Improving Forest Benefits for the Poor

Learning from community-based forest enterprises in Nepal

Bishnu Hari Pandit
Adrian Albano
Chetan Kumar

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Mailing Address: P.O. Box 0133 BOCBD, Bogor 1600, Indonesia
Office address: Jl. CIFOR, Situ Gede, 16115, Indonesia
Tel: +62 251 622622 Fax: +62 251 622100
E-mail: cifor@cgiar.org
Website: http://www.cifor.cgiar.org

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ABSTRACT

The study documents practices of 28 community-based forest enterprises (CBFEs) in Nepal, representing different enterprise models - FUGs (CFUGs or LFUGs), networks, cooperatives, and companies. FUGs are primarily constrained by their limited scale in terms of membership and land area. The formation of intergroups and networks minimizes this limitation. Networks are often constrained from doing group enterprises since they do not have legal identity to transact as a group and this constraint can be overcome by registering as a formal business entity - either as a cooperative or a company. Specific constraints to cooperatives and companies were also identified and the effective practices presented. The study highlighted many constraints to enterprise development targeting to include and benefit the poorest of the poor. One good practice is the provision of a revolving fund by donors that will enable the poor to buy shares in the cooperative or company. Other practices include offering labour opportunities to the poorest (e.g. NTFP collection and factory labour), and representation of the poorest and marginalized in FUG executive committees. Recommendations include replicating the good practices of the CBFEs while improving on their weaknesses such as federating and formalizing FUGs into networks, cooperatives, or private companies; adding value to variation forest products; increasing equity in distribution of benefits; promoting resource sustainability; and the capacity building of the various stakeholders.

Keywords: forest enterprises, CBFEs, cooperatives, Leasehold Forestry, Nepal

ABBREVIATIONS AND ACRONYMS

CBFE	Community-based forest enterprise
CBFM	Community-based forest management
CF	Community Forestry (programme)
CFUG	Community Forest User Group
CIFOR	Center for International Forestry Research
CRO	Company Registrar Office
CUMPCOL	Conservation and Utilization of Medicinal Plants Cooperative Ltd.
DCO	District Cooperative Office
DCSIO	Department of Cottage and Small Industry Office
DDC	District Development Committee
DFID	Department for International Development (UK)
DFO	District Forest Office
DLSO	District Livestock Service Office
DoI	Department of Industry
FECOFUN	Federation of Community Forest Users Nepal
FNCCI	Federation of Nepalese Chambers of Commerce and Industry
FUG	Forest User Group
HJCL	Himali Jadibuti Cooperative Limited
HLFFDP	Hills Leasehold Forestry and Forage Development Project
IFAD	International Fund for Agricultural Development
JKCL	Jankalyan Cooperative Limited
LFP	Livelihoods Forestry Programme
LFUG	Leasehold Forest User Group
LHF	Leasehold Forestry (programme)

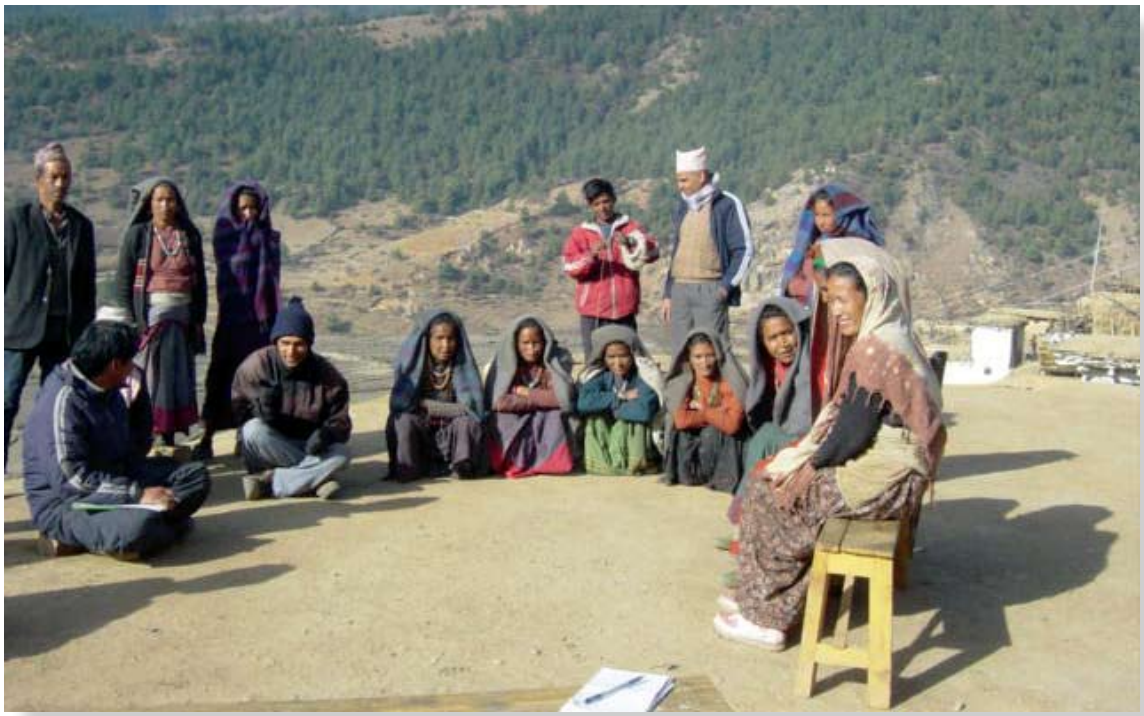
LHPCL	Leutiphedi Herbal Processing Cooperative Limited
MAP	Medicinal aromatic plant
MMCL	Mahadev Multiple Cooperative Limited
MPFS	Master Plan for Forestry Sector
NACRMP	Nepal Australia Community Resource Management Project
NAF	Nepal Agroforestry Foundation
NAFSCOL	Nepal Agroforestry Seed Cooperative Limited
NARMSAP	Natural Resource Management Sector Assistance Program
NEFUG	Nepal Federation of Forest Resources User Groups
NFMCL	NTFP and Forest Products Management Cooperative Limited
NGO	Non-governmental organization
NTFP	Non-timber forest product
PCL	Praja Cooperative Limited
PCS	Production–consumption system
RHJPC	Rhododendron Herbal Juice Production Committee
SCO/SCG	Savings and credit organization/Savings and credit group
SACO	Saraswati Community Organization
SLFN	Samphyang LF-based Network
TEF	The East Foundation
TFPPL	Tamakosi Forest Product Processing Private Limited
TRCFE	Tinjure Ratpokhari CFUG Hand Made Paper Enterprise
WUPAP	Western Upland Poverty Alleviation Project

1 INTRODUCTION

1.1 Background

The handing over of management responsibilities for forests to local communities, more commonly known as community-based forest management (CBFM), is the prevailing forest management platform in government-controlled forests in most developing countries (FAO 1999; Alden Wily 2002; Nurse and Malla 2005). The practice came about as a result of the inability of governments to manage the forests themselves. Along with the handing over of responsibilities has come the granting of some resource-use rights that aim to provide for the needs of forest-dependent people. CBFMs often explicitly give forest and livelihoods protection and improvement as their primary objectives as they try to implement 'sustainable' CBFM plans. However, accomplishing both or even just one of these objectives proves to be difficult. The 'successful' cases are often successful primarily in forest

Forests and farms in Nepal. Most forests in Nepal are managed by communities. Photo by Adrian Albano



A leasehold forest user group, Jumla. Photo by Bishnu Hari Pandit

management (i.e. protection, conservation and improvement) and less successful in livelihoods improvement (i.e. poverty alleviation). With poverty alleviation gaining increased attention in national and international policy agenda (i.e. the Millennium Development Goals – MDGs), there is yet again an increased interest in alleviating poverty (or improving livelihoods) through CBFM (see Allison *et al.* 2004).

In Nepal, there are six programmes that promote CBFM: Community Forestry (CF), Leasehold Forestry (LHF), Watershed Management (WM), Collaborative Forest Management (CFM), Integrated Conservation and Development (ICD) and Buffer Zone around a protected area (BZ) (Ojha *et al.* 2007). Two of these programmes are implemented more widely than the others, and it is from these that the case studies highlighted in this report were drawn: the CF programme, which started in the early 1980s, and the LHF programme, which was started in the 1990s and leased degraded forests to targeted poor households. Both programmes are credited with improving the status of forest resources or with the prevention of further degradation, but they have also been criticized for the limited improvement that they have made to livelihoods. Many studies assessing these programmes have pointed out the need to shift their orientation towards livelihoods improvement, particularly income generation through forest-enterprise development (Joshi *et al.* 2000; Malla 2000; Springate-Baginski *et al.* 2001; Baral and Thapa 2003; Pandit and Thapa 2004; Bhattarai *et al.* 2007).

At the same time, running in parallel to the CF and LHF programmes are community economic development programmes, including enterprise development interventions supported by both government and non-government organizations (NGOs) as part of poverty alleviation measures, that are implemented across the country. Many of these programmes have been implemented in Nepal's remote and resource-rich forest areas, and these income-generation activities have included the development of forest-based

enterprises. In many cases, these enterprises are integrated into the CF and LHF programmes where the forest users are involved as suppliers of raw materials, workers or even owners. With community forestry as the existing national forestry policy framework and with the increasing call for enterprise development within CBFM, there is a need to document the experiences of existing forest enterprises in order to generate lessons to further improve and promote forest enterprises.

1.2 Objectives

This study aims to learn from the experiences of Community Forest User Groups (CFUGs) and Leasehold Forest User Groups (LFUGs) engaged in forest-based enterprises, referred to here as community-based forest enterprises (CBFEs). The lessons learned are specifically intended to further improve the livelihoods impact of LHF, a forestry and poverty alleviation programme funded by the International Fund for Agricultural Development (IFAD), and generally to improve the impact of CBFM on livelihoods. This study is part of a larger research project being conducted by the Center for International Forestry Research (CIFOR), made possible by a technical assistance grant (TAG) from IFAD, which aims to identify opportunities to improve the income generated by the poor from forest resources. The specific activities of the study include:

- describing the existing CBFEs in Nepal including the legal basis and provisions for forest user groups (FUGs);
- identifying effective strategies and practices for improving the overall profitability, income distribution, and resource sustainability of CBFEs;
- identifying key factors that affect the success or failure of the selected CBFEs; and
- suggesting specific strategies to improve income generation and livelihoods improvement in general within the context of LHF or CF.

2. REVIEW OF CONCEPTS AND COUNTRY BACKGROUND

2.1 Poverty Alleviation through Enterprise Development

Alleviating poverty in a specific area or community requires economic growth and income distribution: there has to be an increase in the overall income and this increase should not be confined to a few people but be distributed to include the poorest members of the community (Bourguignon 2005). Economic growth has to be prioritized in order to generate the income that is to be distributed, and under a market economy economic growth is achieved primarily by encouraging innovative enterprises (Schumpeter 1961 in Kaplinsky 2000).

The term 'enterprises' refers to business entities engaged in productive activities that are aimed at generating profit (Macqueen 2004). The process of enterprise development generally involves establishing an enterprise and running it well so that it makes a profit and expands. This concept is clear in terms of businesses in the formal sector, but may be less straightforward in the context of the informal enterprises that are prevalent in remote forest communities. While the term 'enterprises' may generally include informal micro-enterprises, in order to set a clear objective for the development of an enterprise and to provide a focus in this study, this paper refers to enterprises as formal business organizations, legally recognized by law to transact business or make a profit.

Under favourable conditions, enterprises will be established and will expand even without special interventions. In poverty-stricken areas, however, conditions are far from favourable. This is true of most forest communities, where there are few if any established enterprises (i.e. legal business organizations). A fundamental constraint is the remoteness of communities, which in itself implies a lack of market infrastructure such as roads and transport, post-harvest facilities, communications and business services. Moreover, the people are generally so poor that they lack the financial capital to invest and the human capital to start and manage a business.

Being in remote areas, forest communities are highly dependent on the forest resources around them for their livelihoods, including cash income. The income generated by these poor communities from forest resources, however, has often been limited by forest policies that restricted their rights to access and use the forest resources. Nevertheless, forest policies in most developing countries have been evolving from centralized and restrictive forest management policies towards a greater participation of local communities and with more rights over forest resources being granted through the institutionalization of community-based forest management (CBFM) programmes.

In Nepal, the initiative to hand over the management of forests to communities began

A woman selling leaves in Kathmandu. Photo by Adrian Albano

with the Panchayat Forest Rule in 1978. This law, however, was very protection-oriented, and there were inherent problems in its implementation such as the huge size of management groups and the exclusion of the actual forest users. However, it paved the way for the Master Plan for the Forestry Sector (MPFS), which was approved in 1989 and allowed forest user groups (FUGs), groups smaller in size than a whole village, to utilize forest resources for their livelihoods. After few years, the MPFS entered the legislation through the Forest Act of 1993 and the Forest Rules of 1995 (Kanel *et al.* 2005).

The Forest Act and Forest Rules recognize various types of institutional arrangement for community forest management, the foremost of which are the earlier and more heterogeneous Community Forestry (CF) and the more homogeneous (i.e. group composed of poorest) Leasehold Forestry (LHF) programmes. LHF was piloted in 1993, as a result of an observed weakness in CF in including the poorest and marginalized and allowing the benefits to be captured by community elites.

2.2 Provisions for Enterprise Development

2.2.1 Programme objectives

Although CF and LHF are similar, in that forest areas are handed over to local communities, they have fundamental differences that have important implications for enterprise development and for poverty alleviation in general. Their difference originates mainly from their approach to managing forests and meeting the livelihood needs of the forest-dependent people. CF aims to manage good forests while allowing the use of forest products by the community to meet their subsistence needs, while LHF aims to improve degraded

forest while allowing the poor members of the community to utilize the forest resources to generate income for themselves.

2.2.2 Handover process

In principle, an FUG should include households who are traditional users of the forest resources. The formation of an FUG formalizes the control of the traditional users by recognizing the group as a self-governing entity that can exclude outsiders or non-members from accessing the resources within the community forest. For a Community Forest User Group (CFUG) to receive a certificate recognizing it as a legal entity, it has to prepare an Operational Plan to be submitted to the District Forest Officer, who examines the documents. The same process has to be followed by groups that apply for LHF, but here approval is needed from the Regional Director of Forests. Being responsible for the issuance of certificates, the District Forest Office (DFO) acts as the regulatory body for both CFUGs and Leasehold Forest User Groups (LFUGs), although in the case of LFUGs the DFO is also supported by staff from the District Livestock Services Office (DLSO).

2.2.3 Forest User Groups (FUGs): organizational structure

Unlike the commonly elite-dominated traditional communities, FUGs try to promote a more democratic system of decision making and organizational structure. The rights and responsibilities of members of an FUG are stated in their constitution and rules and regulations. The membership of an FUG is composed of individuals representing their own households. Together, the members form the General Assembly, which is the highest policy-making body of the FUG. They elect officers

A forest officer conducting focus group discussion with LFUG members. Photo by Gyanendra Kayastha.

to comprise the executive committee or forest user committee (FUC) who are responsible for the management of the group's activities and for more immediate decisions (Biggs and Messerschmidt 2003).

2.2.4 Group size, resource characteristics, use-rights

With regard to group composition, CFUGs generally have more members (10 to 850: Roche 1996) and are more heterogeneous in socio-economic characteristics than LFUGs, which are composed of smaller (around 7 to 10 households) and homogeneously poorer groups (Biggs and Messerschmidt 2003). The characteristics of the forest resources handed over also differ: LFUGs have lower-quality resources, primarily because the forests handed over are degraded; CFUGs, on the other hand, have higher quality forest resources because, in principle, the various types of forests handed over are eligible for the CF programme. Despite having larger and more resource-rich forests, CFUGs are generally restricted from harvesting timber and most non-timber forest products (NTFPs) including fuelwood, fodder and medicinal plants. Moreover, commercialization is not a priority because the law supports the use of the forest products primarily for subsistence, and imposes taxes on and benefit sharing of 'surplus' products. Although LFUGs have less valuable resources, they are allowed more freedom to generate revenue through commercialization without having to share the benefits with the government.

2.2.5 Status and trends

As of July 2007 there were some 15 000 organized CFUGs (Ojha *et al.* 2007) and the number increases by around 1000 each year. Of the 5.83 million ha of national forest (Kanel *et al.* 2005), around 3.5 million ha (61%) have been identified as available for CF management (Biggs and Messerschmidt 2003). A recent update shows that a total of around 2 million ha – from all but one of the 75 districts of Nepal – have already been handed over as community forests (Singh and Chapagain 2006; Ojha *et al.* 2007). As to LHF, the International Fund for Agricultural Development (IFAD) reports that at June 2003 1773 LFUGs existed; they comprised 12 028 households and covered 7457 ha of degraded land (IFAD 2003). This number also is increasing, especially since the approval of Phase II of the LHF programme in 2005, under which the LFUG scheme will expand to 22 districts over a further eight years. A more recent report claims the area under LHF to be 8507 ha, covering 31 districts, mostly in the Mid-Hills and Inner Terai regions (Singh and Chapagain 2006).

The number of CFUGs and LFUGs formed is increasing, as shown in the figures above. Along with this increase there is also a trend towards networking and federation for collective action to promote their interests. For ease of administration, most FUG networks and federations follow political boundaries at district, regional and national levels. Currently, there are two national FUG organizations: the Federation of Community Forest Users Nepal (FECOFUN) is a national organization of CFUGs, while the Nepal Federation of Forest Resources User Groups (NEFUG) may include both CFUGs and LFUGs. Another important trend in the federation of FUGs is that they are taking action to increase their bargaining power and competitiveness in commercializing forest products. Some FUGs, or their members, have even formed cooperatives and companies.

These trends in community forestry are complemented by the development work carried out and aid support provided by external aid agencies that aim to alleviate poverty in Nepal. These agencies began to emerge in the 1980s and gained full momentum with major governance reforms (i.e. greater decentralization and participation), especially in the 1990s. One of the agencies' important initiatives is the promotion of micro-enterprises, starting with the organization of savings and credit groups

(SCGs). In the mid 1990s there were more than 3000 non-governmental organizations (NGOs) affiliated to the Social Welfare Council. As at July 2006 approximately 55 000 SCGs had been registered and were working in different parts of the country (Dhakal 2007). The number of NGOs and community-based organizations had increased to 19 300 by 2005 (SWC 2005). These initiatives target almost the same people that the CBFM groups target in rural Nepal, thereby complementing the enterprise development initiatives within CBFM.

The review of trends in CBFM initiatives outlined briefly above highlights the recognition of the importance of enterprise development and indicates the presence of successful cases, as demonstrated in the number of enterprise organizations established and functioning. Given the continuous expansion of CF and LHF and the current weakness of these programmes in income generation, there is a need to understand and identify effective (i.e. best) practices in the development of enterprises in the context of CF and LHF. The experiences of CFUGs and LFUGs that are already engaged in viable enterprises could provide important insights for other existing or emerging Community-based Forest Enterprises (CBFEs) and their promoters.

3. RESEARCH APPROACH

3.1 Conceptual Framework

Forest User Groups (FUGs) have a legal personality and, to some extent, are authorized to do business as a group. They are registered under and regulated by the District Forest Office (DFO) and they maintain a group fund (e.g. Community Forest User Group (CFUG) Fund). Thus, they could be considered to be business enterprises. The FUGs have begun to form networks for various purposes including the expansion of their (business) activities and promotion of their interests. Networks, however, are limited in their ability to make business transactions – especially with formal organizations, which require greater accountability and liability from any transacting party than the FUGs can demonstrate. An FUG has to be a legal business personality, and one option is to be registered as a cooperative. Cooperatives have better defined rules and regulations with regard to business management practice, particularly in handling and accessing financial resources from formal institutions. They are more accountable to lending institutions and even to private sector organizations compared to FUGs or their networks. They are registered and regulated by the

A woman weaving mat using local grass. Photo by Bishnu Hari Pandit

District Cooperative Office (DCO) under the Cooperative Act of 1992. A cooperative is democratic and is ideal for a relatively homogenous and poorer membership, and it is intended to provide a service. This model, however, may not be ideal in a more heterogeneous group such as where some members may have more resources to invest than others have and may want to have more control over their investment in the business. In this case, a corporation-type of business organization (referred here as a private or public company), where voting influence and owners' revenue matches the amount they invest, would be more appropriate. Companies are the more standard model of group-owned enterprises. In Nepal, larger companies are registered with the Company Registrar Office (CRO) of the Department of Industry (DoI) under the Company Act of 2006, and smaller enterprises (i.e. those with a capital equity of less than NRs 500 000) are registered with the District Cottage and Small Scale Industry Office (DCSIO).

The identification of lessons learned followed the process of enterprise establishment and expansion from FUGs to networks, cooperatives or cottage industries and/or companies. At the same time, within these types of enterprises, the best practices in terms of the various objectives of community-based forest enterprises (CBFEs) were identified: making a profit, distributing income, and sustaining forest-resource stocks. The lessons learned were based on the strategies and practices that were able to improve the profitability of the CBFEs and how they were able to distribute the income generated to their members, particularly the poor and marginalized. Given the dependency of the enterprises on the maintenance of forest resources, best practices also include effective practices in guarding the resource from overharvesting.

The process of identifying the best practices can be illustrated by Figure 1.

3.2 Sources of Data and Data Collection

The study started with a review of the literature on forest enterprises in Nepal, including the status of FUG-based enterprises and their various forms. The review identified the different types of CBFEs. To capture important lessons that may be unique at each level or type of enterprise development, enterprises at

Figure 1: Conceptual framework: poverty alleviation pathway through CBFEs in Nepal

(Stage of) CBFE development	**Goals of CBFEs**		
	Economic: financial growth	*Equity: distribution of income*	*Sustainability: ecological sustainability*
Cottage industry/ company			
Cooperative			
CFUG/LFUG network			
Community FUG/ LFUG			

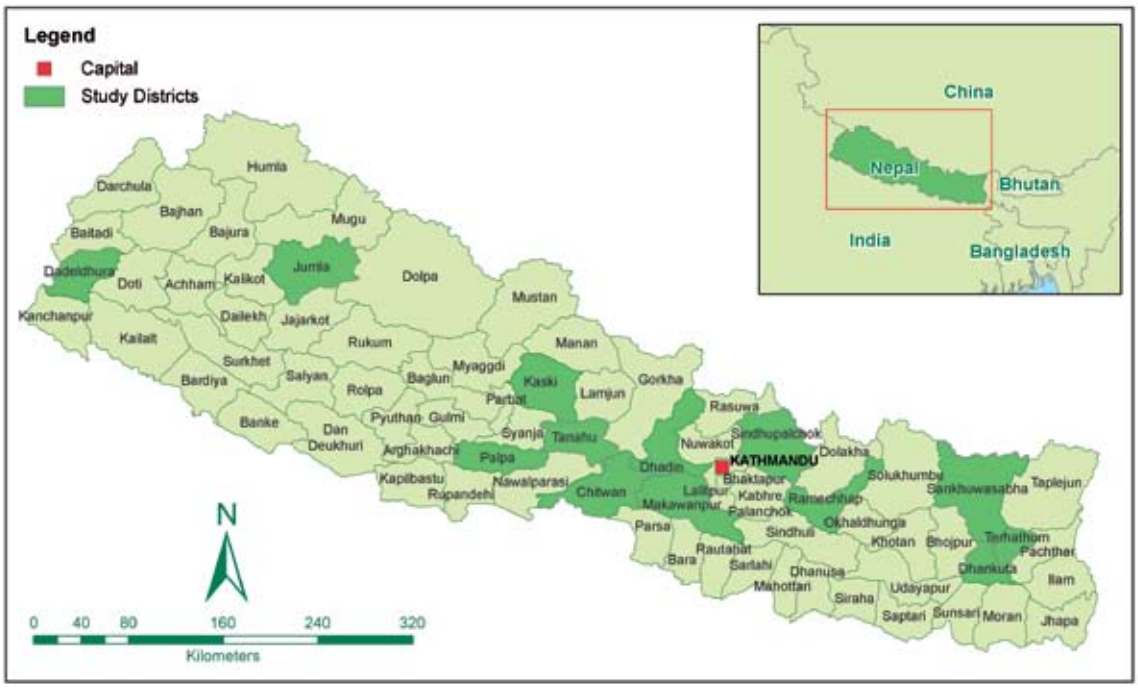
various stages of CBFE development – FUG, network, cooperative, private company – were selected to be used as case studies. Similarly, since the Community Forestry (CF) and Leasehold Forestry (LHF) programmes have different designs, enterprises involving CFUGs and Leasehold Forest User Groups (LFUGs) were selected as study cases. As general criteria, the enterprises selected as case studies included those that commercialized forest products.

Since the lessons learned are intended primarily to improve LHF, the enterprises selected for study were mainly in districts under the Hills Leasehold Forestry and Forage Development Project (HLFFDP), located from the eastern to the far western regions of Nepal. Thirteen districts were identified: eight of these were managed under the HLFFDP, four under the Center for International Forestry Research (CIFOR)'s Adaptive Collaborative Management (ACM) Project, and one under the Western Upland Poverty Alleviation Project (WUPAP) (see Figure 2).

The selection of case-study enterprises started with an initial mapping exercise. This showed a variety of forest enterprises in terms of enterprise scale, legal personality, characteristics of membership, source of forest products, diversity of enterprise products and services, and external support received. On the one hand, these variations made the comparison difficult; on the other, the diversity of cases made it easier to identify a broader set of effective practices. Since the characteristics of the CBFEs have a correlation with their formality, as indicated by the enterprise type (i.e. FUG, network, cooperative, private company), the case-study enterprises were selected and classified by enterprise type. The initial mapping showed a total of 168 enterprises, of which 67 were cottage and small-scale industries and companies registered with the DCSIO or the DoI's CRO, respectively, 40 were cooperatives, 10 were networks and around 51 were FUGs. A total to 28 CBFEs were selected for study: 5 cottage industries and companies, 11 cooperatives, 5 networks and 7 FUG enterprises.

After the selection of the 28 case-study CBFEs, their available relevant documents were reviewed, focus group discussions were held with their officers and members, and key

Figure 2: Map of Nepal showing study districts



informants were interviewed when necessary. These exercises tried to collect information about the general profile of the CBFEs, including their history, sources of income and business operations and constraints, with particular focus on their relevant practices in relation to profitability, equity and resource sustainability. The case studies were also complemented by consultations with individuals and later with various stakeholders from government line agencies and non-governmental organizations (NGOs) to discuss the issues raised during the collection of data.

3.3 Limitations of the Study

Given the many cases included in this study, the analysis and presentation of cases is limited to those considered to be illustrating best practices or, more appropriately, replicable practices and unique constraints. In-depth studies were made of some of the selected enterprises; the results are presented elsewhere (Pandit in preparation).

4. RESULTS AND DISCUSSION

Twenty-eight enterprises were selected for study. They are presented below according to enterprise type and membership (Table 1).

Table 1: Selected enterprises by enterprise type and membership

Enterprise type by membership		Name of enterprises
CFUG/LFUGs	LFUG	1. Kataharepakha Leasehold Forestry Group, Bhaluwajor-1, Kunwari, Ramechhap
	CFUG	2. Rani Ban CFUG, Nayamamtale-25, Palpa 3. Bamdibhir Bamboo Handicrafts, Chanpakot-5, Kaski 4. Akala CFUG, Byas-1, Tanahu 5. Thulo CFUG, Kabalpur-6, Dhading 6. Shiva Shakti CFUG, Piple-7, Gadauli, Chitwan 7. Neureni Chichapani CFUG, Hetaunda-5, Makawanpur
Networks	LFUG-based	8. Saraswati Community Organization, Chandan Nath-4, Jumla 9. Samphyang Kabuliayti Ban inter-group (Future Co-operative of 5 LFUGs), Saktikhor-2, Chitwan
	CFUG-based	10. Mahila Duna Tapari CFUG network 11. Hattikharka CFUG network, Hattikharka, Dhankuta 12. Tinjure Ratpokhari CFUG Handmade Paper Enterprise (TRCFE), Terathum
Cooperatives	LFUG-based	13. Buldi Bahudhashiya Sahakari, Byas-3, Tanahu 14. Mahadev Bahudhyashiya Sahakari Santha, Pida-9, Dhading 15. Jana Sahabhagita Dugdha Utpadak Sahakari Sanstha Ltd., Irkhu-7, Sindhupalchok 16. Padam Pokhari Ghanstatha Biu Bikas Sahakari Sanstha Ltd., Padampokhari-1, Makawanpur
	CFUG-based	17. NTFP and Forest Products Management Cooperative Ltd., Jethal-7, Sindhupalchok 18. Leutiphedi Herbal processing cooperative, Bhedetar, Dhankuta
	General cooperative	19. Janakalyan Cooperative Limited, Amaragadi-7, Dadeldhura 20. Himali Jadibuti Bikash Sahakari Ltd., Chandan Nath-4, Jumla 21. NTFP Conservation, Utilization and Processing Cooperative Ltd. (CUMPCOL) 22. Nepal Agroforestry Seed Cooperative Ltd., Pokhara-1 Bagar 23. Praja Sahakari Sanstha Ltd., Saktikhor-5, Chitwan

Enterprise type by membership		Name of enterprise
Cottage industries/ Companies	Exclusively LFUG-based	None
	CFUG-based or mixed CFUG and LFUG	24. Rhododendron Herbal Juice Production Committee, Amaragadi-5, Bagh Bazar, Dadeldhura 25. Tamakoshi Forest Products Processing Pvt. Ltd., Maithali-7, Ramechhap 26. Tinjure Hattisar NTFP Private Ltd.,Tamaphok-6, Sankhuwasaba 27. Machhe Pokhari Hatekagaj Private Ltd., Matchhepokhari, Sankhuwasaba 28. Allo Udhog, Murtidhunga, Dhankuta

4.1 Leasehold Forest User Group (LFUG) and Community Forest User Group (CFUG)-based Enterprises

4.1.1 LFUG-based enterprises

LFUGs can engage in an enterprise as a group registered under the District Forest Office (DFO) or as individuals. One LFUG was included as a case study.

The Kataharepakha Leasehold Forestry Group, established in 1995, is composed of seven households who received a total of 3.5 ha of degraded 'forest' land. Being part of the Leasehold Forestry (LHF) programme, this LFUG received support of different kinds, particularly from the DFO (e.g. land and nursery-management training), District Livestock Service Office (DLSO) (forage and livestock-production training), and the Agriculture Development Bank (e.g. credit). All the households are represented on a seven-member executive committee. The LFUG has a group fund generated from grants, monthly savings and interest from loans to members, and other sources of income from funding for their group activities. The group lends to its members at an interest rate of 24% per annum.

Since the group's establishment, the members have been planting, as a group, fodder and forage grasses such as *stylo* (*Stylosanthes guianensis*), Molasses (*Melinus minutiflora*), *Ipil* (*Leucaena leucocephala*), *Tanki* (*Bahunia purpurea*), *Amriso* (*Thysanolaena maxima*) and Bamboo (*Dendrocalamus* sp.). The improvement in forage supply and the availability of credit has enabled the individual members to increase their livestock holdings. As a result, the number of livestock being kept by the LFUG members was noted to have increased. Some members started selling buffalo milk, while others sell grass seeds. It is also interesting to note that the members of this LFUG collect non-timber forest products (NTFPs) from nearby forests, which gives a household about NRs 250 per annum as additional income.

a Issues with LFUG 'enterprises'

It may be observed from the case study above that LFUG-based enterprises are relatively underdeveloped where an enterprise owned/managed by a group is limited to the collection of savings and disbursement of loans at a subsidized rate of interest. The other enterprise that this group engages in is mostly household-based, livestock-related agricultural production. To some extent, these characteristics are due primarily to the design of LFUGs, whereby membership is composed of the targeted poorest and where the main resource to be exploited for commercial purpose is degraded

Left: Leasehold 'forest' planted with stylo. Right: Napier grass planted on a leasehold forest, Dhading. Photos by Gyanendra Kayastha.

land. Moreover, the area of degraded land given to such groups is very small and the 'products' that can be harvested from it are limited to perennials and fodder. All these factors result in the typical characteristics of LFUG-based enterprises: household-based, micro-scale, low value and low profitability, and seasonal – as can also be observed in the LFUG enterprises described below. Nevertheless, the members of these LFUG-based enterprises can be seen to be 'better-off' than they were when they did not belong to any 'enterprise' group at all, and when they had fewer livestock. These enterprises, which were encouraged through the LHF programme, could be a starting point for further development and expansion.

4.1.2 CFUG-based enterprises

Six CFUGs were selected for study: Rani Ban, Bamdibhir Bamboo Handicrafts, Akala, Thulo, Shiva Shakti and Neureni Chichapani.

Unlike LFUGs, which have a limited area of low-productivity land, CFUGs are not limited in the area of forests that can be handed over to them, and they are likely have more productive land. Among the six CFUGs selected, the minimum area managed is 25.24 ha while the largest area is 147.74 ha. However, the area of land received may make little difference if the number of households comprising the CFUGs is considered. The CFUG with the smallest area is comprised of 134 households while the CFUG with the largest area has 452 member households. Dividing the area by the number of households in the group, the smallest CFUG has an area equivalent to 0.19 ha per household while the CFUG with largest area has an area equivalent to 0.33 ha per household.

Unlike LFUGs, in which the handed-over land can be allocated to individual households, in CFUGs land is not allocated to individual households but to the whole CFUG membership as a common resource. The challenge for enterprise development under this provision is to maximize the productivity of (or income from) the forest resources while achieving an equitable distribution of the gains to include the poorest. This collective management and 'ownership' of forest resources under the Community Forestry (CF) programme necessitates a collective way of exploiting the forest resources for commercial purposes. This form of collective ownership is made possible by the provision of a CFUG Fund (which is like the LFUGs' Group Fund), which allows the FUGs to have a source of funding for their collective activities.

One good practice that could lead to the increased production of commercial forest products by CFUGs is the allocation of CFUG land for the production of commercially

relevant forest products. Most of the CFUGs have allocated forest land for the cultivation of NTFPs. For example, the Shiva Shakti CFUG, which is composed of 452 members and manages 147.74 ha of forest, designated 10 ha as plantation forest for timber and fuelwood and 27.75 ha for cultivation of *Kurilo* (*Asparagus racemosus*) and bamboo, while the remainder is designated as natural forest. Some CFUGs have also allowed the cultivation of cash crops such as ginger, turmeric and vegetables on CFUG land.

CFUGs have to select members to undertake cultivation, since not all members can be involved. Subgroups (*tole*) composed of poor women are selected through a wealth-ranking exercise and are made responsible for the cultivation of the forest products. These subgroups are given the privilege of harvesting and selling the cultivated products. It is a good practice, particularly for external organizations supporting CFUGs, to specifically target the poorest group within a CFUG, especially because the exclusion of the poorest or elite domination were identified as weakness of CF. Most of the CFUGs are also engaged in savings and loan services, often made possible by the provision of external grants and revolving funds in addition to the funds that the CFUGs themselves generate through savings. The provision of savings and loans services is a good practice in itself since it can promote the establishment of individual enterprises. An interesting practice in relation to this is the provision of loans to the poorest at interest rates lower than the rates charged for a normal loan. This is practised by Rani Ban CFUG, which charges the poor only 15% interest. In some cases, such as that of Neureni Chichapani CFUG, loans to the poorest are disbursed interest free, while the normal loan attracts 20% interest. Although this may be a good way of targeting the poorest, this practice

By planting grasses, LFUGs are encouraged to raise goats and other ruminants. Photo by Adrian Albano.

Goats being sold along a road in Kathmandu. Photo by Adrian Albano

may not be ideal in terms of the sustainability of the revolving fund or in developing an entrepreneurial culture in the community. The practice of charging a lower interest rate to the poorest is also observed in the case studies of cooperatives below.

It was also noted that many CFUGs promote household or subgroup enterprises, not simply the cultivation of NTFPs. These micro-enterprises include raising livestock (e.g. goats, pigs, buffaloes), beekeeping and making bamboo handicrafts and candles. The CFUGs' promotion of diverse sources of income is another good practice as it addresses the need for members to have a range of livelihoods options, not simply livelihoods based on forest products. Supporting a range of enterprises reduces investment risks and maintains the group's interest in participating in CFUG activities.

4.1.3 Issues with FUG Community-based Forest Enterprises (CBFEs)

In the cases of both LFUGs and CFUGs, it may be observed that enterprise activities (i.e. activities intended to make a profit) are carried out mostly at the household and subgroup (*tole*) level, which leaves the FUGs involved mostly in service provision, especially the provision of savings and credit services.

Generally, FUGs have the inherent weakness of being underdeveloped as a group enterprise, partly because of their limited scale – whether in terms of capital, production capacity etc. This is especially true for LFUGs because of the limited number and financial capacity of the members and the fact that the resource is degraded. A logical way forward for FUG-based enterprises is to form a larger group; some have already done this by forming an FUG network.

4.2 FUG Networks

4.2.1 LFUG networks

Two LFUG networks were selected for study: the Saraswati Community Organization (SACO) and the Samphyang LF-based Network (SLFN). Both networks have an executive committee of nine members who supervise the network's activities.

SACO is a federation of five LFUGs with a total of 39 member households and a combined area of 7.9 ha. The network was established in 2003 with two fundamental goals: a) to promote NTFP growing on the allocated land; and b) provide credit services to the members. An assessment of its enterprise activity shows that initial cultivation of NTFPs had a low success rate (less than 40% survival). This was attributed to the fact that cultivation took place in the dry season and to the lack of commitment of individual members. SACO has just begun an NTFP nursery. In terms of credit services, it receives grants from the Western Upland Poverty Alleviation Project (WUPAP) which it complements through a compulsory monthly savings scheme (i.e. NRs 10 per member per month). If savings contributions are overdue, fines are imposed at a rate of NRs. 1 for 10 days. Only the members who have savings are entitled to loans. The network has a loans subcommittee that screens the loan applications and recommends them for approval to the executive committee, which releases the loans when the cash to do so is available. The treasurer deposits the savings at a local bank between the first and fifth day of each month. In addition to its strict adherence to compulsory monthly savings, SACO charges 24% annual interest on loans. The group as a whole decides the rate of interest and repayment procedures. A review of the number of loans made shows that of the 39 members only eight have taken loans, which indicates a limitation on how many members can access a loan. This is attributed primarily to the non-availability of cash, but it was noticed that group officers may be biased in their decisions about which members they allocate loans to. The loans released to date have ranged from NRs 1000 to NRs 3000; they were used mostly for raising livestock.

The subject of the second case study, SLFN, is a network of six LFUGs with 47 member households and a total of 4.5 ha of degraded forest. Like SACO, it provides loans to its members, but at a lower interest rate (12% per annum). Unlike SACO, SLFN is more active in collectively marketing the produce of its members. The network acts as an assembly point for some of its members' NTFPs, buying them in small amounts and selling them in bulk to road-head traders or wholesalers. This helps the household members obtain a fair price for their produce while making it easier for them to sell their goods; they had previously been reluctant to sell such small amounts. Members have the option of selling their produce through the network or directly to a nearby cooperative.

SLFN's forests are relatively rich in NTFPs such as *Kurilo, Sarpagandha* (*Rauvolfia serpentine*), *Gurjo* (*Tilia cordifolia*), *Amala* (*Embilica officinalis*), *Harro* (*Terminalia chebula*), *Barro* (*Terminalia belerica*) and *Sal* (*Shorea robusta*) leaf. SLFN has strict rules with regard to grazing and the collection of fuelwood and NTFPs, with punishment schemes related to the extent of damage and repetition of the offence. The group has fixed the season for collecting grass seeds, thatch materials and broom grass; cash penalties for infringements range from NRs 250 to NRs 501. It was interesting to note that the members are selling NTFPs although there are restrictions on collecting them from leasehold forests. Further inquiry also shows that very few members have initiated the cultivation of NTFPs, particularly *Tejpat* (*Cinnamomum tamala*), *Kurilo* and *Amriso*, on their farm land, although these species are cultivable. However, the cultivation of these species is discouraged by the high royalties to be paid to DFOs by the trader. For example, the *Tejpat* (cinnamon)

leaf sells for only NRs 8/kg but the royalty tax imposed is NRs10/kg, while cinnamon bark sells for NRs 25/kg and the royalty tax imposed is NRs 20/kg. Due to the restrictions on the collection of NTFPs in leasehold forests and the limited cultivation on private land, many NTFPs are collected from local government forests.

The collection of NTFPs from adjacent government forests rather than from the forests that have been handed over could have implications for the management of adjacent government forests. If the adjacent government forests are being 'used' by the LFUG members, they should not remain government forests but be handed over to these 'users', following the rationale of community forestry. On the other hand, if collection rules are too restrictive under the LFUG system, the traditional users would benefit if the adjacent forests remain government forests. In this case the quality of leasehold forests may improve as a result of the restrictions, but the adjacent forests will deteriorate. If they do not have control over adjacent forests member households will also not be able to prevent outsiders from harvesting these adjacent forests a common problem among FUGs since the DFO can grant permits to outsiders to collect NTFPs in government forests.

From the case studies described above, it can be observed that the LFUG networks are more involved than CFUGs are in the provision of services to members. The networks also appear to be more successful than CFUGs are in facilitating external support services for members, particularly credit to members/ individual enterprises rather than in undertaking a collective enterprise. Although SLFN is involved in collective marketing of NTFPs, it does not operate as a collective business enterprise: it does not charge a fee for its services but simply serves as an assembly point for the members' products.

4.2.2 CFUG networks

Three CFUG networks were selected for this study: the Mahila Duna Tapari CFUG network, the Hattikharka CFUG network, and the Tinjure Ratpokhari CFUG Handmade Paper Enterprise network (TRCFE).

As CFUG-based enterprises are larger than LFUG-based enterprises, CFUG networks are much larger than LFUG networks. The first of these, the Mahila Duna Tapari CFUG network, is composed of six CFUGs, with 613 member households and a total area of around 1000 ha. The network was established in April 2005 with facilitation by the Livelihoods Forestry Programme (LFP)[1] and the DFO. The second, the Hattikharka CFUG network, is composed of five CFUGs, with a total of 380 household members, occupying around 790 ha of forest land. It was established in January 2004, also through the facilitation and support of the DFO, LFP, Federation of Community Forest Users Nepal (FECOFUN) and Community Support Program (CSP). The same is true of the third network studied, the TRCFE, which was established in 2005 with support from the LFP. Given the recent establishment of these networks, it is still difficult to conclude whether or not they are successful. Nevertheless, they illustrate some interesting practices that address CFUG issues. It may also be observed that external NGOs (i.e. those supporting the LFP) have had a major role in establishing these networks, and in some ways many of the networks' practices reflect those of the external organizations that provide services to the CFUGs.

1 LFP is a 10-year, bilateral aid programme funded by DFID with a budget of GB£ 18.67 million, begun in 2001. It provides strategic support to incorporate so-called 'second-generation issues' (i.e. livelihoods, governance and social inclusion) (www.lfp.org).

Left: Yak carrying Daphne fiber at Tinjure. Right: Handmade paper from Tinjure. Photos by Bishnu Pandit

A good practice of the Mahila Duna Tapari (Women's *Shorea*-leaf Plate-making Group) CFUG network is the targeted support for marginalized groups through enterprise development. A wealth ranking exercise was conducted to identify the most needy members of the network. Mahila Duna Tapari assisted the *Dalit* group (a group of poor, vulnerable of people, who are discriminated against on the basis of their caste) by supporting their current source of income, which is knife making (*Khukuri uddyam*) for the men and *Shorea*-leaf plate making for the women. Another good practice is the LFP's collaboration with a local NGO that specializes in promoting enterprises – SOLVE Nepal. Through the network, the LFP was able to reach out to larger clients. It encouraged women's groups to initiate savings and credit activities and provided revolving funds to these groups for loans for various income-generating activities such as pig raising and goat keeping.

The Hattikharka CFUG network was also supported by the LFP but was established earlier. A good practice of this network is its use of a 'basket fund' for the collective use of the FUG members, e.g. for institutional capacity building activities, which include trainings in record keeping and financial management. The network collects contributions from each of the CFUGs and Village Development Committees (VDCs) to add to the seed funding provided by the LFP. The network has deposited a total of NRs 12 000 in this fund. Another good practice, which can be observed in other CFUGs, is the zoning of CFUG land whereby a parcel is allocated for the cultivation of NTFPs. Some part of the CFUG land is suitable for growing *Swertia chirayita* and other medicinal aromatic herbs, therefore three CFUGs allocated 1.5 ha of their land, mostly to poor women users, to grow *S. chirayita*. The network also promoted the establishment of a nursery and cultivation of NTFPs.

To conclude, networks have the advantage of scale compared to individual FUGs. However, the case studies described above show that enterprises are still mostly individual undertakings: collective marketing was observed, but only at the community level and the produce was sold to private traders (SLFN). It is clear that the networks were established mainly to access support services collectively rather than to undertake collective enterprises. The networks were established mainly through the facilitation or support of support-service providers (e.g., DFO and DLSO for LFUGs, and DFO and LFP for CFUGs). The best practice identified here is the establishment of a network of FUGs to enable service providers to deliver services to FUGs and for FUGs to access external support.

Left: Chirayita growing well in a terraced land of a lead farmer. Right: Dried Chirayita being weighed for sale. Photos by Bishnu Pandit

4.3 Cooperatives

The limitations of LFUGs/CFUGs and their networks in engaging in a collective enterprise can be attributed to their design: they are designed primarily as forest-management organizations, not business organizations. The networks have no legal personality through which they can own property collectively and therefore cannot do business as a single business entity. In order to engage in a business as a group, they need to become a legally recognized business organization. One option is to form a cooperative.

The cooperative enterprise model is the same as that of an FUG or an FUG network, where the highest policy-making body is comprised of all the membership or the General Assembly, but it differs in that it is legally recognized as a business organization under the Cooperative Act of 1992. As a cooperative, a group can own properties separately from their individual and separate identities. The cooperative has the right to sue, and it can also be sued. Its membership should partly own the business by buying share capital in the cooperative.

Eleven cooperatives were selected for study, three of which are LFUG-based, two are CFUG-based, while membership of the remaining six is not exclusive to LFUGs or CFUGs: these are referred to here as general cooperatives.

4.3.1 LFUG-based cooperatives

The Buldi Multipurpose Cooperative is a federation of 20 LFUGs. Like the LFUG networks, the federation was facilitated primarily by the DFO and DLSO. Unlike the less formal LFUG networks, this federation has a better established collective enterprise now that the LFUGs have formed a cooperative. The LFUG members do business collectively, particularly in selling milk together: they have established a milk collection centre where the cooperative buys milk from the members and sells it to the local market. As a multipurpose cooperative, it also acts as a local savings and loan organization for its members. It provides 8% interest on savings and disburses loans at 18% interest. The cooperative has been receiving technical and financial support from DFO, DLSO, District Cooperative Office (DCO) and the Development Project Service Center (DEPROSC).

As mentioned above, membership of a cooperative requires the ownership of capital shares. This was initially a problem during the establishment of the Buldi Multipurpose Cooperative because the members needed to purchase shares yet not all LFUG members had enough money (as in theory they are the poorest). Initially, only 35 households were members and involved in the cooperative activities. This was later resolved by converting

the savings of the members into shares; the cooperative currently has 127 shareholders. It is run by an executive committee of nine people, and by six sub-committees with a total of 18 members. The subcommittees are Accounts Management, Market Management, Livestock Insurance, Savings and Credit, Forest Development, and Community Nursery Development.

The cooperative CFBE model allows members to have equal say in the enterprise's major decisions irrespective of the value of their shares. Nevertheless, it was observed that in this cooperative many of the members do not actively participate in the cooperative's decision-making activities. As one of the members affirmed, the majority of the LFUG members are poor and illiterate. They are shy to speak up in public, which is why they usually avoid being members of the executive committee. As a result, most of the members of the committees are from the privileged groups (i.e. higher castes such as Brahmin and Chettri, who are wealthier and have higher education). Another problem pointed out in this cooperative was that some members still sell their milk to the local market rather than to the cooperative. This means less profit for the cooperative and could ultimately mean that the cooperative milk-collection operation becomes unsustainable. However, it could also indicate that the cooperative is not competitive in terms of price or milk collection. It may also be possible, as observed in other cases, that private traders try to compete with the cooperative by temporarily offering a good (higher) price or added services. Depending on the situation, the cooperative should remain competitive and this could mean maintaining awareness and discipline among members to patronize the cooperative because, in principle, they own the enterprise and, thus, its profits.

The Mahadev Multiple Cooperative Limited (MMCL) is similar to the Buldi Multipurpose Cooperative in many ways, starting with the fact that its membership is composed exclusively of LFUGs, with support from DFO and DLSO. MMCL is comprised of 10 LFUGs, with a total membership of 111 households. This cooperative is engaged in a savings and loan business for its members, who invest the loans in various enterprises of their choice, mostly in livestock or cash-crop production. The cooperative facilitates cooperation among enterprise groups or individuals and households engaged in similar enterprises. For example, it collects products such as ginger, turmeric, potatoes, cauliflowers, brooms, bamboo baskets, bamboo rain shields, hats etc. from members and sells them at the road-head or nearest market (i.e. Gajuri Bazaar). It also promotes and regulates the production and sale of grasses from communal land. Of the total income gained from the sale of grass, 50% goes to the cooperative fund and 50% to the grass cutter. While it is uncertain whether the cooperative's 50% share encourages increased planting of grasses, the practice of generating funds for the cooperative is good for the sustainability of the organization. There is also a cooperative shop that sells consumable goods such as salt, soap, flashlights etc. This case study demonstrates that cooperatives can serve their members not just by increasing their bargaining power in selling their products through a marketing cooperative but also by purchasing their daily needs through a consumer cooperative.

The democratic system of voting and decision making practised by cooperatives (i.e. equal vote irrespective of value of shares) could appear to be unfair for members who 'invest' more or buy more shares. In the case of Jana Sahabhagita Dugdha Utpadak Sahakari Sanstha Limited, members are required to purchase a minimum number of shares: household members have to purchase two shares each (one share costs NRs 100) while the 10 LFUGs have to purchase six shares each (6 x NRs 100 = NRs 600 per LFUG). At the time of the study, the total share capital collected by the cooperative was NRs 21 800. The cooperative is also engaged in a savings and loan service in which NRs 30 per month is required from each member household. Loans disbursed to members are charged at

15% interest while loans to non-members are charged at 25%. Setting a different interest rate for members and non-members is a good practice in that it encourages membership of the cooperative.

As can be seen from the case studies of LFUG-based cooperatives, a common observation is, again, the primacy of savings and credit services as one of the major cooperative business activities. This is seen again in the fourth case study – of the Padam Pokhari Ghans Tatha Biu Bikas Cooperative Limited (PPCL), an LFUG-based cooperative with 110 individual shareholders from 23 LFGs. An interesting observation here is that the interest rates charged by the cooperative to its LFUG members are different from the rates charged by the LFUGs to their member households. For example, in general the cooperative charges 12% interest while one of the LFUGs charges its members as little as 1–3%. This below-market interest rate policy evolved because the members of this LFUG are very poor. Earlier, the cooperative had charged 24% interest but, because of the difficulty for the poorest of the poor in engaging in an enterprise 'profitable' enough for them to pay such a high rate, the rate was lowered. This, however, was made possible because of the increased availability of funds intended for the poorest. This situation illustrates the dilemma in credit provision between achieving profitability and enterprise sustainability and reaching out to the poorest. While the trend in microfinance emphasizes the charging of market interest rates, the poorest in forest communities lack the cash-based livelihoods, especially short-term opportunities, that would enable them to repay their loans at the market rate. Given that most of their common investments have a long-term return period (e.g. goat and buffalo raising, crop cultivation), and are relatively risky, the charging of interest lower than the market rate appears to be unavoidable. Moreover, as some key informants in the other case study groups have also indicated, although it seems obvious that the poor need credit they are reluctant to apply for loans because of the relatively expensive (market) interest rate. On the other hand, charging interest is more sustainable

Pig raising from saving and credit program at Jumla. Photo by Bishnu Hari Pandit.

than giving cash grants, which some donor NGOs have tried to provide. Charging even 1% interest would still maintain the principal.

Another observation of the LFUG-based cooperatives is that although some had access to NTFPs, their enterprises or income-generating activities are mostly based on milk and livestock production. The scale of NTFP-based enterprises is still limited, and this may be because they are just beginning to cultivate NTFPs. NTFP cultivation has been promoted by the DFOs and supporting organizations by providing seedlings and trainings, often free of charge. This implies that cooperative enterprises based on cultivated NTFPs may be more viable in the future, when the volume of production will be higher. In view of this possible increase in engagement with NTFPs, lessons could be derived from CFUG cooperatives already engaged in NTFP-based enterprises.

4.3.2 CFUG-based cooperatives

The NTFP and Forest Products Management Cooperative Limited (NFMCL) was established by 25 CFUGs. As its name indicates, its primary business is the production and sale of NTFPs. It was established in 1998 with the financial and technical support of the Nepal Agro-forestry Foundation (NAF) and Nepal Australia Community Resource Management Project (NACRMP), and with the objectives of sustainable production, harvesting and marketing of the NTFPs available in the community forests. These are mainly *Lokta* (*Daphne* spp.) and *Argeli* (*Edgeworthia gardneri*) fibre, charcoal (*Koila*/*gol*) and Large Cardamom (*Elettaria cardamomum)*. The NFMCL buys the NTFPs from members and sells them either to road-head traders at Dandapakhar or to a trader in Kathmandu, leaving enough margin on sold products to maintain operations (Table 2).

In addition to raising revenue from the mark-up it charges in selling the NTFPs, the cooperative also raises revenue by offering both individual and institutional shares. Individual shares are valued at NRs 100 per share, while institutional shares are valued at NRs 1000 per share. Fifty-two individuals purchased shares, raising NRs 10 400, and five CFUGs purchased different amounts of shares, raising a total of NRs 70000.

Again, external support is seen as an important factor in the success of this cooperative. The DFO, NAF and NACRMP have jointly organized and conducted skill development trainings for the CFUGs and cooperative management committee members including

Table 2: NFMCL's buying and selling prices for NTFPs

NTFP	**Price paid to collector (NRs)**	**Selling price in market (NRs)***
Lokta **bark**	**150/- per** *Dharni***	**250/-** *Dharni*
Argeli **bark**	**90/- per** *Dharni*	**140/- per** *Dharni*
Charcoal	**20/- per tin*****	**50/- tin**
Large Cardamom	**Not fixed**	**Not fixed**

* The mark-up charged by the cooperative is quite large because it adds value by sorting, packaging and storing.
** 1 *Dharni* = 2.3 kg
*** 1 Tin = 4 *pathi* = 2.5 kg

Left: Argeli nursery, photo by Bishnu Hari Pandit. Right: Lokta bark being dried for hand-made paper, photo by Mr. Yam Raya

NTFP Identification, Nursery Management and Domestication, CF Inventory and Operation Plan Revision, NTFP Harvesting and Initial Processing, training in marketing, and exposure visits.

The collective marketing of forest products enables small-time NTFP collectors/producers to obtain a higher price for their produce. However, they can obtain an even higher price if they process or add value to their raw products. The Leutifedi Herbal Processing Cooperative Limited (LHPCL) was established for this particular purpose – to increase the income from Citronella (*Cymbopogon nardus*) and Lemon Grass (*Cymbopogon citratus*) by processing them to extract their essential oils. This cooperative was established in 2003 through initiatives of the District Chapter of FECOFUN and LFP. It initially involved two CFUGs but later expanded to involve six CFUGs, which then allocated around 23.3 ha of CF land for Citronella and Lemon Grass plantations. With a grant from the LFP, the cooperative purchased a simple distillation machine for NRs 400 000. The distillation unit is fuelled initially by dried firewood, and dried Citronella leaves are added later. Since the machine was procured locally, it can be repaired locally. Apart from selling essential oils, LHPCL sells grass slips to farmers and other organizations, from which it earns around NRs 80 000 per annum.

Although it is able to generate income to cover its operating expenses, LHPCL is facing various challenges, foremost of which is in marketing its products. Due to its limited marketing capacity, LHPCL signed an agreement with the Natural Resource Institute (NRI) to sell its oil for a period of five years for NRs 380/l. The potential exists to sell Citronella oil to India, but the limited production capacity of the cooperative and the complicated process and bureaucracy involved in exporting the oil to India hinder the cooperative from taking advantage of this opportunity: taxes must be paid in every district through which the oil is transported and officers in each of the district customs offices and at the border customs office must be pleased. The constraints on marketing limit the cooperative from maximizing the capacity of its distillation machine, which produces only around 291 litres per annum, which is only around 20% of its production capacity.

a Issues within CFUG-based cooperatives

The above case studies of CFUGs highlight some issues in relation to cooperatives, particularly LFUG and CFUG-based cooperatives. One issue is that the rules guiding membership of FUGs and membership of cooperatives differ; membership of an FUG does not necessarily mean membership of a cooperative. This has important implications for the provision of external services to FUGs or their member households. If external services are channelled

through the cooperative, it may mean that the non-members of the cooperative are excluded or unintentionally debarred from these services. If networks are to federate as a cooperative, there should be a strategy in place so that all the members are able to purchase shares and become members of the cooperative.

b Issues within LFUG-based cooperatives

The design of a cooperative enterprise, whereby membership is obtained through the purchase of capital shares, promotes ownership and encourages the members to patronize the cooperative since they have a stake in the enterprise. However, this could have negative implications in the case of cooperatives that accept LFUGs as institutional members because, on one hand, the cooperative looks like a federation of LFUGs but, on the other hand, the actual owners/members of the cooperative are those who were able to purchase shares. The negative implications of this format can be seen when external services (e.g. credit funds) intended for the LFUG members are channelled through the cooperative yet not all the LFUG members are members of the cooperative because they have not been able to purchase shares; thus they could be excluded or unintentionally discriminated against in the provision of these services.

A related issue could be the restriction of membership of cooperatives to FUGs and their members. Smaller membership would mean less capital and would limit the scale of operation for the cooperatives. Conversely, membership may need to be reduced to include only those who actually avail themselves of the services of the cooperative.

4.3.3 General cooperatives

Five cooperatives that are not exclusive to LFUG or CFUG membership were selected as case studies, and these are referred to these as general cooperatives. They are Janakalyan Cooperative Limited (JKCL), Himali Jadibuti Bikash Sahakari Ltd (HJCL), NTFP Conservation, Utilization and Processing Cooperative Limited (CUMPCOL), Nepal Agroforestry Seed Cooperative Ltd. (NAFSCOL), and Praja Cooperative Ltd (PCL).

JKCL is engaged in promoting bamboo-based handicrafts and is composed of households engaged in bamboo-based enterprises. Of 120 households residing in Tiladi village, where the cooperative is located, 49 – almost all of whom are involved in making bamboo handicrafts – are members of the cooperative. Basically, the cooperative acts as a marketing facility for the members as it buys bamboo craftwork from them and sells it at a higher price. The HJCL cooperative, whose members are mostly collectors or cultivators of NTFPs, works in the same way. Similarly, villagers source most of the NTFPs from government forests. As a result, NTFPs are depleted at a faster rate than they otherwise might be.

The other three cooperatives – CUMPCOL, NAFSCOL and PCL – are also composed of members who are not necessarily from FUGs. CUMPCOL is comprised of 80 members involved in collecting and cultivating *Tejpat*, *Titepati* (*Artemisia vulgaris*) and Lemon Grass; the cooperative processes the leaves of all three species to extract oil. The NAFSCOL cooperative has 86 individual shareholders who are mostly involved in the collection and production of agroforestry seeds. The PCL cooperative has a different ownership arrangement: it has five institutional members, two of which are CFUGS while three are LFUGs, that have bought institutional shares. In addition to these institutional members, it has 255 individual members who are not necessarily from the FUGs but are from the same community. This demonstrates the possibility of bringing CFUGs and LFUGs together in one enterprise, in contrast to the previous models described, where membership tends to be comprised exclusively of LFUGs or CFUGs.

A Cinnamon distillation unit. Photo by Bishnu Hari Pandit

a Issues relating to general cooperatives

One common characteristic shared by the general cooperatives described above is their reliance on government forests for their raw materials, although JKCL relies mostly on public forests for bamboo. Apart from the fact that the resources are being depleted rapidly, the possible presence of rebels in the forests – especially with the current political insecurity in the country – hinders the collection of raw materials. This is also the case with HJCL, where there has also been a rapid depletion of medicinal aromatic plants (MAPs) from the government forests where members source most of these products. Compared to the FUG-based cooperatives, these general cooperatives have less control over the forest resources. However, although they have less control over the resources they are not restricted from accessing them. This is observed in the case of PCL: although its membership comprises two CFUGs and three LFUGs, NTFPs have so far been an open-access property in an area where people are free to collect any amount at any time. Interestingly, in areas where forest enterprises are being boosted with the establishment of cooperatives, it is observed that members have started cultivating NTFPs (e.g. bamboo or MAPs) on their private land.

The general cooperatives described above demonstrate the various ownership and membership arrangements of cooperative enterprises, where some are exclusive to FUGs or to individuals involved in a particular enterprise while others are owned by individuals and organizations. In a cooperative, the number of shares owned matters less because member/owners have equal voting rights. In one way, this makes the cooperative enterprise model more egalitarian as it gives equal opportunity for both rich and poor to have a say in the major decisions of the business. While this has positive implications, especially for the poorer members or those who purchased fewer shares of the cooperative, it could also have negative implications for the wealthier members, who may not be motivated to buy more shares.

An alternative model that would encourage greater investment in the cooperative is the private company model. Unlike cooperatives, voting rights are no longer democratic (i.e. one man, one vote) but are determined by share ownership. Moreover, investment in the private company is motivated more by profit that by its remit to provide services to members. In fact, the owners of a private company do not have to be members and do not have to be involved in the enterprise.

4.4 Cottage Industries and Companies[2]

Five companies were selected for this study.

The Rhododendron Herbal Juice Production Committee (RHJPC) was established jointly by four CFUGs located in the District of Dadeldhura with major assistance from the Natural Resource Management Sector Assistance Program (NARMSAP). After noticing the surplus of Rhododendron flowers and *Kafal* (*Myrica esculanta*) fruit in the district, NARMSAP sponsored a study tour for CFUG members to Champawat village in Uttaranchal, India, where they learned about the technology to process these plants. The company was then established in 2003, with NARMSAP providing the initial funding of NRs 109 755 for the establishment and operation of the enterprise, and an additional NRs 40 000 from the four CFUGs (NRs 10 000 each). An interesting aspect of this company is its management structure, in that it is governed by a General Assembly composed of 10 users from each CFUG. Given this structure, the company is not dissimilar to a cooperative enterprise; it is simply that it is registered under the Department of Cottage and Small Industry Office (DCSIO). This cooperative-like structure is possible partly because of the equal ownership of shares among the CFUGs and largely because of the major role played by the external supporter (i.e. NARMSAP).

The Tamakoshi Forest Products Processing Private Ltd (TFPPL) was established in 2004 to process the fruit of the *Bael* Squash (*Aegle marmelus*) which grows abundantly in the area. Unlike RHJPC, the composition of its ownership is more diverse and more typical of a private company. Of a total of NRs 1 million of capital investment, FECOFUN invested NRs 150 000 or 15%, 25% was invested by individual CFUGs, 30% by private entrepreneurs, and another 30% by a selected group of 'poorest of the poor' members of the 10 CFUGs through a revolving fund provided by the Nepal Swiss Community Forestry Project (NSCFP). Enabling the poorest of the poor to be owners of the enterprise is a good way of targeting the poorest members within the CFUGs. Through a wealth-ranking exercise undertaken earlier, 60 households were identified. Another significant observation in relation to this enterprise is the inclusion of private entrepreneurs and the representation of FECOFUN on the executive committee. The inclusion of private entrepreneurs is good, as it adds more capital to the business and also brings in their business experience, which usually is lacking among the poor. On the other hand, the presence of a representative of FECOFUN ensures, to some extent, that the interests of the CFUGs are represented and ensured of protection. With regard to the sustainability of supply, this enterprise demonstrated a good practice in the way it conducted an inventory of the community forest to identify the

2 In addition to the distinction between cottage industries and larger companies, larger companies can also be classified as private or public based largely on the amount of investment and number of shareholders. An enterprise should be registered as a 'private company' if the initial investment is less than NRs 10 million and number of shareholders is fewer than 50. If the initial investment and number of shareholders are more than this, the enterprise is registered as a 'public company' (Company Act, 2006).

Women members of TFPPL, making Bael fruit juice, Ramechhap. Photo from TFPPL

number of *Bael* plants and monitor the fruit production per hectare per annum. In this way, the sustainable harvesting level of *Bael* fruits was determined, and this information was incorporated in TFPPL's Operation Plans.

The Tinjure Hattisar NTFP Enterprise (THNTFPE) was established in January 2003 by 10 CFUGs in order to market their NTFPs collectively and to control the harvesting of valuable NTFPs in their area. This private company was established through an initiative of a local NGO – The East Foundation (TEF), and the LFP, funded by the Department for International Development – UK (DFID), and is registered under the DCSIO. As with TFPPL, the poorest of the poor were targeted within the 10 CFUGs and a fund was created for them to buy shares in the company. The CFUGs, individual members, targeted poorest of the poor members and village traders have shareholdings of 45%, 10%, 20% and 25% respectively. Another pro-poor practice of this company is the targeting of the poor for employment as harvesters of raw materials from the CFUG forest. Given the heterogeneity of the forest products available, the company formed four common-interest groups based on the NTFPs most widely collected by the members. Through these interest groups, members sell NTFPs collectively and make rules among themselves, especially with regard to harvesting; despite this, however, overharvesting of NTFPs has been observed. This is because traders are able to offer higher prices to members/collectors, and the CFUGs still have limited control of their members in terms of whom they can sell to and how much they should harvest.

The Machhe Pokhari Handmade Paper Enterprise (MPHPE) was registered as a small cottage industry in 2005 with technical and financial support from the LFP and TEF; it is comprised of seven CFUGs. Like the companies described above, this company was designed to be pro-poor. It has reserved at least two seats for *Dalit*s, the poor and women in the factory

A member of THNTFPE selling NTFPs in a trade exhibition, Tinjure. Photo by Bishnu Hari Pandit

management committee, which is composed of seven members. Each CFUG must select five poor users through wellbeing ranking and give them a 25% share of the enterprise's profits on a rotational basis. Furthermore, MPHPE decided to train at least 5–7 poor users in sustainable harvesting of *Lokta* bark in each community forest. Through its executive committee the company has also recruited and trained four of the poorest individuals as factory workers.

4.4.1 Issues within private companies

A common observation among the cottage industries and companies is the critical *need to maintain raw material supply* due to the large volumes required for processing. Another critical issue is the *skill of workers*, not just at the processing-factory level but even at the level of gathering and handling of raw materials. The availability of skilled workers is more critical for companies, not just because of the more technical nature of processing but also because of the relatively large investment involved compared to that of smaller and less formal enterprise types. In the same way, the enterprise operation requires *professional management* as the company expands and becomes involved in more formal transactions.

4.5 Summary of Constraints and Good Practices Identified

Table 3 summarizes the constraints faced by the various CBFEs and how they have attempted to overcome them, while Table 4 presents a summary of the advantages and disadvantages of the four enterprise types.

4.5.1 Other perspectives of constraints and practices: products

The constraints faced by the various enterprises can be seen from various perspectives, although they may be very similar. Different perspectives may be needed in order to identify how the lessons learned may be applied. A different way of looking at the constraints on and practices of the CBFEs is discussed below.

As mentioned above, the type of forestry programme (i.e. CF or LHF) determines to a large extent which forest products the FUGs can engage with. An investigation of the forest products being sold by the selected enterprises shows that CFUG-based enterprises have more diverse range of products than LFUG-based enterprises have. Moreover, LFUG-based enterprises are engaged less on the commercialization of forest products than on microcredit provision and milk and livestock production (Table 5).

Constraints specific or crucial to improving product value and, therefore, income from the products listed in Table 5, above, are summarized, as are the strategies adopted by the CBFEs to overcome these constraints (Table 5).

Table 3: CFBEs: Constraints and good/best practices by enterprise type

Enterprise type		Constraints	Good/best practices
FUGs	LFUG-based	• Membership is mostly comprised of the poorest; i.e. those with limited financial and technical capacity • Small membership and land area • Degraded land	• Provision of range of support including organizational capacity building, individual trainings and (flexible) credit • Federation into networks and formation of formal business organization (e.g. cooperatives, private companies) • Improvement of soil fertility through cultivation of grasses and agroforestry species
	CFUG-based	• Group ownership of forest (limited direct incentive for members to improve land productivity) • Exclusion of poorest members • Limited group capacity for collective enterprise	• Zoning; allocation of land for cultivation • Targeting of poorest members for special support (e.g. lower loan interest rate, training, priority collectors/labourers) • Formalization into a business organization (i.e. cooperative, private company)
	All FUGs	• Limited institutional and individual capacity for enterprise engagement • Limited resources for capacity building	• Capacity building activities for FUGs • Capacity building activities for individual members. • Federation and formation of networks and accessing of external support
Networks	All networks	• No legal personality to engage in enterprise as a group. Networks are intended primarily for accessing external support and are in transition towards becoming cooperatives. • Limited group capacity for collective enterprise	• Formalization by establishing cooperatives (exclusively or with other FUGs, private individuals). • Capacity building for the network organization (e.g. record keeping for transparency to FUG members)
Cooperatives	All cooperatives	• Limited management and entrepreneurial capacity • Raw material supply	• Institutional capacity building (e.g. cooperative management) • Measurement of sustainable level of harvesting • Formation of more exclusive and formalized enterprise (i.e. private company)
Cottage Industries/ Companies	Companies	• Limited technical and managerial capacity • Raw material supply	• Technical skills training • Measurement of sustainable level of harvesting and enforcement of rules

Table 4: Advantages and disadvantages of each enterprise type

Enterprise type	Basic differences in legal personality	Advantages/ strengths	Disadvantages/ weaknesses
FUGs : LFUGs or CFUGs	• Mainly a forest management group but with privileges to utilize and commercialize forest resources as a group or by individual members • Registered under the DFO	• Compared to networks and cooperatives, they have no membership obligations	• They have lower bargaining power because they generally have lower number of members and less land, especially LFUGs
Association/ networks	• Association is mainly for collective purpose such as promoting members' interests and securing external support. • Registered under the DFO	• Compared to FUGs, a network has greater collective efficiency • Unlike cooperatives and companies, membership is not according to ownership of shares • Members have less obligation or liability • They are less regulated by law	• Compared to cooperatives and companies, networks are allowed limited types of transactions especially with formal organizations such as banks, private businesses • Given their 'loose' membership (not formally registered as a business organization and having no equity or shares), the network cannot transact as one legal personality
Cooperatives	• Main purpose is service to members-owners-clients. Unlike a company, voting is one-man one-vote or through representation imitating a democratic process • Registered under the DCO	• Equal decision-making rights (control and participation not based on amount of shares) • Subsidy and tax incentives	• Compared with networks, more legal requirements may have to be fulfilled in order to be registered • Individuals need to buy share capital in order to become members
Cottage Industries/ companies	• Main purpose is profit for shareholders. Voting rights is based on amount of shares • Registered under the DCSIO or Company Registrar Office (CRO) of DoI.	• Advantageous for shareholders with higher amounts of shares as they have greater control of the company. • Only companies (businesses registered under CRO) can export	• In contrast, may not be appropriate for poor who do not have enough money to buy shares • More requirements and regulations • More competitive and usually subject to higher taxes

Table 5: Products traded and services offered, by FUG type

Forest products	Number of enterprises by FUG type*			
	LFUG-based enterprises	*CFUG-based enterprises*	*General*	*Total*
NTFPs				
Broom and fodder-grass seed	4	1	-	5
MAPs (*Swertia*, Asparagus, Spikenard (*Nardostachys*) etc.)	1	-	2	3
Lokta and nettle fibre	-	5	-	5
Plants producing essential oils (Citronella and Cinnamon)	-	1	1	2
Bamboo and bamboo handicrafts	-	2	1	3
Shorea leaves, fruits of *Terminalia* and *Embilica* species	-	5	2	7
Juice and/or squash (*Myrica*, Rhododendron and *Bael* fruits)	-	2	-	2
Other: livestock and credit				
Milk and livestock products	6	3**	2	11
Loans and personal savings services	6	5**	3	14

* FUGs, particularly CFUGs, often commercialize more than one NTFP.

** Some CFUG-based enterprises are engaged in milk and livestock production and also have loans and saving services as secondary activities; these are mostly carried out at the household or subgroup level.

Source: CBFE survey.

Table 6: Constraints and amelioration strategies, by enterprise product/service

Forest product	Constraint	Amelioration strategy
Broom and fodder grass seed	• Limited production and low price	• Cultivation and collective marketing
MAPs (*Swertia*, Asparagus, *Nardostachys* etc.)	• Dependent on road-head traders; royalties and taxes; ban on trade of raw product; storage losses	• Cultivation, processing (e.g. drying) and collective marketing
Lokta and nettle fibre	• Incursion of outside collectors	• Registration as CFUG and protection from external collectors
Plants producing essential oils (Citronella and Cinnamon)	• Production and marketing constraints • Need for certification of origin for products to be exported to India	• Cultivation and processing using locally made machine • Contract marketing
Bamboo and bamboo handicrafts	• Shortage of bamboo	• Cultivation of bamboo
Shorea leaves, fruits of *Terminalia* and *Embilica* species	• Poor harvesting practices and risk of unsustainable supply	• Preparation of management plan and regulation of harvesting
Juice and/or squash (*Myrica*, Rhododendron and *Bael* fruits)	• Poor harvesting practices and risk of unsustainable supply	• Estimation of sustainable level of harvesting and regulation of harvesting
Milk and livestock products	• Low volume; low price	• Fodder cultivation; milk collection centre
Loans and personal savings services	• Lack of funds • Limited institutional capacity	• Access external grants; (compulsory) savings; and capacity building

4.6 Practices and Further Constraints to Poverty Alleviation through CBFEs

It can be observed that the major steps to be taken to improve the value of the forest products are to overcome constraints to increasing volume of production, processing, and marketing. Although the CBFEs have tried various strategies and practices to overcome their problems, many of the constraints remain a challenge. Indeed, increasing forest product value is a process of overcoming a web or a chain of constraints (e.g., production, finance, marketing, and personnel; or harvesting, cultivation, processing, and marketing). Furthermore, referring again to the long-term objective of CBFEs, which is poverty alleviation, the constraints relate not only to increasing the value of and income from the products but also to distributing the income equitably, maintaining resource sustainability, and empowering the poorest. Equity is a relative concept and in enterprise development

equity through income distribution does not necessarily mean equal distribution of benefits but fair distribution of inputs or other opportunities to access forest resources and market them. Resource sustainability is one of the major constraints in forest-enterprise development because increased demand brought about by increased commercialization may not necessarily be met by existing supply. This is especially so if there is no control over the supply of raw materials collected from the wild. Table 7 presents the constraints and best practices, following the longer process from enterprise establishment to poverty alleviation.

Table 7: Objectives and processes: summary of good practices and weaknesses

Objective/ process	(Best) practices	Weaknesses/remarks
Income generation		
Business start-up and operations	• Business planning • Formalization through registration	• Business planning is weak in many of the CBFEs, even in high-investment enterprises run by cooperatives and private companies • Many of the FUGs and networks are still in the process of registering as formal business enterprises
Financing	• Grants, matched by recipients, usually in kind, e.g. labour or building materials, which add to the members' ownership of the enterprise • Accessing formal credit • Raising capital by selling shares	• Most of the CBFEs show strong dependence on grants, and very few have accessed loans as a source of capital • Members' contribution to capital is observed to be limited
Marketing	• Assembly and collective marketing • Contract marketing	• Marketing remains weak, especially for FUGs and networks. Some groups assemble and occasionally market their products collectively but sell them only to middlemen/traders and not to wholesalers or direct or larger buyers • The export (e.g. Indian) market has not been tapped
Production arrangements	• Protection of resource stock from overharvesting through management plans and strict implementation rules • Allocation of land for NTFP cultivation • Mechanization of production and adoption of new and local technology	• Implementation of rules is still weak in many CFUGs, especially if traders offer higher prices to collectors • For LFUGs, land is degraded and less productive. There is still limited cultivation of NTFPs, for various reasons such as the lack of technology
Management	• Capacity building of FUGs in managing the business, particularly in record keeping, and day-to-day management. • Hiring of professional management staff and training of collectors/workers • Delegation of production responsibilities to subgroups and subcommittees	• Many of the CBFEs still have limited management capacity, particularly in business skills such as negotiations with traders and transacting with banks and other businesses, or the formal organization needed to expand their business • Given the poverty of the people and their limited training and education, further training in business management skills is required

Objective/ process	(Best) practices	Weaknesses/remarks
Income distribution and empowerment		
Inclusion of the poorest	• Targeting of poorest for special privileges in the enterprise (e.g. lower interest rate, wage labourers for cultivation of commercial NTFPs or in factory processing; provision of training specific to the needs and livelihood strategies of the poorest)	• Many of the CBFEs do not yet specifically target the poorest
Empowerment of the poorest/ marginalized	• Enabling the poor to buy/own shares by (external NGO) allocating them funds to buy shares or by helping them accumulate savings to buy the minimum number of shares to become members/owners • Allocation of seats to the poorest or marginalized on the Executive Committee –the policy-making body of the CBFEs	• In many of the CBFEs, composition of the executive committee still largely comprises the local elite
Sustainability of resource stock		
Maintenance of raw material supply and prevention of resource depletion	• For LFUGs, land allocation to households and support provision; for CFUGs, zoning and NTFP cultivation • For larger CBFEs, in addition to cultivation, outsourcing from other FUGs and private or other government-owned forest	• Weak implementation of regulations on overharvesting • Many CBFEs are still sourcing forest products from adjacent government forests, which are more likely to be prone to depletion

4.7 Factors that Influence Success

The third objective of this study is to identify key factors that affect the success or failure of the selected CBFEs. As a basis for success, three objectives that lead to poverty alleviation (i.e. enterprise profitability, income distribution and empowerment, and resource sustainability) were referred to. Although these objectives may be achieved separately, it is demonstrated above that the path to achieving these is more likely to follow a linear pattern whereby the CBFEs first need to achieve profitability in order to have some income to distribute. The emphasis therefore is for the CBFEs to achieve profitability, and this is the major criterion used here to identify the factors of success.

4.7.1 External support

Forest users can organize and access forest resources only with the assistance, and approval, of the DFO and, in the case of LFUGs, with help from the DLSO. Considering that the formation of FUGs is in itself a step towards enterprise development, the DFO and DLSO are important in the establishment of forest enterprises. A noticeable observation among the CBFEs is the various types of support provided by external organizations in addition to that from the DFO and DLSO. In most cases, the CBFEs received training and, most importantly, financial support including revolving funds for individual loans or a trust for a group of poorest households to own shares in a company or cooperative. This is obvious in their source of initial capital and revolving funds, most of

which take the form of grants. Given the design of the programmes – where a close collaboration with the line agencies is needed – and the high incidence of poverty, external support is crucial in establishing CBFEs.

4.7.2 Forest characteristics

Value (quality) and size (quantity) of forest: After access to resources is secured through CF or LHF programmes, the next determinant for success is the quality of the forest handed over. Obviously, CFUGs have better quality forest than LFUGs have, LFUGs having been given 'degraded' forest. This is also crucial in determining the viability of their enterprises. A related resource characteristic is the area of the forest, which again puts CFUG forests at an advantage because in principle under the CF programme there is no limit to the area that can be handed over. With regard to this characteristic of forest resources, LFUG-based enterprises are at a double disadvantage because not only do they have degraded forests but the area of forest is also smaller. This disadvantage can be demonstrated in the greater number of CFUGs engaged in 'profitable' and larger scale forest-based enterprises compared to LFUGs. Improving the profitability of forest enterprises – in both CF and especially LHF forests – means improving the quality and/or size of the forest resources. For LFUGs, this could suggest leasing a more productive and larger forest area.

An LFUG member. Being poor, LFUG members lack various capital; thus, need various support to engage in an enterprise. Photo by Gyanendra Kayastha

Distance from forest to market: A noticeable commonality among the relatively large companies and cooperatives that also undertake some processing of NTFPs is their relative proximity to India or Kathmandu, the main destination of such products. Given their advantage in terms of location and existing infrastructure, existing processing enterprises (e.g. of essential oils and extracts) could be supported to be more competitive and to maximize their processing capacity in order to develop both existing and potential processing industries. This may imply focusing further infrastructure development (e.g. processing plants) in these areas that are already close to the market and linking them (e.g. with roads) to villages that supply raw materials; another option would be to erect processing facilities close to the source of the raw materials so that only the finished product had to be transported.

4.7.3 Group/community characteristics

Poverty level and group size: A characteristic related to quality and size of forest resources is the quality and size of the FUG membership. This specifically refers to their existing capabilities to engage in enterprises, be it as owners/investors, managers or labourers. The wealthier the members, the more money they can invest. The more educated or knowledgeable they are about running enterprises, the more successful they are likely to become. The same applies to their skills in the technicalities of forest-product-based production. Again, given group characteristics CFUG-based enterprises are at an advantage as they are not composed

of homogeneously poor people but a socio-economic mixture of whoever 'traditionally' used the forest, which may include the wealthier and more educated or skilled people in the community. The same is true of the group size: with only 7–10 poor households and with a limited area of forest, LFUGs are constrained from engaging in 'processing' enterprises. Unless they source their raw materials (fodder) from other forests or do what many FUGs have already done – which is to federate, LFUGs barely remain sufficiently viable to form a legal business enterprise but are limited to individual production of fodder and livestock products or collection of medicinal plants.

Pre-existence of 'enterprises': In most of the enterprises selected as case studies, the members are already engaged in commercializing forest products (e.g. MAPs, broom grass, fodder and livestock, bamboo handicrafts, etc.) and a market already exists. All the new, formalized enterprises all had to do was to improve the existing 'enterprises' by collective marketing and increased production, adding value or processing. In some cases, there were no existing enterprises but the market already exists for forest resources from Nepal (e.g. Rhododendron flower juice has an existing market in India). In this case, the FUGs needed to be made aware of these market opportunities, and this was done through a field visit and trainings with the support of an NGO.

Enterprise initiator or entrepreneurs: Although many of the FUG members are already involved in commercializing forest products, their 'enterprises' give them returns only for their labour, often at a lower rate compared to wage labour considering that these enterprises are not regular or seasonal and are subject to restrictions or price controls by traders. Entrepreneurs, particularly those who are innovative and financially able, are lacking in

Poor quality of roads and transport facilities limits trade of forest enterprises. Photo by Gyanendra Kayastha.

forest communities because of their location and limited access to market information and their high level of poverty. Entrepreneurship needs to be induced and, in most of the cases, this was achieved through the support of NGOs and government line agencies, particularly DFO and DLSO for the LFUGs.

Road and related infrastructure: Obviously, roads are very important for transporting the CBFEs' products, and this is a major constraint for many of the CBFEs in remote locations who have difficulty transporting their raw materials or finished products. There is a general lack of infrastructure for the CBFEs (e.g. roads, telecommunications for market information, storage or collection facilities, and processing, packaging and labelling facilities). This lack of infrastructure can be associated with the general lack of capacity for support in terms of infrastructure funding or provision of services as the government is facing fiscal budget constraints and the country has suffered from political instability. While these macropolitical and economic issues are often simply accepted because they are difficult to change, it helps to know how they affect CBFEs and understand how they could be reformed, even in the long term.

4.7.4 Government policies

The Forest Act and Forest Rules are definitely more favourable towards enterprise development than previous forest policies were. However, there remain various provisions that discourage forest-enterprise development.

Royalties and taxation: The Local Governance Act of 1999 has given power to District Development Committees (DDCs) to promote NTFP-based enterprises in the district. Taking advantage of this, DDCs impose tax at a rate of 10% of the royalty earned by the DFO. At the same time, an extra tax (NRs 1–3/kg, depending upon the product) is charged to the traders when the same product goes outside the district. Invariably, the trader takes a profit when dealing in NTFPs, which will ultimately be deducted from the primary producer's profit.

Ban on commercialization: There are bans on harvesting and/or commercializing several NTFPs. For instance, the sale of some tree-based NTFPs (such as the leaves of Yew *Taxus baccata*) and herb-based NTFPs (such as the roots of Spikenard) in their raw form is illegal. The commercialization of timber is much more restricted, especially old-growth timber prior to the handover of a forest.

Export requirements: There are several problems involved in selling essential oils (e.g. Cinnamon and Citronella) to India. In order to be able to export these products to India, enterprises need to have a letter/certificate of origin of the respective product endorsed by the Federation of Nepalese Chambers of Commerce and Industry (FNCCI), which is almost impossible for a small cooperative to obtain. Only companies registered with Department of Industry (DOI) or with the DCSIO can obtain such a letter from the DOI with the recommendation of FNCCI. Another problem associated with registering the enterprise as a private company is that a registered company has to conduct an environmental impact assessment (EIA) if more than 50 tons of the forest-based product is to be harvested per annum; if it is less than 50 tons but more than 5 tons per annum the company needs to undertake an Initial Impact Evaluation (IIE) (Environment Protection Act, 1998).

Despite these restrictive policies, there have also been recent policies and programmes that are favourable to forest-enterprise development. These include the extension of support for LFUG implementation for eight years from 2005 and the ratification of the Herbs and NTFP Development Policy of 2005, which allow greater incentives for FUGs to cultivate NTFPs.

5. CONCLUSION

This study examined the potential to improve income from forests in the context of community-based forest management (CBFM) by studying the various constraints on and practices of existing community-based forest enterprises (CFBEs) in Nepal. The survey of existing enterprises and their practices shows various ownership models that have been established involving Forest User Groups (FUGs) or their members. Based on their level of formality and ownership, four basic types were identified: FUG-based enterprises, networks, cooperatives and private companies. These four types are not mutually exclusive but share a development pathway that starts with their organization as FUGs and their expansion or specialization into a Community Forest User Group (CFUG) or Leasehold Forest User Group (LFUG) network, cooperative or private company. As shown in the case studies, each enterprise model has its own advantages and disadvantages, and each faces unique issues and constraints that suggest different types of support and external interventions. Ideally, FUGs or their members should be able to become more formal and specialized in order to become more profitable, which means having to register as a cooperative or private company. Doing so, however, raises issues, especially issues related to income distribution and inclusion of the poorest. Various practices were identified and lessons learned with regard to this, such as enabling the poorest to purchase capital shares and giving them privileges as collectors or labourers.

The study showed that the nature of products commercialized and enterprises that the forest users can engage in is highly dependent on the programme design of each FUG type. LFUGs are limited to forage and livestock-based enterprises, while CFUGs may be involved in a much more diverse range of enterprises. The study identified constraints specific to each forest product. The survey of enterprise practices also demonstrated the possibility of minimizing the limitations brought about by restrictive programme designs through the establishment of enterprises that are owned by both CFUGs and LFUGs or their members or through the targeting of and special treatment afforded to the poorest within the CFUGs.

However, the study also identified the various constraints that affect the enterprises irrespective of enterprise type. Indeed, forest enterprises are no different from any other enterprises that face similar constraints as they produce and sell their products and try to remain competitive in the market. The study then identified various factors that influence the success of CBFEs and which can be used to identify the constraints on and opportunities for the development of CBFEs.

Overall, the study identified various opportunities to increase the income from forests through the development of CBFEs in Nepal. The lessons learned from the practices of the CBFEs and their unique constraints can be seen as windows of opportunity to further improve the income being generated from forest resources in Nepal. Detailed recommendations are made below.

6. RECOMMENDATIONS

The recommendations made below try to identify a way to encourage enterprise development, taking into account the various perspectives from which the constraints on and opportunities for the development of community-based forest enterprises (CBFEs) have been shown. This use of different points of view may result in overlaps in the recommendations, but an attempt is made to present the recommendations in the most comprehensive way. The aim of the recommendations is to replicate the good practices and lessons learned, overcome the constraints or weaknesses, and maximize the opportunities identified in the case studies.

6.1 Enterprises

Generally, the direction of support required for forest enterprises from the perspective of the enterprise types is to support Leasehold Forest Groups (LFUGs)/Community Forest User Groups (CFUGs) to develop into formal, larger business enterprises, either as cooperatives or as private companies – whichever model is more appropriate. This implies that groups are prepared and qualified to meet the requirements of registration and formalization, which include various aspects of institutional capacity building (e.g. organizational, managerial, technical, financial) as well as to meet the legal requirements for business registration such as capitalization, membership and documentation.

6.1.1 LFUGs/CFUGs

- *Federate into a network:* As demonstrated in the case studies, LFUGs and CFUGs need to federate into networks for various reasons, primarily to reduce transaction costs and increase bargaining power, either in relation to market and external support transactions, or to have an influence on policies that are constraining for promotion of enterprises. The formation of CFUG networks and their federation into cooperatives or companies needs to be replicated or further expanded to include other FUGs or to form larger organizations.
- *Formalize (into a cooperative or company):* Legally defined, LFUGs or CFUGs are not business organizations (they cannot be sued as an organization for liabilities) and thus they are barred from transacting (i.e. buying, selling, borrowing etc.) as a business organization. They need to be formalized in order to do business with other 'formal' organizations (e.g. access commercial loans from banks, and export their products).
- *Improve institutional capacity:* There are various 'capacities' in which LFUGs or CFUGs need support, foremost of which is their capacity to manage the resources, which they are legally bound to do in order to retain their forest access and use

rights. With regard to income generation through enterprise development, they need support throughout the stages of enterprise establishment. Since LFUGs or CFUGs are not (yet) formal businesses, they need support in business start-up, including support to engage and specialize in a business enterprise and support in the various aspects of business management (e.g. record keeping, production, staffing and administration, financing) after they are formalized into a cooperative or a company.

- *Improve individual capacity:* As demonstrated in the case studies, LFUGs' and CFUGs' enterprises are operated mostly at the individual or group level. Enterprise support may need to start with these existing enterprises, and this may mean delivering targeted support catering for the needs of the individual enterprises (e.g. training in production technology). In relation to targeting individuals and groups, the special targeting of the poorest within groups (i.e. wealth ranking, designation as collectors or labourers) also needs to be replicated.

6.1.2 Networks

- *Increase institutional capacity*: Networks are loose organizations whose main purpose is to access external support or that are in transition to becoming more formalized business organizations. To support the former, they need assistance to improve their management of external grants, particularly record keeping and transparency, not just to satisfy the requirements of their supporting organizations but also to maintain trust among the FUG members. For the latter purpose, they need support for their design and for the whole process of business registration.
- *Formalize*: Unless the networks are purposely intended as loose organizations (simply as a network or association to promote other interests), they need to formalize into cooperatives or companies in order to become legal business organizations.

6.1.3 Cooperatives

- *Increase institutional capacity*: As a business organization a cooperative needs to be managed as a business, but business management skills are often lacking since the membership of a cooperative is often comprised of the poor. Cooperatives need capacity building in the various aspects of business management and particularly in accounting. Transparency is especially important to maintain trust among the members – one of the main assets of cooperatives – especially given that cooperatives are prone to domination by the elite.
- *Federate*: Like FUGs, cooperatives could gain from federating into larger organizations, which would give them improved bargaining power in relation to their buyers or with the government (i.e. regulators such as the District Forest Office (DFO) and District Cooperative Office (DCO) and external support providers.

6.1.4 Companies

- *Capacity building:* The companies described in the case studies are larger in terms of investment (although not necessarily in terms of membership) and are more specialized (e.g. they have better processing facilities) than the cooperatives and LFUG or CFUG enterprises. Given their more specialized operations, the companies need support with cost-cutting measures, quality control, supply of raw

materials and marketing. Companies do not necessarily produce their own raw materials and they need to link and make agreements with producers to be able to reach and maintain an adequate volume and quality of raw materials.

6.2 Forest Products

In terms of products, enterprise development can be seen to involve a series of value-addition steps from production to consumption (also referred to as the production–consumption system (PCS) (Belcher 1998), commodity system, or product value chain (Kaplinsky 2000). Generally, the aim of enterprise development is to increase the FUGs' share of the total value generated in the PCS, starting with product collection.

6.2.1 Wild-collected products

A good practice that merits replication is the estimation of a sustainable level of harvesting for a certain forest product in a particular area where the product is to be harvested. This, however, assumes the effective implementation of rules and preparation of a community forest management plan. A related practice is the zoning of CFUG land whereby part of the forest is designated for, and part is protected from, harvesting. Examples of forest products collected include *Lokta*, nettle fibre, medicinal aromatic plants (MAPs) etc.

6.2.2 Cultivated products

More research needs to be undertaken into how to propagate and cultivate wild-collected forest products. For those that are already being cultivated, production could be increased through the adoption of new cultivation technology (i.e. intensification), or expansion of the area cultivated (i.e. extensification). At present only a limited area of forest is handed over, however extensification could be possible if larger areas were handed over, especially in the case of LFUGs. On the other hand, cultivation does not have to take place in handed-over forests but, as is currently practised in some FUGs, on members' private land. Moreover, raw materials need not come from CFUG forest or from CFUG members: they could be sourced externally through contract growing. Contract growing is not yet being practised but it is a way forward, especially when the demand for raw materials increases. Examples of forest products currently being cultivated are Broom Grass, Lemon Grass, Bamboo, Cinnamon etc.

6.2.3 Processed products

Processing may not only mean transforming the product into different forms but could include other value-addition activities such as sorting and other forms of quality control and packaging. The relevant products here include Citronella, Cinnamon and Lemon Grass.

6.2.4 Marketing (all products)

The CBFEs are all weak in marketing their products. Since marketing requires special skills that most of the CBFEs do not have, supporting agencies may need to establish a business-development services (BDS) organization especially to assist CBFEs with their marketing concerns, including looking into the possibility of branding the products coming from the FUGs, searching for and developing a niche market for the various products, and tapping the export market. A combination of these and other marketing strategies may be pilot tested but will require the assistance of an organization that specializes in providing these services.

6.3 Actors

There are various stakeholders and actors involved in enterprise development, each with their own mandates, interests and roles. The aim of intervention is to strengthen their mandates, encourage collaboration between them by looking at how their interests

(especially conflicting interests) are served, and clarify their roles.

6.3.1 CBFEs

The CBFEs, comprised of the individual members, are the owners and ultimate beneficiaries of enterprise development. In relation to other actors, the aim of CBFEs is to influence other stakeholders to act in their favour. In addition to the recommendations made above, CBFEs should influence policy-makers and government line agencies to:

- *Reclassify* cultivated forest products as agricultural products in order to exempt them from royalties and taxes, and
- *Develop* infrastructure and support services such as roads and market information and give assistance in tapping wider (e.g. export) markets through the establishment of venues where CBFEs could meet buyers (e.g. sponsoring forest-product trade fairs, government information website).

CBFEs can influence policy-makers and government line agencies by strengthening (i.e. by increasing membership, cooperation) their federation and unions (e.g. Federation of Community Forest Users Nepal (FECOFUN) and Nepal Federation of Forest Resources User Groups (NEFUG). In strengthening their organizations, they could seek better *representation* in forestry policy-making processes and thus be able to lobby for further reforms that are more favourable to them, such as reforms within Community Forestry (CF) or Leasehold Forestry (LHF) programmes and in the overall forest and enterprise rules and regulations.

6.3.2 Government line agencies and policy-making bodies

The government agencies already have their own mandates, and intervention directed at them should enable them to be more effective and efficient in carrying out these mandates. DFOs should be supported in their capacity to process applications for CF or LHF and to ensure that the FUGs make and follow their community management plans (i.e. monitoring). The same applies to the DCO, Department of Cottage and Small Industry Office (DSCIO) and Company Registrar Office (CRO), which are the agencies responsible for the registration and regulation of cooperatives and private companies. These imply various interventions aimed at building the institutional capacity of these government line agencies, including staff training, addition of staff and increased budget allotment. More importantly, the role of these line agencies should be clarified and defined with regard to CBFEs. For example, the authority that DFOs have over FUGs should be clarified when the FUGs are registered under the DCO or DSCIO, so as to avoid duplication, confusion or omission of support.

Forestry policy-making bodies should be influenced in order to enact policies that are more favourable to the development of forest enterprises such as reducing taxes on forest products, simplifying the processes of obtaining collection and business permits etc. Related policies such as on banking for FUGs should also be reviewed, as should alternatives to collateral since FUGs do not own the land handed over to them.

6.3.3 Donors (e.g. IFAD) and supporting NGOs

Donors such as the International Fund for Agricultural Development (IFAD) could act as a third party between government and the FUGs. IFAD could play various roles: it could help reform policies such as those mentioned above by acting as conditionality enforcer (i.e. giving grants or loans with conditions for policy reforms), influencer and/or technical assistant (i.e. effecting policy reforms not as conditions for giving grants or loans but as suggestions). It could create an opportunity or even initiate

the institutionalization of a constant dialogue among the stakeholders, particularly the Forest User Groups (FUGs), policy-implementers and policy-makers, to promote pro-poor-focussed CBFEs.

Donors could also deliver services directly to CBFEs by working with organizations that are already involved in supporting them – such as government line agencies and non-governmental organizations (NGOs), CBFE associations, private sector organizations such as chambers of commerce and import–export associations, and research organizations. Again, most of these organizations have their own mandates, and interventions should strengthen their capacity to fulfil their mandates. In some cases organizations are involved in a range of activities, and before 'building the capacity' of these organizations their mandates should be clarified. Various organizations mentioned in the case studies tried to and are still assisting FUGs to engage in enterprises. However, most of the support is in the form of either loans or grants and does not seem to be focussed on assisting CBFEs to expand their markets. Marketing is one of the identified weaknesses of the CBFEs, and donors could invest more in this area by supporting or establishing a for-profit marketing organization that will specialize in marketing forest products, not just to Kathmandu but, especially, outside the country. As more CBFEs are established, expanded and federated, donors should collaborate with government agencies to provide the necessary support such as a venue for shared learning (sharing knowledge and skills between various organizations whose aim is to promote the pro-poor focus of CBFEs).

6.4 Community–based Forest Management (CBFM) Programmes

As was demonstrated earlier, the nature (i.e. product, scale and type) of the CBFE enterprises is strongly influenced by the forestry programmes to which the members belong or from where the forest products are sourced – whether the CBFE is comprised of CFUGs or LFUGs. In addition to the recommendations made above, it is also suggested that some reforms be carried out within CF and LHF programmes, particularly the granting of more productive and larger areas of forest land.

On the other hand, it was demonstrated that size constraints become less of an issue as the CBFEs expand into larger and more specialized business organizations, where raw materials do not necessarily come from FUG forest and membership is less confined to CFUGs or LFUGs. Moreover, it has been shown that in these larger CBFEs the poorest can still be targeted and given special privileges. Various practices and strategies have been tried in order to target and include the poorest, which is the main rationale of LHF programmes. Follow-up interventions (i.e. expansion and specialization of CBFEs) should now attempt to replicate the efforts to establish CBFEs whose membership includes CFUGs and LFUGs and even the private sector (e.g. traders and individuals). A crucial issue here is the ownership of the enterprises through the purchase of capital shares. Within CFUGs, the practice of targeting the poorest members is worth replicating (e.g. wealth ranking, granting of exclusive rights to collect or cultivate forest products, privilege of labour employment in CBFE factory or related employment). Within LFUGs, there is a need to look into how they could be merged with CFUGs (e.g. either because they are within the same village, or because they are engaged in harvesting the same product or offering the same service).

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