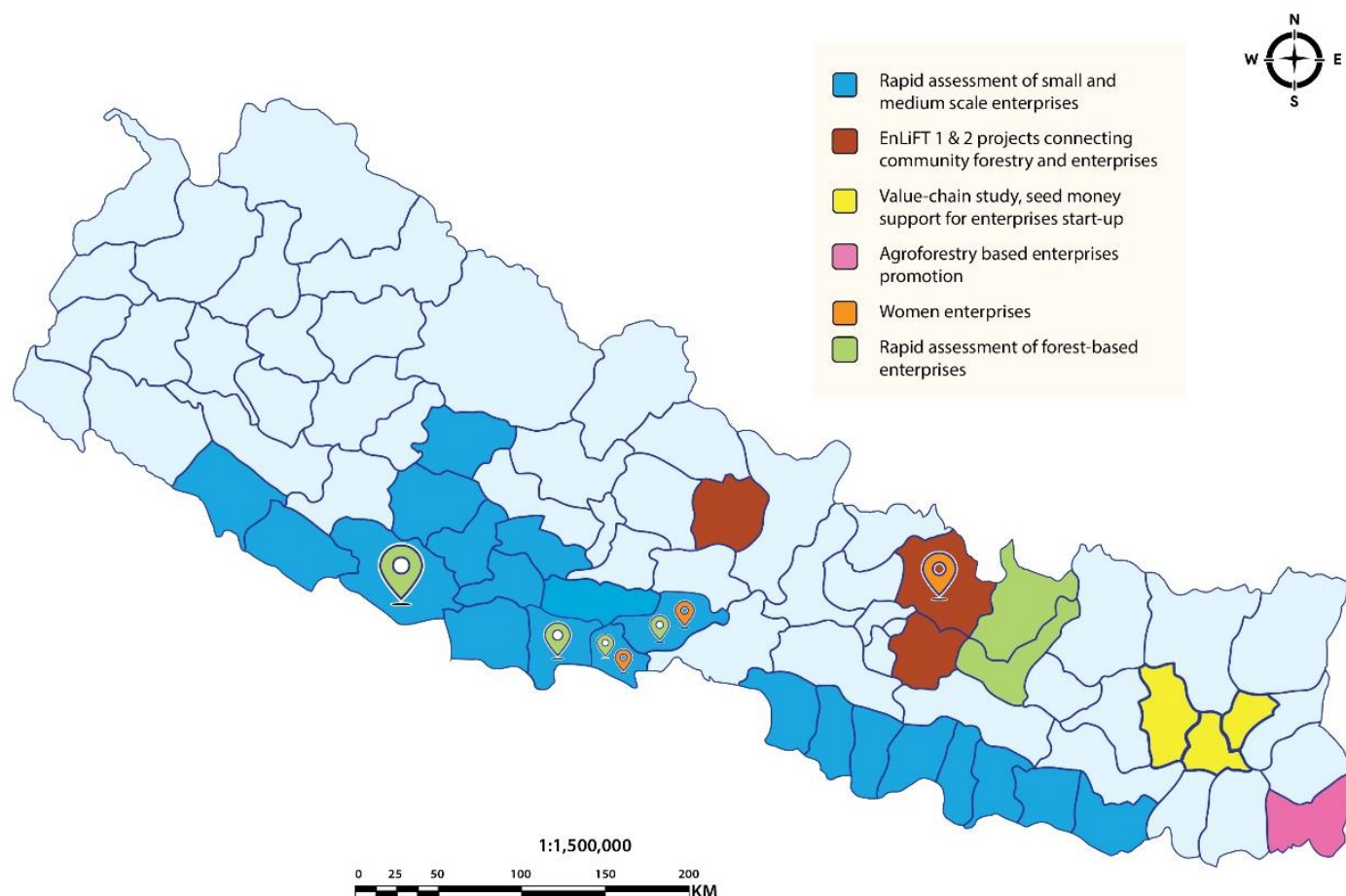
6 June 2023 | Hotel Himalaya, Lalitpur

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42.					

Annex 2: Program schedule

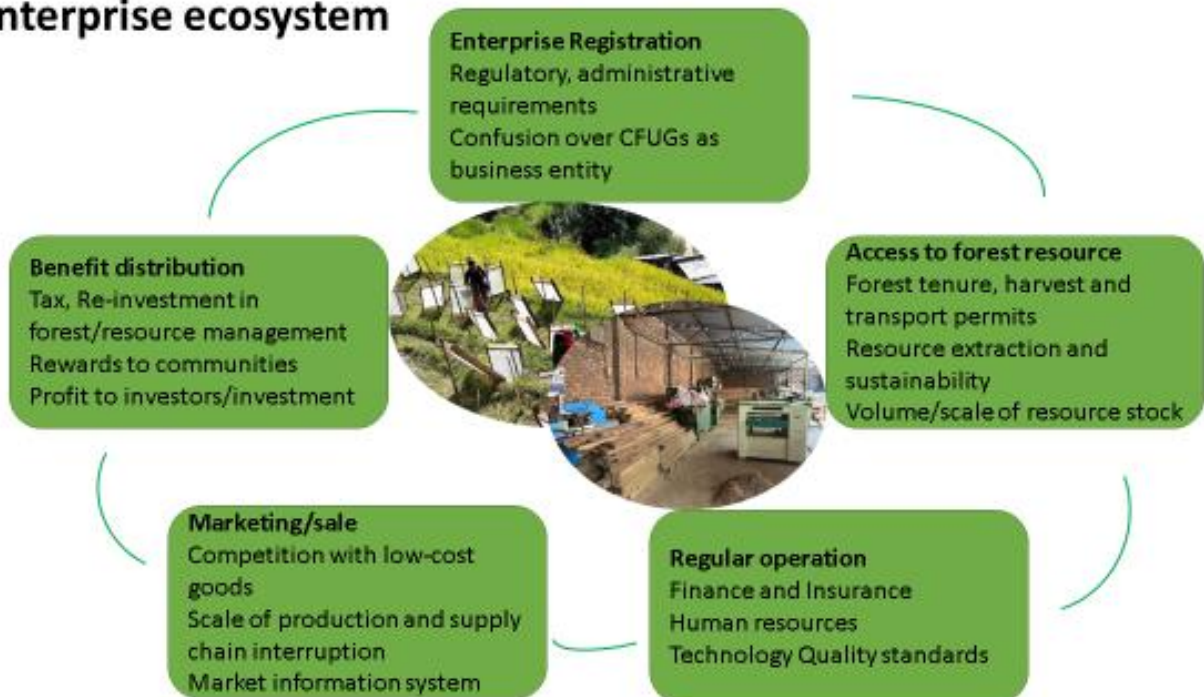
Time	Agenda	Roles
8:00-8:30	Registration and breakfast	
8:30-8:40	Welcome and introduction to the program Chair - Mr Nabaraj Pudasaini, DDG, DoFSC Chief Guest - Dr Rewati Raman Poudel, Secretary, MoFE Special Guest - Her Excellency Ms Felicity Volk, Australian Ambassador to Nepal	Rahul Karki
8:40-8:50	Welcome remarks by the Special Guest	Her Excellency Ms. Felicity Volk, Australian Ambassador to Nepal
8:50-9:10	Presentation	Dr Srijana Baral
9:10-9:25	Remarks	Chief guest - Secretary, MoFE
9:25-10:25	Panel discussion: Mr. Shiva Wagle, Chief, Planning, Monitoring, and Coordination Division (MoFE) Ms Radhika Aryal, Joint Secretary and Spokesperson, Ministry of industry, commerce and supplies Mr Thakur Bhandari, Chair, FECOFUN Ms. Sabitri Khatri, Women entrepreneur Mr. Madhab Mani Humagain, General Secretary, FenFiT	Dr Naya S Paudel
10:25-10:35	Tea break	
10:35-12:15	Plenary discussion	Moderator
12:15-12:30	Closing	Chair - DDG, DoFSC
12:30	Lunch	

Annex 4: Presentation slides

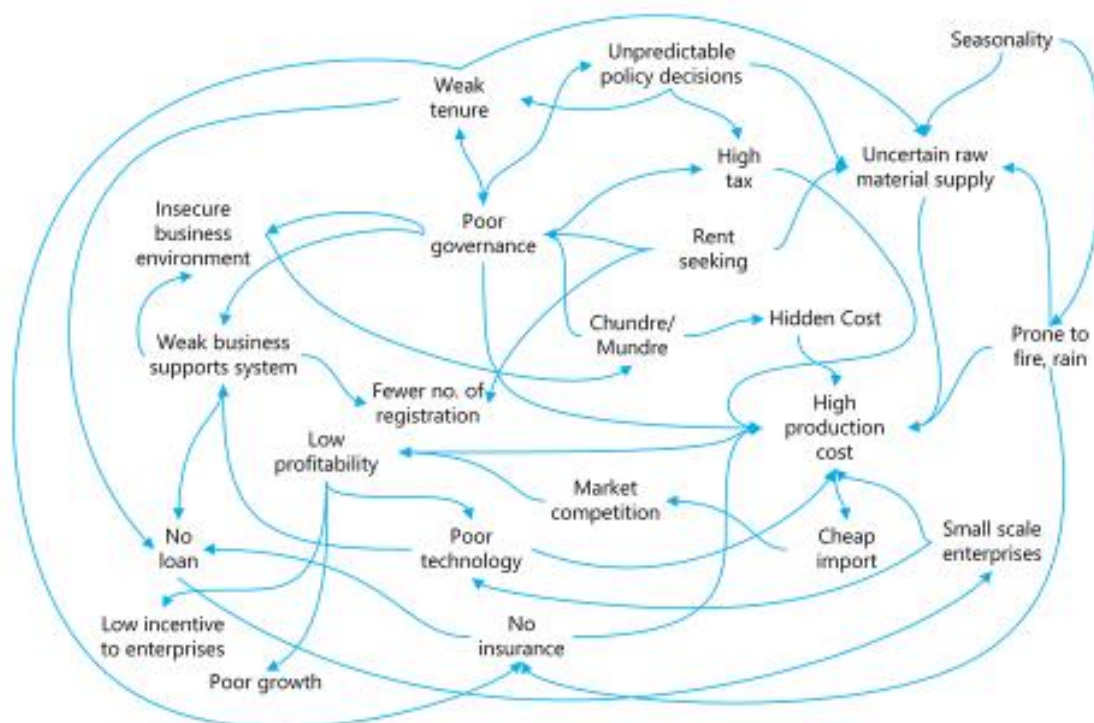




Enterprise ecosystem



CFEs challenges- underlying and proximate



Organizing paradoxes in CFEs

Socio-environmental goals

- Social/environmental objectives at the core, **profit as means to support the social goal**
- Leaders elected through political process
- Leaders largely work as **volunteer and only enjoy symbolic capital**
- **Participatory and inclusive decision** process often based on consensus or majority
- Investment in community infrastructure, social services or pro-poor activities

Economic/financial goals

- **Profit and growth** at the core
- Leaders selected through **bureaucratic process** based on professional expertise
- Professional experts make decisions considering **business and financial rationale**
- Key people get paid (time based, output based)
- Benefits invested in: **enterprise growth, private investors** and community development

Policy initiatives: Industrial Policy and Industrial Enterprise Act

- Industrial Policy 2011 (GoN, 2011)
 - Industries based on [forest products are listed as prioritized industries](#).
 - The policy aims to promote micro-enterprises, cottage, and small industries based on forest products.
- Industrial Enterprises Act 2020 (GoN, 2020a)
 - Forest-based industries are entitled to a [hundred per cent exemption on dividend tax](#).
 - The possessory right of a forest within any specific area may be provided [on bond or lease under the prevailing law to a forest product-based industry](#) by specifying necessary terms.
 - The Government of Nepal [may provide incentives, exemptions, facilities](#), or concessions, as prescribed, to the forest product-based industries.

नेपाल राजपत्र

नेपाल सरकारद्वारा प्रकाशित

खण्ड ५५) काठमाडौं, मंसिर ०३ गते, २०७३ साल (सोमवार) १३

संख्या २०७३ को ऐन नं. २०

औद्योगिक व्यवसाय सम्बन्धी कानूनलाई सुशोधन र एकीकरण गर्ने बमोजिम ऐन

Policy initiatives (cont.)



- CFUG can [establish forest-based enterprise alone or with cooperation of other CFUGs](#) outside community forest (Article 51)
- The users' group may, upon following the procedures as prescribed, operate such forest enterprise and [eco-tourism programs](#) as specified by the approved [work plan](#) on its own or in partnership with the Local Level or organization or the private sector or cooperatives (Article 52)
- Article 49 prioritizes [the internal use of timber and the sell/trade of remaining wood only](#).
- Article 25 highlights the provision of an [auction process for timber sale](#) from government managed forests and the royalty rate of different species (listed in Annex 6).
- Only the registered forest-based industry which is also listed at DFO can compete in auction but in case of hilly district, local sawmill can also compete. The buyer can sell log only after sawing or one level of processing (Article 27).
- To list the forest-based industry at DFO, [forest-based industry needs a recommendation](#) from the subdivision [forest office and FENFIT](#) along with industry registration document (Article 128).

Recommendation to governments

- Differentiate regulatory requirements corresponding to the size of the business, level of profit and potential environmental risks
 - Shorten the length of the auction process and promote the practice of e-bidding
- CFEs promote socio-environmental goals – should be subsidised by public money
- Provide a conducive policy environment and support systems
 - Capacity, technology and other support so that they can economically prosper and collaborate with the larger business and also generate multiple social and environmental benefits
 - Secure tenure and access to forest resources, authority to make key decisions
 - Increase community participation in developing the rules for emerging markets for ecosystem services and socially responsible wood and non-wood production

Recommendations to CFUGs, FECOFUN

Rejection of private sector

- We have invested to regenerate the resources for last 4 decades
- Private investors narrowly prioritise profit, we value local jobs, trust and relations among members
- Private enterprise do not adequately consider resource sustainability and wider environment



Suggested future strategies for FECOFUN

- Institutional transformation to bring professional leadership and provide performance based incentive
 - Develop innovative partnership/ collaborations with private companies
 - Strive for a fair price for CFUGs and smallholder products
 - Gain economy of scale: e.g. resource pooling
-
- Scope for co-existential relation between community-run business and privately owned companies to co-exist, growing together and creating synergies.
 - CFEs are primary processors at the bottom of the value chain- larger private enterprise can add value to the products.

Recommendations to private sector

- There is no inherent conflicts between small CFEs and private firms
- As CFEs are social enterprises, they tend to balance profit with social, environmental goals; they won't compete with private sector in profit and growth
- Private companies can do business above and beyond CFEs – building on their products and services
- Promoting CFEs will help expand forest economy, make it efficient and popular