Updated Report

on

Forest Enterprise Interviews

(Unlocking Timber Trade for the local economy: applying a value chain approach for increased income in Central Nepal)

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Table of Contents

1. Activities **3**
2. Achievements **3**
2.1. Timber Industry Value Chain Map 3
2.2. Main Stakeholders for the Timber Value Chain 4
2.3. Key Constraints in Timber Trade 6
2.4. Key Opportunities and Enterprise Models 8
2.5. Major Value Chain Upgrading Strategies/Interventions 11
3. Impact of problems **12**
4. Reflection **12**
5. Appendix **14**
5.1. Enterprise Interview Participants 14
5.2. Stage 1 Enterprise Interview Template 15
5.3. Stage 1 Government Interview Template 20

1. Activities

The initial process was to comprehensively review all of the existing literature and relevant reports on forest enterprises in Nepal. Once this was completed, the key activity was to survey existing forest enterprises across the two targeted districts to better understand the existing value chain structure of the timber industry as well as the key constraints, opportunities and potential enterprise-based models that the project can help facilitate.

Interview templates were prepared, and a list of target stakeholders was discussed at a project team meeting. The interview template was tested and finalised in October 2019, and snowballing techniques were used to conduct 24 key stakeholder interviews over 2020. A list of the stakeholders interviewed, and the semi-structured interview questions for industry and government participants are included in the appendix.

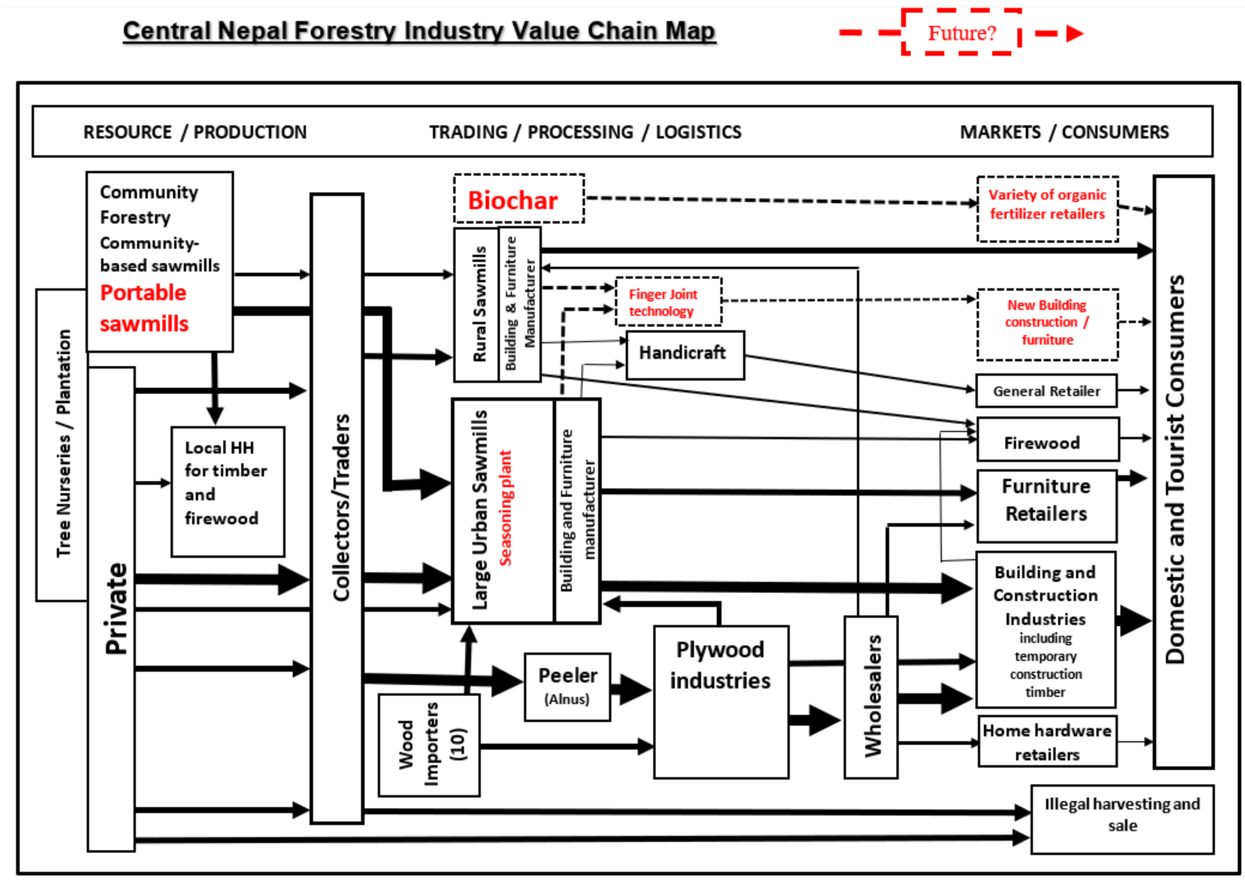
The interview process was designed to not only to extract information but also to assess potential project partners for addressing the identified constraints and opportunities and partner with them on the design and development of new forest enterprise models.

2. Achievements

A much better understanding of the existing forestry value chain in central Nepal, including who the key stakeholders are as well as the major constraints, opportunities and potential enterprise models

2.1. Timber Industry Value Chain Map

This value chain map has been prepared through the inputs of various stakeholders and interviewees. The map highlights the links between key timber industry stakeholders and some of the potential future opportunities. This map shows the source of timber, collection, transportation, processing and the final product to the final consumers through different market channels. There are several issues and challenges (discussed below) that have been observed in the process of understanding the timber value chain in Nepal. This map also indicates some potential opportunities that could be implemented to improve the timber industry.



2.2. Main Stakeholders for the Timber Value Chain

Key actors of the timber value chain/enterprises were identified after successive meetings and discussions with Divisional Forest Office (DFO) staff, Federation of Community Forest Users Nepal (FECOFUN) District Chapters and Federation of Forest-based Industry and Trade (FenFIT), Nepal.

As seen in the value chain map above, we've included the following key actors who have a strong stake and influence in the promotion of the timber trade:

1. **Private tree growers:** A number of independent farmers grow trees. More than 70% of timber comes to the market from the private forest, even though community forests have a much larger area in these 2 districts.
2. **Community forestry user groups (CFUGs):** More than 1000 CFUGs are managing forests as community forest (CF) in two districts and supply timber within the district and outside.
3. **Local timber collectors:** A group of people actively involved in identifying private tree growers who sell timber. They harvest timber and sell to the local contractors. In most of the cases, local contractors work as local timber collectors.
4. **Local contractor traders:** They are middle-persons in the timber business. First, they collect the timber orders from local furniture enterprises and sawmills of the nearby market such as Banepa and Kathmandu. Then, they buy trees in standing form from local tree growers (through action or negotiated price), they do the harvesting, logging transportation and selling of the timber to the market. Alternatively, they can work on commission for the big sawmills of the city. They also provide support to CFUG's for timber harvesting and buy timber from CFUGs through the competitive auction process.
5. **Local furniture entrepreneurs:** There are many local furniture makers with varying sawmilling capacity. They make furniture based on pre-orders from the customers and provide services to local people for timber sawing; in most cases, they buy logs from the local contractors or local timber collectors. Some of them directly buy trees from the tree growers. However, they feel it's difficult to go through the lengthy grant permission process with the DFO office.
6. **Big Saw millers/Plywood manufacturers:** They are located in the big city area such as Banepa and Kathmandu. They buy timber from local contractors, or sometimes they send their representatives directly to the auction sites for the purchase.
7. **Retailers (furniture, plywood):** There are several retailing shops which range in size and location and normally specialise in selling finished furniture (local & imported) and plywood to their customers. They also supply local raw materials (such as plywood and other materials) to other local furniture makers.

8. **Divisional Forest Office (DFO):** DFO is the regulatory agency (under provincial government) and provides permits for felling, collection and transportation of logs. They also provide permission for sawing, transportation of processed products to the market outside of the district.
9. **Cottage and Small Industry Development Board (CSIDB- Sindu)/District Cottage and Small Industry Office (DCSIO-Kavre):** These offices are responsible for the enterprise registration, including forest-based enterprises. They are limited to the registration only and hardly do any monitoring.
10. **Federation of Community Forest Users Nepal (FECOFUN) and District Chapters:** They work to develop improved livelihoods and to generate opportunities to reduce poverty through sustainable forest management and utilisation of resources. They also work to promote and protect the rights of community forest users through capacity strengthening, economic empowerment, sustainable forest management, technical support, advocacy and lobbying. They facilitate CFUGs in timber harvesting and marketing in the districts.
11. **Federation of Forest-based Industry and Trade (FenFIT), Nepal and its district Chapters:** They work to ensure the rights of timber entrepreneurs and traders and promotion of timber and non-timber forest products-based enterprises and trade in the districts. They take active roles in conducting advocacy program for promoting the forest-based industry and trade-friendly environment as well as supplying forest products and forest-based goods and services in the market via a simple, easy and sustainable way.
12. **Local governments:** Their roles are not clearly defined, but they have coordinating and supporting roles between timber entrepreneurs, CFUGs and the DFO office.

2.3. Key Constraints in Timber Trade

The complex regulatory structure is neither readily understood nor easy to follow for stakeholders involved in the timber trade in Nepal. Although a number of regulatory provisions governing timber trade have relaxed over time, a series of administrative hurdles that were created during the earlier process are still burdensome to the industry. Many studies show that the existing policies, regulatory instruments and management practices are controlling in nature rather than supporting or facilitating the entrepreneurs and the timber trade in Nepal. The timber trade in community forestry should be growing a lot faster to become a significant means of improving local livelihoods of forest users' groups and the broader economy. On this basis, we were very interested in learning the perspective from the key industry stakeholders.

The enterprise interviews included some very frank conversations about the current state of the timber trade and what the impediments to industry development were. We have tried to summarise some of these key insights below:

1. Complex and poorly implemented regulatory structures lead to lengthy bureaucratic procedures and inconsistency between government institutions;
   - There are multiple permission regulations from govt for timber harvesting, processing, local transportation and export of final products
   - These regulations are not understood well by forest enterprises
   - The regulations are also difficult and restrictive for CFUGs
   - They are arduous in terms of time and cost
   - Central and local government have dual taxation policies across many of these regulations
   - There are problems in registering forest businesses and restrictions on the types of trees that can be processed and marketed
   - There is confusion over property rights
   - There is confusion over the roles of different government agencies such as DFO office and CSIDB/DCSIO: registration, renew and monitoring enterprises
2. The industry currently suffers from unpredictable raw material supply, which is exasperated by relatively long supply chains
3. There is unfair competition between private timber entrepreneurs and the government-owned Nepal Forest Corporation of Nepal (NFC). The NFC can buy timber at base prices, where private entrepreneurs are compelled to buy through the

competitive auction process. Consequently, timber from the Timber Corporation of Nepal (TCN) can be found at a cheaper price.

4. Community-based forestry enterprises are difficult to register, lack economies of scale, entrepreneurial culture & skills and receive insufficient support from service providers
5. In general, the private sector is still underdeveloped, including business service providers who lack the capability to help the sector capitalise on the market opportunities
6. Across the industry there is a lack of;
    - skilled labour at all levels
    - quality certification systems
    - access to finance, particularly for CFUGs
    - access to appropriate and affordable insurance
    - appropriate technology
    - access to market information and analysis of this data

2.4. Key Opportunities and Enterprise Models

Forestry is an important sector in Nepal and has the potential to play an important role in enhancing the economy and local livelihoods. Some of the key opportunities identified during the enterprise interviews included;

1. Import replacement as a key opportunity across the industry
    - Densified plywood for more heavy-duty construction applications is imported because the technology to make it is not currently available in Nepal. This is a new area of intervention.
    - A full range of timber is imported from countries like Malaysia and Indonesia because it is not only a favourable price, but it has reliable supply and specifications and is seasoned ready to use.
    - The easy access to local timber should be able to replace these imports if reliability quality and consistency requirements can be met

2. Need for a seasoning/treatment plant to allow local soft timber to be used for a wider range of applications
   - The provincial government has a program to establish a Timber seasoning/treatment plant in Kavre and Sindhu.
   - The properties of local hardwood like Sal (*Shorea robusta)* is actually better than most imported timber. If the local soft wood was properly seasoned/treated, then it could be used in a wider range of construction applications and produce a better resulting end product
   - If pine timber was properly seasoned, then it could also be used for a wider range of applications and would be cheap enough to compete strongly with existing imported products, which includes not only other wood, but also aluminium and UPVC window panes and metal poles (we need to keep in mind the competition for the local wood product is wider than just imported timber). DFO actually already has a budget set aside for investigating this opportunity further, but they are unsure of the business model to use.
3. Address the Government policy issues outlined in the Constraints section above. Any attempt to streamline the regulations across the industry has the potential to improve the timeliness, costs and ability for the private sector to capitalise on market opportunities.
   - The government can also look at potential subsidy provisions to local furniture makers for finance and the implementation of more modern technology
4. The government could also look at their own policy around prioritising local timber when purchasing building construction materials and furniture for government use
   - This would require some strong lobbying to the government from CFUG and FenFIT through Ministry of Forest and Environment (MOFE).
5. The use of portable sawmills and the current policy which specifies the need for these to be located outside of the forestry resource
   - a working group is exploring this opportunity

- Permission should be provided for action research to be conducted within our ACIAR project

6. Use of finger joint technology to expand applications and improve timber usage efficiency
    - One factory in Banepa has started using finger joint technology and others are assessing it, but there is an opportunity to expand and accelerate the use of this technology and the markets it opens up
7. Investigate ways to get more investment into the processing sector
    - Discussions have been initiated into the provision of district-level cooperatives to allow investment into CFUG's for timber harvesting. The cooperative can also work as a business service provider to the CFUGs
8. More DFO sealing machines to remove a frustrating bottleneck in the existing system
    - DFOs have agreed to purchasing more, but it is yet to materialise
9. Explore the market opportunities associated with biochar. Biochar is a form of charcoal that is produced by exposing organic waste matter (such as tree waste or wood chips) to heat in a low-oxygen environment. It can then be used as a soil amendment to address a range of environmental, agricultural and forestry challenges. A shortage of chemical fertilisers in these regions could provide a market opportunity for producing and selling biochar.

As an example, some of these priorities can be addressed quite quickly – i.e. the DFO additional sealing machines can provide some significant impact, but it's not going to take a great deal of time to lobby the DFO for that to happen and sometimes those quick win-win opportunities can give some real momentum to some of the longer-term priority projects.

The next step for the broader project team will be to assess these enterprise insights in the context of the wider project, but for the benefit of this report, we have picked a few areas and tried to develop some early value chain upgrading strategies and potential interventions, which have been explored further below.

2.5. Major Value Chain Upgrading Strategies/Interventions

1. Reform forestry sector's policies and legislations
    - Allow CFUGs to exercise their resource assessment, planning and management rights; simplify compliance with environmental standards; increase transparency in the permit process for government forests; and grant autonomy to CFUGs to set product prices and deal with the market (Subedi et al., 2014).
    - Ensure harvesting, collection and transportation permits are made straightforward and industry-friendly.
    - Environmental standards should be integrated into local management planning, which should also consider sustainable harvesting.
    - Explore the possibility of allowing CFUGS to conduct standing tree auctions to avoid the lengthy delays and deterioration of timber after it has been cut down. The onus would then be on buyers to harvest.
    - Viability of a new ebidding auction system to further streamline the selling process
2. Portable sawmills
    - The first hurdle is the regulatory and administrative systems to allow the use of portable sawmills, particularly within the forests themselves. This would include procedural guidelines, registration and permit processes.
    - The other important aspect to understand is the appropriate business model. Who would run this type of venture? Where would it be based, and what is the business case for its success, including existing and potential future demand? Would it be confined to producing timber for community use, or could that be expanded.
3. Biochar
    - Analysis of the market opportunities, especially as a local organic fertiliser. Would the price be a viable alternative to chemical fertilisers? Can the process be proven and the associated costs analysed as part of a new business case?

3. Impact of problems

COVID-19 has a big impact on the timber business in Nepal;

- Restricted harvesting in the field, including a timber harvesting ban (Cabinet decision) which is having a huge impact across the industry.
- The consumption of timber is also lower due to a decrease in construction works since COVID began.
- Since COVID, we have also continued to see how timber is being rapidly replaced in the city area by the imported construction materials such as iron, steel and aluminum.

COVID-19 has also affected the activities within the project;

- The harvesting ban is also delaying harvesting of the trial sites within our project and all the related activities that hinge on this.
- Not able to travel into or within Nepal
- Limits interaction for enterprise interviews and between project team members
- Has delayed some of our intended activities to capitalise on the identified issues, opportunities and new enterprise models outlined above.

4. Reflection

Part of the assessment of the key priorities from the insights of the enterprise interviews should not only look at which ones are most important to the industry and Nepal's government but also put a lens across them to assess what role our project can realistically play in addressing them., i.e. how can the activities during the remaining tenure of the project improve the timber trade in Kavre and Sindhu districts as well as in Nepal.

Once we have agreed on a shorter list of priorities, then we can discuss next steps in more detail including resources, responsibilities, timelines etc., and how these dovetails into the other parts of the project, particularly the objectives and activities around the;

- Policy Lab
- Insights from CFUG and community survey work

- Portable sawmill trials
- Nurseries models from private and public sector point of view

The great benefit that we have as a project team is that the enterprises, we interviewed along the value chain were not only very open and honest in sharing information, but they also seemed genuinely interested in partnering with us to explore opportunities to improve the development of the industry. This situation in itself should not be underestimated, and it provides a unique opportunity for this research project to provide some real and sustained impact across the whole of Nepal's timber industry. We look forward to feedback from the rest of the project team.

5. Appendix

5.1. Enterprise Interview Participants

- Dr Ram Prasad Lamsal, Director General, Department of Forest and Soil Conservation, Babarmahal Kathmandu
- Mr. Biddya Nath Jha, Director, Bagmati Province Forest Directorate, Hetauda, Bagmati Province
- Mr Hari Prasad Pandey, Under-Secretary, Ministry of Forest and Environment, Singhadarbar, Kathmandu
- Mr Badri Bahadur Karki, Divisional Forest Officer, Kathmandu Forest Division, Hattisar Kathmandu
- Mr. Bijaya Raj Paudyal, Forestry Expert (Former Director General, DFO at both Kavrepalanchowk and Sindhupalchowk Districts)
- Mr Mandav Mani Humagain, Chairperson, Federation of Forest-based Industry and Trade, Nepal (FenFIT), Kavre
- Mr Sudil Gopal Acharya, Executive Officer, Federation of Forest-based Industry and Trade, Nepal (FenFIT), Central Office, Kathmandu
- Mr Bishnu Subedi: Wood Importer, New valley PVt. Ltd., Kathmandu
- Mr Suresh Shrestha: BIRA Furniture, the large furniture industry, Patan Industrial State, Lalitpur
- Mr Rajendra Henju, Ajima Brick Factory, Bhaktapur
- Mr Sunil Goyal: Wood Importer, Green Veneer Industry, Biratnagar
- Mr Ganesh Budathoki: Contractor for Building Construction, Kageswori-Manohara, Kathmandu
- Mr Ram Kumar Karki: Contractor for Building Construction, Bhaktapur
- Mr Bhola Thapa – Proprietor, Pashupati-Jyati Plywood Industry, Panauti, Kavrepalanchowk
- Mr Indra Lama: Furniture manufacturer, Lama Furniture, Pepsi-cola, Kathmandu
- Mr Devi Chandra Pokherel, Divisional Forest Officer, Sindhupalchowk Divisional Forest Office (DFO), Chautara
- Mr Krishna Thapa, Forest Officer, Sindhupalchowk Divisional Forest Office (DFO), Chautara
- Mr Padam Bahadur Shrestha, Owner of sawmill and furniture manufacturer; Jugal Furniture
- Mr Shiba Shrestha, Owner, Middleman Trader into the construction industry
- Mr Ramesh Tamang, Chairman of Sansaridanda CFUG
- Mr Rabin Drabaidai, Owner of Anil-Sunil Sawmill and District secretary of the Forestry Industry and Trade Group
- Mr Roshen Shrestha, Owner of Shaan Furniture
- Mr Anil Kumar Sharma, Owner of Ambika Plywood company, Banepa
- Mr Keshab GC, Owner of Anupa Sawmill

5.2. Stage 1 Enterprise Interview Template

Stage 1 Enterprise Interviews

Enhancing livelihoods from improved forest management in Nepal (EnLiFT 2)

4th DRAFT 2019

Interview Objectives

- Objective 3 in the project is to provide insight into commercial market opportunities and constraints along the value chain to help facilitate the establishment of pro-poor small scale forest enterprises
- Stage 1 interviews are designed to be broad enough to identify some of the key opportunities and constraints and the businesses we may be able to partner with going forward. Stage 2 interviews will target these priority businesses and be more focused on how to solve the constraints and explore the opportunities which will lead into the design and development of the forest enterprise models.

Interview Process

1. Select a representative sample of key stakeholders along priority value chains. We need a number of interviews for each type of business we target, particularly enterprises closer to the market end of the chain, so we can ensure any opportunities we identify are demand driven

2. For the businesses selected, focus mainly on the owner or manager of the business. This will be important if we decide to work them on the Enterprise models.
3. When arranging a day and time to meet, let them know that the meeting is likely to take around 1.5 hours
4. At the commencement of the interview, explain who we are, the wider project and the potential win-win benefits for them
5. Use semi structured interview techniques to allow for limited time of key staff and the flexibility needed to probe important opportunities as they arise. Also need 2 people to attend each interview, so notes can be taken against each set of question areas
6. On the conclusion of the interview, thank them for their time and seek permission to follow up if have further questions.
7. Review the interview notes on the same day and combine them into the one electronic document, similar to what Craig provided during his last visit. Highlight any points requiring clarification, key opportunities, other people to contact and whether they are willing to work with us on any relevant opportunities in the future.
8. Once all planned interviews are conducted, develop a secondary list of people to interview; 1) either new Businesses and contacts, 2) new contacts within existing Businesses or 3) secondary interviews with key people already interviewed. For minor points of clarification emails or phone calls will suffice.
9. Summarise insights gained over all the interviews. I.e. do value chain members agree on priority opportunities. Also redo the value chain map to reflect the new information on industry structure.

A. Interview Details

Name of Person Being interviewed	
Business they represent	
Role within the Business	
Contact Details; Address	
Email;	
Phone; Office and/or mobile	
Interviewed by:	
Date of interview:	
Start Time:	
Finish Time:	

B. Business/Organisation Details

- Size (number of employees, volume of timber in CFT, yearly turnover)
- Location(s)
- Business Structure (family owned, private, public, different divisions)
- History (when did it start, how has it evolved over time)
- What does the business do (core activity)
- Product Range (only relevant products if it is long)
- Business Aspirations (what are the goals for the business in 5 years; expansion, new products, new markets etc.)

C. Value Chain

(Show them our draft Industry Value Chain Map)

- Where does your business sit in the map
- How many businesses like yours in the industry
- Who are your key Suppliers (is wood sourced from community or private forest source, relative %)
- Who are your key Customers (relative % to each group)
- What parts of the wider map are wrong or what have we missed
- Quality / Specifications / Requirements (What do your customers demand and what do you demand of your suppliers)
- How do you encourage suppliers to meet these requirements (do you pay more for certain attributes)
- Contracts / Payment (when is price negotiated and payment made)

D. Markets and Consumers

- Who is the end consumer for each product
- What product attributes do consumers value in each product (How do you know this)
- How do these attributes relate to product specifications that you set
- Any complaints from your customers or end consumers (what for)
- Which final markets do your products finish up in (relative % if they know it)
- Which markets and products are most profitable (why)
- How have these changed over time
- New products / New markets

E. Constraints

- What is the biggest constraint within your business
- What are other important constraints your business is facing
- What is the biggest constraint for the wider Forestry industry in Nepal
- What is the best model for doing business with the CFUG's

- How does Government policy affect your business (issues / opportunities for improvement)

F. Opportunities

- What is the best future opportunity for your business
- What are other important opportunities your business could explore
- What is the best future opportunity for the wider Forestry industry in Nepal
- Who would you need to work with to get these opportunities started

G. Other information (only if time, otherwise skip to Next Steps)

- Technology / Innovation (any issues or opportunities)
- Waste (where does it occur and why)
- Variability issues (i.e. Seasonal supply, changes in quality)
- Communication (how do you communicate with suppliers and customers and what information do you share)
- What information do you use to make strategic decisions about your business
- What is the main risk to your business
- Relationships (are they long standing, is there trust, are there issues)

H. Next Steps

- Would you be willing to work with our project team on these priority constraints and opportunities
- Can we contact you again to clarify or ask further questions
- Can you suggest other people we should speak to (either within or outside of your business)

Be sure to thank them for their valuable time and express how much we appreciate their insights.

5.3. Stage 1 Government Interview Template

Stage 1 Govt Interviews

Enhancing livelihoods from improved forest management in Nepal (EnLiFT 2)

4th DRAFT 2019

Interview Objectives

- This interview template is designed to complement the larger 'Enterprise' based interviews to provide a government and industry association perspective on the broader priority industry opportunities and the key private sector enterprises and contacts we should be targeting.
- See the 'Enterprise' template for more context on the objectives, structure and process for conducting these interviews

I. Interview Details

Name of Person Being interviewed	
Government Agency or Industry Organisation they represent	
Role within the Agency/Organisation	
Contact Details; Address	
Email;	
Phone; Office and/or mobile	
Interviewed by:	
Date of interview:	
Start Time:	
Finish Time:	

J. Agency/Organisation Details

- Location(s)
- Role in the Industry
- Has this changed over time
- What information do you have that is relevant to our research project objectives

K. Value Chain

(Show them our draft Industry Value Chain Map)

- What have we got wrong / right
- What have we missed
- What sections of the value chain do you think have the most potential and why

- Quality / Specifications / Requirements (What is important across the industry)
- How are these requirements encouraged (is more money paid for certain attributes)
- Contracts / Payment (when is price negotiated and payments made)

L. Markets and Consumers

- Who is the end consumer for each of the priority value chains and priority products
- What product attributes do consumers value in each of these products (How do you know this)
- How do these attributes relate to product specifications
- How does this drive behavior right along the value chain
- Any complaints from VC actors or final consumers (what for)
- Which markets and products are most profitable - Why
- How have these changed over time
- New products / New Markets

M. Constraints

- What is the biggest constraint within the industry
- What are other important constraints the industry is facing
- What is the best model for doing business with the CFUG's
- What role does Government policy play (issues / opportunities for improvement)

N. Opportunities

- What is the best future opportunity for the forestry industry in Nepal
- What are other important opportunities for the industry
- Who would you need to work with to get these opportunities started

O. Other information (only if time, otherwise skip to Next Steps)

- Technology / Innovation (any issues or opportunities)

- Waste (where does it occur and why)
- Variability issues (i.e. Seasonal supply, changes in quality)
- Communication (how does this happen across the industry)
- What information is collected by the agency and how is it shared
- Relationships in the industry (are they long standing, is there trust, are there issues)
- Who holds the power in the value chain

P. Next Steps

- What other ideas do you have on how we can work together on these priority constraints and opportunities
- Can we contact you again to clarify or ask further questions
- Can you suggest business leaders along these priority value chains that we should target for the 'Enterprise' version of this interview

Be sure to thank them for their valuable time and express how much we appreciate their insights.