



Policy Brief No. 58  
April 2026

# Building Resilient Communities through Community - Private Partnerships in Forest-Based Enterprises

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## Key Messages

1. Community Forest User Groups' (CFUGs) resilience depends on environmental sustainability and reduced livelihood vulnerability; forest-based enterprises offer a practical pathway to strengthen both outcomes simultaneously.
2. Poor business environment, marked by exhaustive regulatory and administrative requirements and heavy taxes has constrained materialization of economic potentials of forest enterprises, despite proven institutional capacity of CFUGs on equitable and democratic governance and forest restoration.
3. The existing regulatory frameworks, institutional arrangements and mindsets of political and bureaucratic leadership perpetuate the initial protection-orientated forest governance with limited success in harnessing economic potentials of forests; private sector yet to gain the reputation for greater stakes in forestry businesses.
4. On the enterprise front, the existing regulatory environment doesn't recognize CFUGs as enterprise entities, which is further compounded by the non-regulatory barriers such as the limited access to finance, technology, skilled labor and market information undermining the prospects of enterprise success.
5. By ensuring proper environmental safeguards and protection of community rights and autonomy, private sector engagement can complement Nepal's community forestry through investment, innovation, entrepreneurship, and shared prosperity.

## Introduction

Climate adaptation refers to the adjustment made to the ecological, social and economic systems in response to existing or anticipated change in the climatic patterns and their consequences (IPCC, 2023). Resilience is achieved through interdependent outcomes of resilient people and livelihoods, resilient businesses and economies and resilient environmental systems. The research findings from the 25 years of action research at ForestAction Nepal (FAN) demonstrates that increased income from forests through value addition is key for the sustainability and resilience of community forest user groups (CFUGs) (outlined in figure 1). By generating diversified and climate-resilient income sources, forest enterprises can reduce households' dependence on climate-sensitive livelihood options (Rahman et al., 2017). Enterprise incentives encourage active forest management and regulated harvesting thereby increasing ecosystem resilience and recovery under severe climate variability. At the community level, collective enterprise revenues enable reinvestment in forest management and risk-reducing infrastructure, and foster adaptive decision-making (Pinheiro et al., 2020). Together, these livelihood, ecosystem, and institutional pathways reinforce socio-ecological resilience while supporting long-term climate adaptation.

Promotion of forest-based enterprises run either by government or private entity as a business unit or by the community as a social enterprise has to be a priority for achieving the vision of 'forestry for prosperity' (Paudel & Karki, 2024; Banjade, 2012; Paudel et al., 2010; Banjade & Paudel, 2008). Enterprise denotes an enduring, independent economic-legal unit or organized entity comprising persons, property, obligations and activities

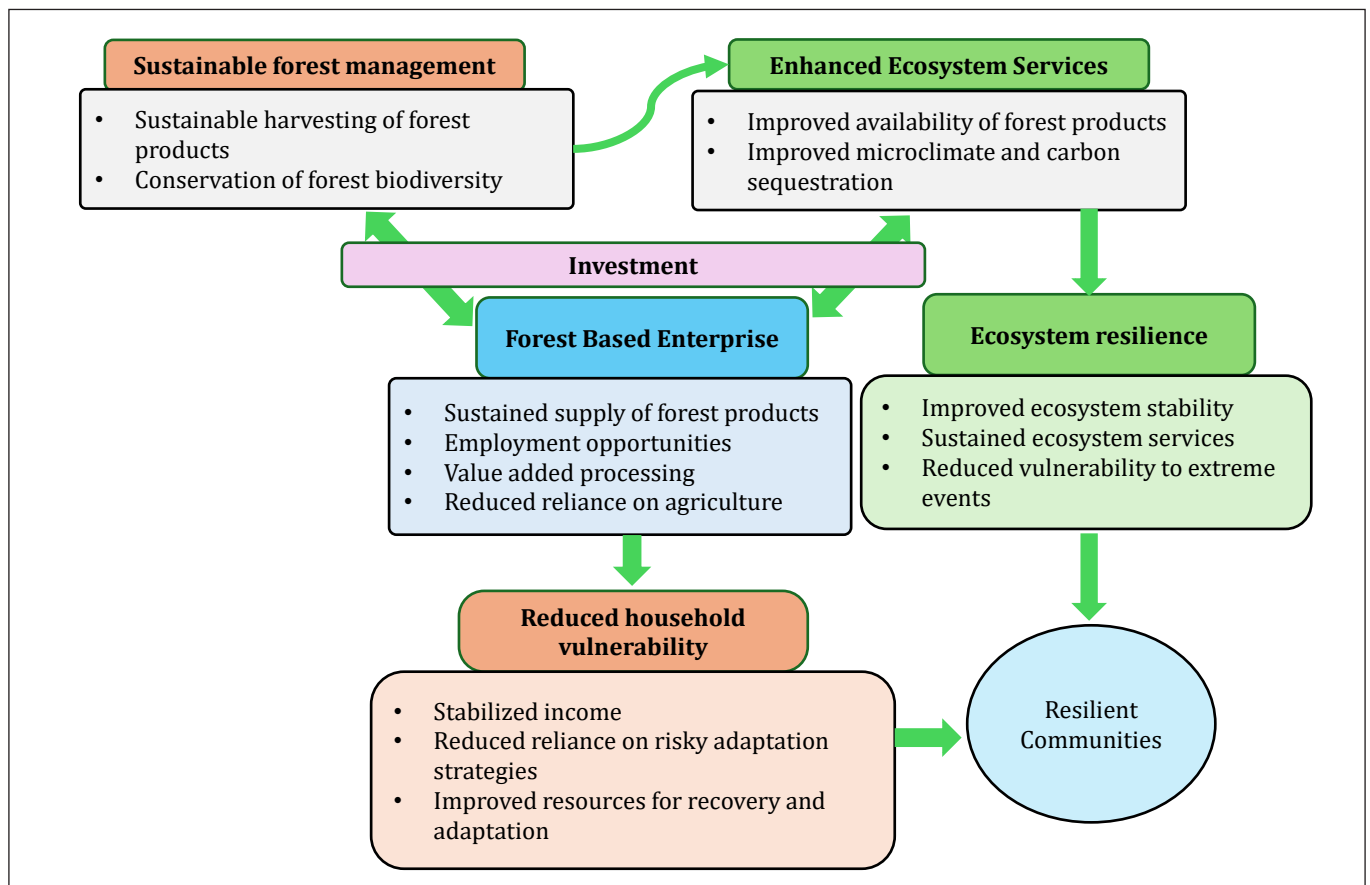
oriented toward profit realization (Boehlke & Tomanek, 2021). Social enterprise, on the other hand, extends beyond pure commerce to include social or cultural outcomes than mere organizational form oriented towards profit generation (Hauge, 2006). CFUGs in Nepal, in fact, operate as social enterprises since they generate environmental services (e.g., biodiversity conservation, watershed protection, carbon sequestration) and cultural benefits in addition to economic returns (Rai, 2024).

Enterprise in general, serves as the structural vessel or organizational form through which business activities are conducted, while business represents the core commercial operations and profit-oriented processes within that structure. While the concept of business, enterprise and social enterprises serves as a foundation for understanding what they are, their functioning depends on both the internal and external factors in which they operate. The ease or difficulty of starting and running an enterprise is determined by the internal organizational capacity and also largely by the external environment which facilitate or hinder the business landscape (Badini et al., 2018).

According to World Bank's Ease of Doing Business Report, 2020, Nepal ranks 94th out of 195 countries, while regional neighbours such as India (63rd), Bhutan (89th) and China (31st) rank comparatively better. The ranking is based on indicators like starting a business, dealing with construction permits, getting electricity and paying taxes. In Nepal, the process of starting a business has become more cumbersome compared to the previous assessment, requiring an entity to visit seven different institutions and complete eight steps, taking on average 25 days. While procedures related to construction permits have become relatively shorter compared to the previous assessment, they still demand 12 distinct steps across eight institutions,

consuming an average of 118 days. Similarly, acquiring electricity takes nearly two months, adding further delays to business operations. Moreover, tax obligations remain heavy, with businesses required to make 46 payments annually under 13 different tax headings. These indicators showcase the overall challenges in the business landscape

of Nepal. These hurdles further intensify for the forest enterprises as they face the same bureaucratic hurdles, heavy tax burdens, and weak institutional coordination as other sectors. Overall entrepreneurial environment of Nepal has significant implications on forest sector business environment as well.



**Figure 1: Pathway to enhance climate adaptation and resilience through sustainable forest management and forest based enterprises**

## Forest-based enterprise in Nepal

In a developing country like Nepal, forest-based enterprise is generally limited to micro, small and medium scales<sup>1</sup>, as large-scale industries are virtually absent (Badini et al. 2018; Lamsal et al. 2017). These enterprises rely on the set of ecosystem services provided by forest, mainly capitalizing the provisioning and cultural services (Krieger, 2001; Fekadu et al., 2021). Provisioning services such as timber, fuelwood and non-timber forest products serve as the primary basis for enterprises' raw materials, while cultural services like tourism and recreation operate in parallel or distinctly to add further value to the economies (Torralba et al. 2020). Government-run forest-based enterprise have a long history in Nepal that formally started from the establishment of Nepal Timber Corporation in 1960 and Herbs Production and Processing Company Limited in 1981. Similarly, forest related tourism and recreation sector formally started when an entry fee for the Chitwan National Park was introduced in 1973, after its establishment in the same year.

Community-based forest enterprise, on the other hand, faces and has faced a unique set of challenges. Although the Forest Act, 1993, Section 30B (inserted through the Second Amendment on November 14, 2016) and Forest Act, 2019, Section 34 have provisioned that community-based forest enterprises could be registered within the Division Forest Office, the Industrial Enterprises Act does not recognize community ownership, restricting ownership to “natural persons.” The lack of comprehensive legal provisions for CFUGs had, and has always, created structural gaps, compelling them to operate through informal or extra-legal practices. Such practices increased associated risks, including accountability and transparency issues. Although the community-based forest enterprises continue to be recognized under the current Forest Act, 2019, the Industrial Act remains reluctant to move beyond the “natural person” entity. As a result, their operation often exists in de facto practice of informal proprietary that differs from their de jure recognition under the Forest Act putting them in the “grey zone” of legality. This contested and subjective interpretation has undermined their legal security,

<sup>1</sup> Enterprise: An enterprise is an economic unit or organization that is established to produce goods or provide services using labor, capital, and resources, and is managed by an entrepreneur. An enterprise with investment of less than 20 lakh NPR, less than nine workers and machinery capacity upto 20 kilo watt is considered micro enterprise. Small enterprise are those which has fixed capital up to 15 crore rupees, excluding micro and cottage industries (Industrial Enterprise Act, 2020)

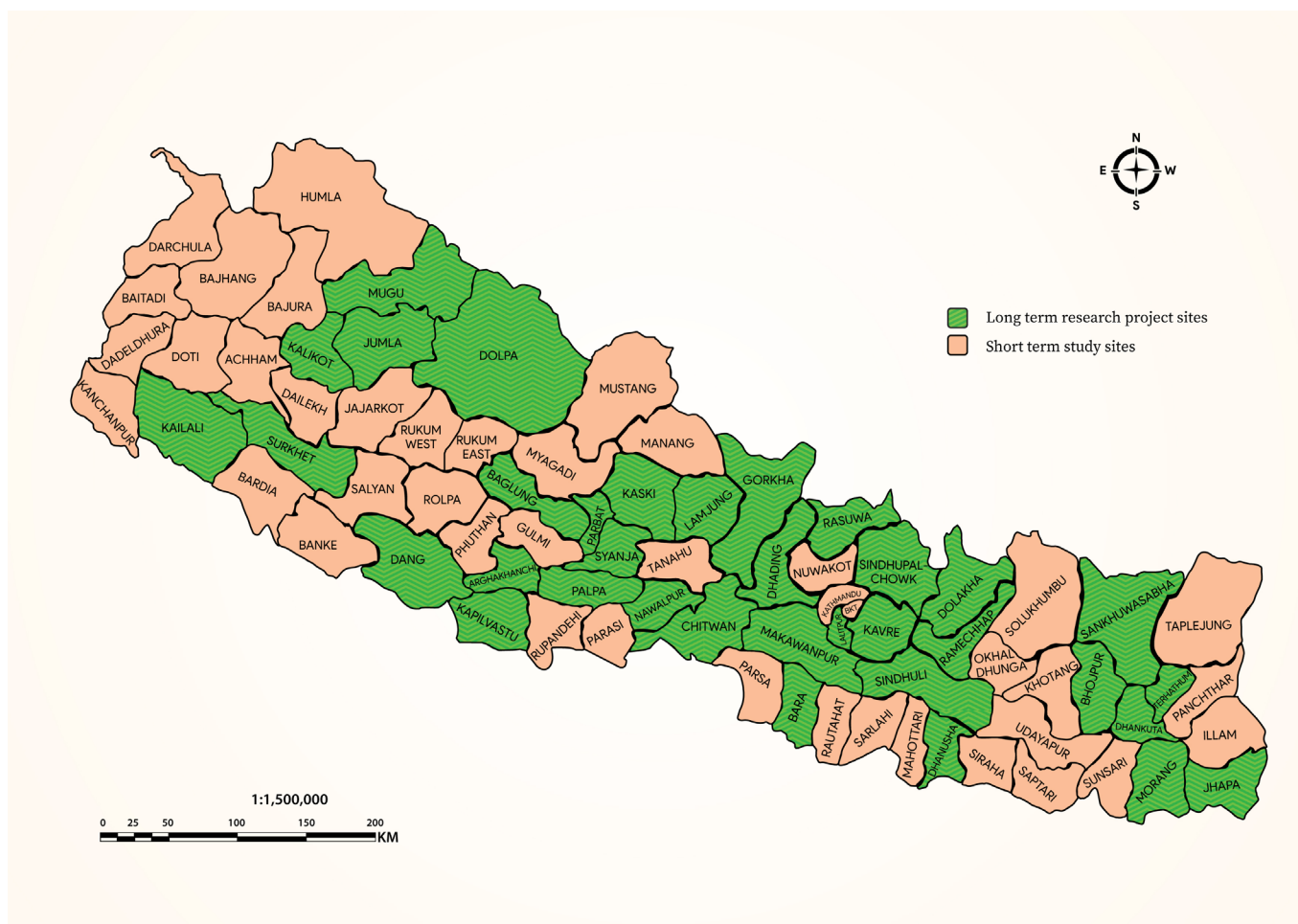
making them vulnerable to bureaucratic discretion, and limiting their access to finance, insurance, and investment opportunities.

In the face of reduced forest dependence for the subsistence forest products needs for majority of forest users, and hence limited incentive to engage in forest management and governance related activities also requires rethinking on the existing largely protection oriented CF management. Considering the increased forest cover mainly due to community forestry, and now limited intervention in community forests have been negatively effecting forest health, such as invasive species disturbing the entire forest structure, increased accumulation of biomass resulting into increased frequency and severity of forest fire and increased human wildlife conflict making life and livelihoods of

rural communities vulnerable. Therefore, continuing the protection-oriented CF management would be detrimental for ecology and livelihoods of the rural landscape.

## Methodology

Secondary data were drawn from ForestAction Nepal's accumulated research outputs over its 25 years of engagement in forest enterprise, community forestry, governance reform, and landscape-level action research. These materials served as the primary evidence base for this policy brief. In total, 16 research articles from the Journal of Forest and Livelihood, 15 articles from Hamro Ban Sampada, 12 discussion papers, 6 policy briefs, and 2 thematic booklets were identified, reviewed, and analyzed.



**Figure 2: Geographic spread of ForestAction Nepal's action research across Nepal.**

The districts (in figure 2) highlighted in green represent long-term research sites where sustained engagement, repeated field investigations, and longitudinal learning were conducted. The districts in orange indicate short-term research sites involving thematic studies, rapid assessments, or project-based interventions.

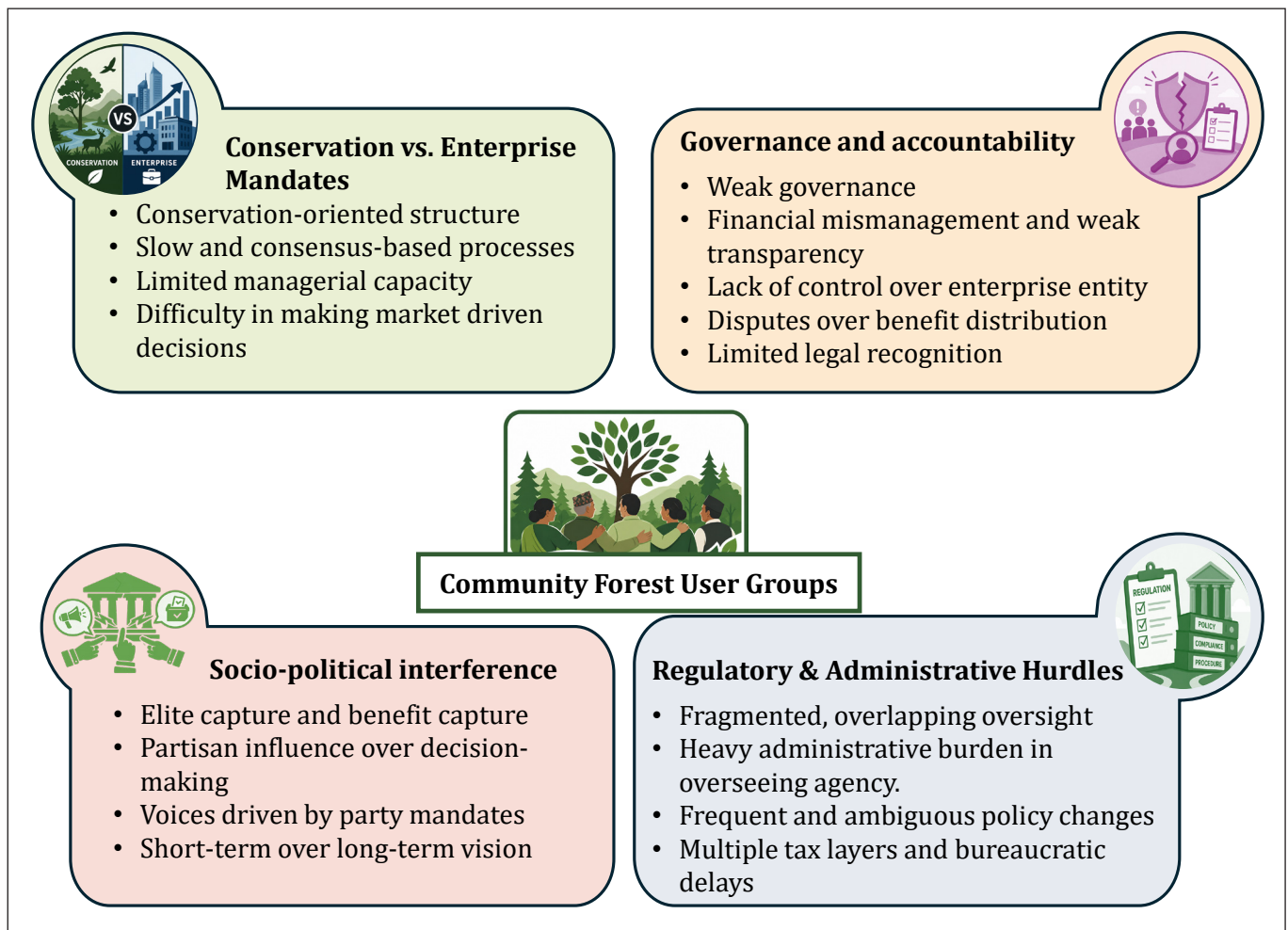
The evidence synthesized in this policy brief is derived directly from these long-term and short-term research activities, ensuring that the insights presented are grounded in diverse ecological, social, and governance contexts across Nepal.

## Community forest-based forest enterprise

Community forest-based enterprises in Nepal operate under diverse organizational models shaped by local resource conditions, market opportunities, and governance arrangements. In some cases, two or more community forest groups form clusters to jointly operate enterprises that require shared investment or attain economies of scale. For example, clusters of community forests in Sindhupalchowk collaboratively operated

portable sawmills following training, testing, and pilot implementation under ForestAction Nepal’s EnLiFT project. Other enterprise models engage the entire membership of a single Community Forest User Group (CFUG). A notable example is the Diyalo CFUG in Jalthal Forest, Jhapa, where users collectively produce turmeric and compost as part of restoration-linked livelihood initiatives supported by ForestAction Nepal’s Darwin project (Gautam, 2025). An additional successful model is the kind of collaboration of CFUGs with private entrepreneurs preferably within their members, that run the enterprise and pay the rent for using the raw materials or infrastructure. The most common model, however, involves delegating enterprise operation to sub-groups within the CFUG, often women,

marginalized households, or other priority groups. Such inclusive enterprise arrangements can be noted from Sundevi Duna Tapari Udhyog (Sal leaf plate enterprise), Namuna Women Thakal Enterprise and the Binayi Compost Enterprise in Nawalpur . However, establishing an enterprise and achieving sustained, successful outcomes are fundamentally different processes, a persistent gap that continues to underpin many of the challenges observed on the ground. This gap also shapes how external actors, particularly private investors perceive CF-based enterprises. When institutional and operational uncertainties remain unresolved, private investors often deem community enterprise a high-risk environment, limiting opportunities for partnerships.



**Figure 3: Multitude of challenges for community-based forest enterprise**

**i. Institutional structure of CFUGs**

CFUGs as community institutions were designed and started primarily for conservation-oriented mandates, prioritising protection, regulation and participatory decision-making. Enterprise management demands rapid market decisions, product innovation, competitive pricing, technical expertise and flexible authority, the features typical for private enterprises but difficult for CFUGs, which must follow lengthy, consensus-based processes involving large and diverse memberships. Limited core capacity as a manager and entrepreneur among the members further constrain performance. On the other hand, private

enterprises operate with streamlined authority, enabling them to respond quickly to fluctuating market conditions, negotiate prices, adjust production levels and make investment decisions.

As a result, regardless of the operational model, whether clustered CFUG enterprises, whole-group initiatives, or subgroup-led ventures, many Community forest-based enterprises struggle to achieve long-term sustainability. The core challenge lies in the misalignment between the procedural and institutional structure of CFUGs and the market-driven demands of enterprise development, leaving them at a structural disadvantage compared to private-sector actors.

## **ii. Governance issues of CFUGs**

A core issue stems from the legal requirement that community-based enterprises be registered under a private entity or “natural person,” rather than in the name of the CFUG itself, as mandated by the Industrial Enterprise Act. This arrangement places significant reliance on the integrity and accountability of the individual registrant. As a result, CFUGs as a group, lack full control and oversight over the enterprise, making it difficult to ensure sound governance, safeguard collective assets, or maintain trust among members. When CFUGs cannot provide these assurances, private engagement becomes limited or entirely absent.

## **iii. Socio-political dimension of CFUGs**

Community forest enterprise operate within complex socio-political contexts that shape how benefits are shared and how decisions are made, Elite capture remains a recurrent issue, where those with higher income, stronger networks or political affiliation exert disproportionate influence, while poorer households are confined to lower decision-making positions. In addition, guarded perspective toward adopting new technologies and a preference for short-term distribution of resources over long-term enterprise vision for enterprise investment further constrain productive capacity.

Politically, executive committee elections are heavily influenced by party affiliation, leading to decision driven by political consensus rather than independent, enterprise-oriented judgement. These dynamics dilute accountability and weaken the entrepreneurial culture required for competitive enterprise management. Where decision making is vulnerable to political turnover or fractional disputes, external actors become reluctant to extend partnership.

## **iv. Regulatory and administrative dimensions of CFUGs**

Inconsistent bureaucratic environment significantly constrain community forest enterprise performance. Multiple government agencies including, Divisional Forest Office (DFO), local government, provincial authorities, District Cottage and Small-Scale Industry Office, exercise oversight, each imposing different mandatory requirements, reporting procedures, compliance standards and multiple TAX layers. This fragmented overseeing approach creates duplication, delays and administrative burdens that small community-led enterprises find it difficult to manage. Moreover, bureaucratic decisions are not always coordinated. In some cases, one DFO may approve an enterprise or harvesting plan, while another officer may restrict or stop the flow of raw materials needed for production. Policy instability further exacerbates these challenges. Frequent policy shifts, circulars and temporary directives according to different minister and different party government repeatedly interrupted enterprise operations. For example; the 2014/07/04 circular halted the registration of new forest-based enterprises; the 2019 circular temporarily stopped the harvesting of Sal (*Shorea robusta*) trees; and another circular in the same

year discontinued Scientific Forest Management (SFM) disrupting ongoing silvicultural operations

These abrupt shifts, often issued without consultation or transition mechanisms create uncertainty for both CFUGs and private investors. Enterprise that relies on long-term planning, raw material predictability, and capital investment become particularly vulnerable. As a result, policy volatility discourages community-based enterprises from scaling up and disincentivizes private sector collaboration with CFUGs.

## **Private Sector Engagement with retained community ownership**

Given the demonstrated capacity of CFUGs in sustainable harvesting, labor mobilization and inclusive benefit-distribution, the production and supply of forest resources is best owned by the community. However, there is a substantial potential to engage the private sector in various nodes of value chain. Strategic collaboration can strengthen value addition, improve product quality, expand market reach and increase community income without transferring control over forest resources to private entities. Such a complementary division of roles reduces operational burden on CFUGs while increasing the market value of community forest products. Additionally, forest-based enterprises facilitate the transfer of technical, managerial, and entrepreneurial skills to community members, strengthening local human capital and enabling communities to independently operate and adapt enterprises over time. For the private sector to be acceptable and mutually beneficial, benefit-sharing mechanisms must be legally enforceable, simple to administer and transparent for all actors. Also, to sustain balanced collaboration, such complementary arrangements must be guided by clear contractual safeguards, transparent decision-making processes, and enforceable benefit-sharing provisions that uphold community ownership, autonomy, and long-term interests.

Possible arrangements could include but may not be limited to:

- i. Contractual agreements where CFUGs supply raw material at fair, pre-negotiated rates.
- ii. Revenue-sharing models based on profits from value-added products
- iii. Joint marketing agreements where CFUG and private entities co-brand and co-market products.
- iv. Predictable raw material supply approvals based on long-term forest management plans.
- v. Dedicated non-politically affiliated enterprise sub-committee to manage private engagement

## **Conclusion and recommendation**

Forest-based enterprises have strong potential to enhance climate adaptation and community resilience in Nepal by linking local resource stewardship with livelihood improvement. However, their proven ability of forest restoration, safeguarding just and equitable livelihood

remains constrained in the growth of enterprise by institutional limitations within CFUGs, governance challenges, socio-political interference, and an unpredictable regulatory environment. These issues create operational uncertainty, limit access to finance and formal markets, and may be a reason to discourage private-sector engagement. Despite these constraints, community forestry remains a robust institution foundation for to establish and run a social enterprise development, and with clearer legal recognition, stable policies, and improved governance, community-based forest enterprises can become a more reliable and resilient pillar of Nepal's adaptive and resilient community forestry.

To unlock this potential, Nepal should establish a predictable and coherent policy environment, legally recognize CFUGs as membership-driven eligible enterprise entities with clear profit-sharing and accountability provisions, and harmonize procedures across government agencies. Strengthening CFUG governance must be accompanied by targeted investments in managerial, financial and entrepreneurial capacity, enabling communities to operate enterprises professionally and competitively, forming dedicated enterprise sub-committees, and improving transparent financial systems and harmonized procedures across government agencies which are essential for building investor confidence among both members and external partners. Private-sector involvement should be positioned as complimentary, particularly in value addition, processing, branding and market access with profit-sharing arrangements that are contractually defined while communities retain ownership over forest resources and raw material supply; production regulated through fair benefit-sharing models and long-term supply agreements. Simplifying bureaucratic steps, reducing administrative burdens, and supporting CFUG clusters with shared processing facilities will further enhance feasibility, scale and long-term resilience of community-led forest enterprises, accelerate community-led enterprise growth and resilience.

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This project was made possible through the CLARE Research for Impact (R4I) Opportunities Fund. CLARE is a flagship research programme on climate adaptation and resilience, funded mostly (about 90%) by UK Aid through the Foreign Commonwealth and Development Office (FCDO), and co-funded by the International Development Research Centre (IDRC), Canada. CLARE is bridging critical gaps between science and action by championing Southern leadership to enable socially inclusive and sustainable action to build resilience to climate change and natural hazard