

Community forestry timber enterprises in Nepal: prospects, challenges and proposals

Naya Sharma Paudel, Govinda Paudel, Craig Johns, Sagar Budhathoki, Rahul Karki

Introduction

After decades of continuous deforestation and degradation, Nepal's forest area has significantly increased between 1994 and 2015, so that 45% of the country's area has now become forested. Almost 35% of these forests are managed by local communities. As some studies have shown, timber production, sale and associated enterprises offer over 70% forest benefits to these communities (ref: Ridish, Bir Bd --). However, the scale and performance of timber enterprises are way below its projected potential. This policy brief discusses some of these gaps and suggests some strategies to materialise the potential of community forestry timber enterprises in Nepal.

Projected potential

Studies have shown that Nepal's forestry sector can potentially generate significant economic opportunities from timber production, processing and trade (Subedi et al. 2014, Bhatta 2022; Kishor Aryal...ERI ...). A total of 1.66m m³ of timber can be sustainably harvested, generating NPR 55 billion annually and creating over 200,000 full-time equivalent jobs under the conservation scenario (Subedi 2014). Paudel et al. (2014) estimated selling unprocessed timber (logs) alone can generate NRs 27 billion worth of income and 21,000 full-time equivalent employment.

Actual production, processing and trade

FAO's estimation shows the non-linear contribution of the forest sector to the national GDP ranging from 3.5% for 1990 and 3.9%, 2%, 1.1%, and 0.6% for 1995, 2000, 2005 and 2010 (FAO, 2014) respectively (ref – Bhatta 2022 report). Despite the huge projected potential, the Forest sector actually provides only 0.5m m³ of timber and nearly 45,000 full-time jobs annually with current harvesting practices (Aryal et al., 2022) (Bhatta 2022). However, the MOFE records show timber production of 0.6m m³ of timber with 47,000 full-time jobs annually (MOFE 2023 – annual report). Kelly and Aryal (2005) looked into the operation of community sawmilling facilities in Nepal. They found that the sawmills established and operated by the communities had to halt their operation due to sustained loss in timber processing and marketing. Similarly, other Community Forestry Enterprises (CFEs), despite holding significant donor support, are also struggling to exist (Sapkota 2020).

Multiple constraints

Community forestry timber enterprises face several policy, institutional and administrative and procedural challenges. These include constrained raw material supply, transportation, processing and marketing, making it less attractive for investment and innovation (Paudel and Paudel, 2010; GON, 2016; Paudel et al., 2018, 2022; Adhikary et al., 2019). Timber supply is constrained mainly

due to: i) costly process of OP development, revision and its implementation (figure 1); ii) long and exhaustive process of timber harvest involving 15+ steps (Figure 2) iii) lengthy process of timber auction and transportation (Figure 3). Besides, frequent and unpredictable high level policy decisions banning tree felling (Table 1).

Lengthy and costly revision of the Community Forest Operational Plans (CFOP)

Let us take the case of CFOP revision. As the foundational document to guide forest management and harvest, Operational Plans (Ops) are expected to be based on robust forest resource assessment and its analysis, and should be cost effective and accessible to CF members, who are using it. Unfortunately, there are problems with their scientific credibility, high costs and exhaustive administrative process to implement, so only a few have periodically updated their OPs. As the figure below shows (Figure 1), the process is long and tiring and involves so many steps that it is often costly to complete.

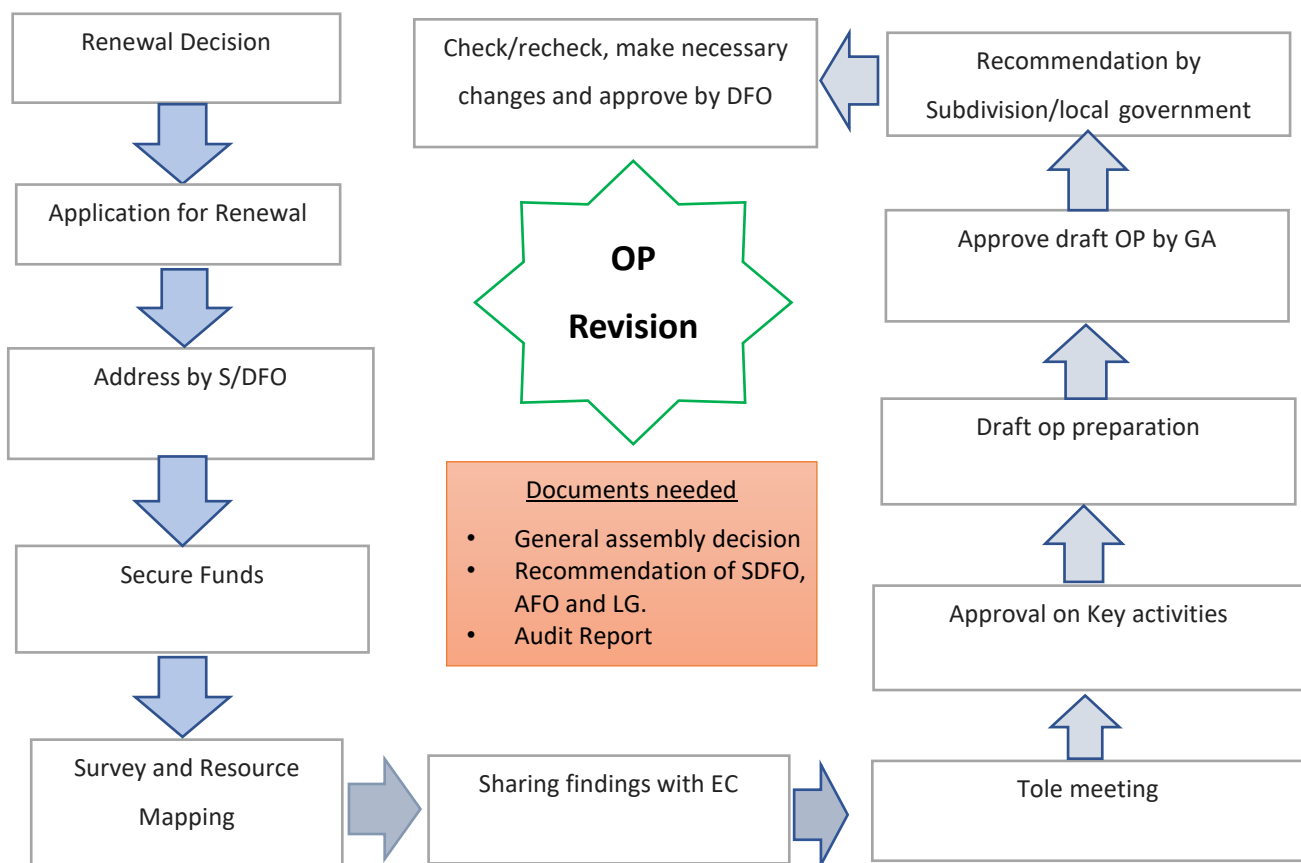


Figure 1: The process of OP revision

High transaction costs during timber harvest

Timber harvest involves 15 steps of fieldwork (Figure 2), documentation, getting recommendations from S-DFO and local government and final approval from DFO. The whole process is often tiring and requires sophisticated forest technical knowledge and exhaustive documentation. Pushing the documents from one office to another is equally tiring and time-consuming. All these add up to the cost of timber which ultimately becomes non-competitive in the market which is flooded with cheap imports.

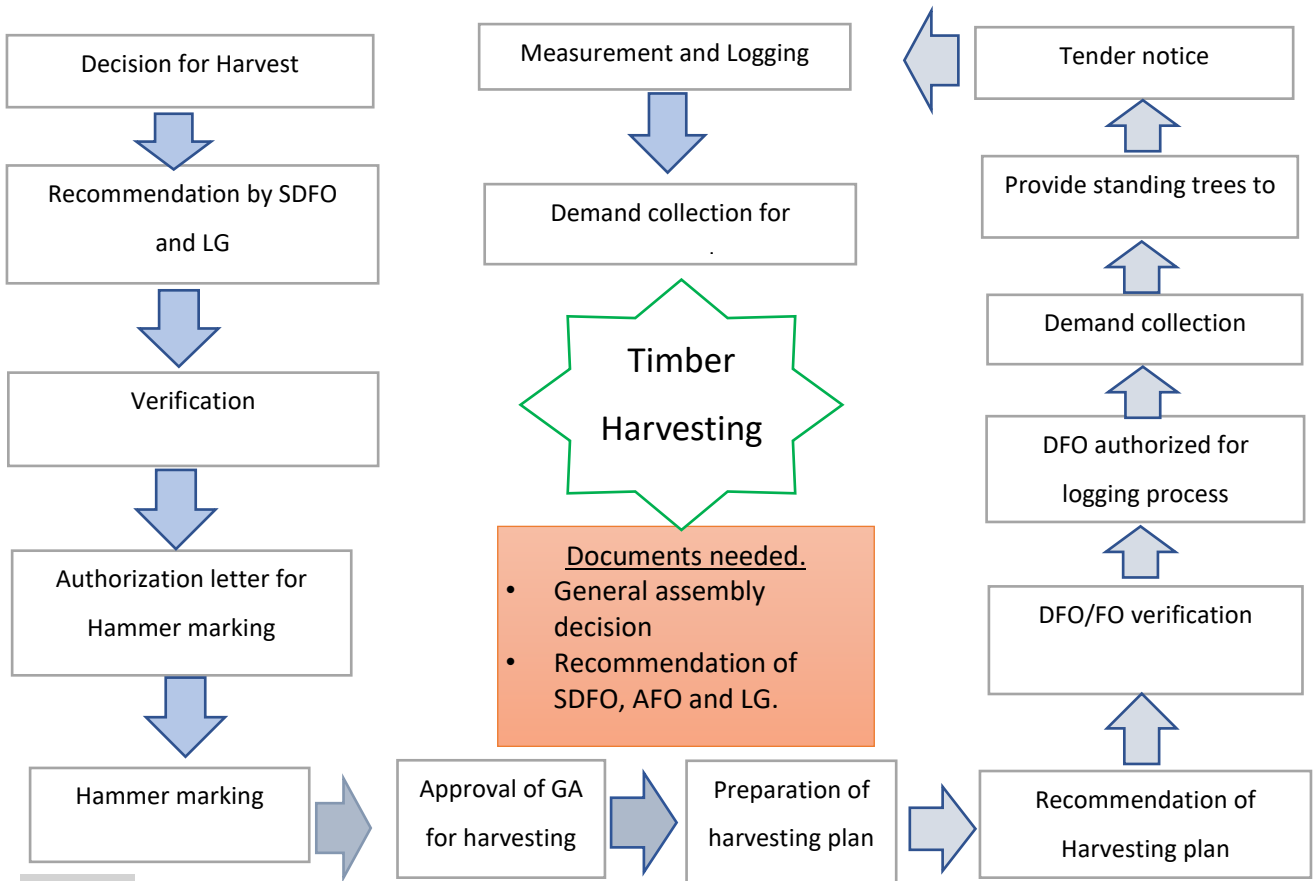


Figure 2: The process of timber harvesting

Another exhaustive process of timber sale

Once harvest is completed and internal demands are fulfilled, the remaining timber goes to the sale process through auction. However, the auction process involves compliance with a number of forest and fiscal-related regulations before it can progress to market. The timber market is often controlled by a non-transparent nexus among the timber traders, CF leaders and sometimes forest officials. A narrow auction window after the harvest is completed and the onset of monsoon at the same time, often results in loss of timber quality and quantity. Consequently, the EnLiFT project also experienced several cases where a lack of buyers resulted in harvesting timber lying in the field. Timber sales at competitive prices has always been a challenge for the CFUGs, and getting it done is perceived as a major achievement.

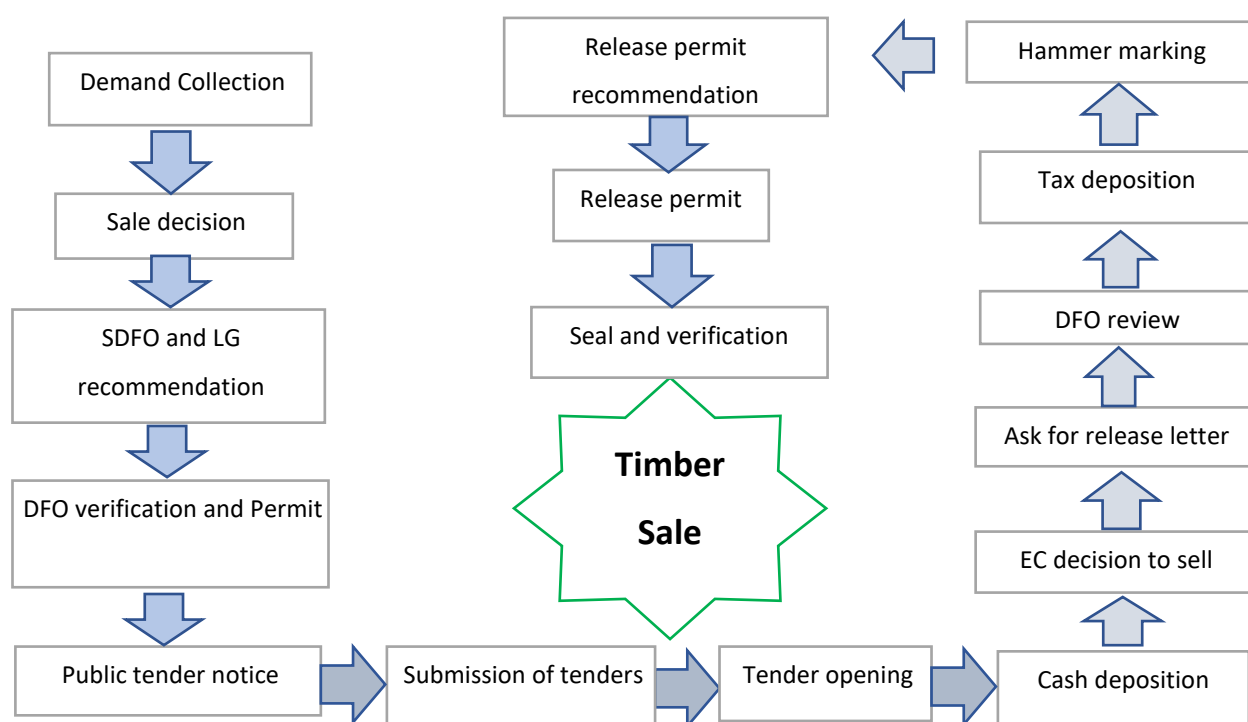


Figure 3: The process of timber sale

Frequent ban on tree felling

There have been several high-level policy decisions banning timber felling, sale and transport (Table 1). The result is the increased uncertainty in the sustained flow of raw materials that discourages investment and innovation in CF timber enterprises. As the table shows, such bans often come from the highest level of government of Nepal, or from the Ministry level.

Table 1: Major decisions on banning tree felling

SN	Dates	Agency	Decision
1	1 November 1999	MoFSC	Ban on tree felling of standing trees
2	31 December 2001	N/A	Ban on harvest, transport for commercial sale (of selected species including Sal, Khayer,
3	26 May 2010	MoFSC	Ban on felling, sale and exports from across all forests
4	14 June 2014	MoFSC	Restriction in felling from Chure region
5	28 May 2020	GoN	Ban on felling, sale and transportation

Apart from the constrained supply of timber, there are three major barriers to Community Forest (CF) timber enterprises.

Institutions and their capacities:

The government and its development partners have largely promoted collectively owned and managed CF timber enterprises. However, CFUGs were originally designed and oriented to protect forests and are yet to transform themselves as business operating entities, which requires a different incentive structure and sets of skills. Consequently, most of the CFUG-run timber enterprises are struggling to survive. There is limited openness in experimentation with new institutional arrangements, including partnerships with the private sector.

Lack of much needed business development services

Despite increasing interests and affirmative positive policy statements in recent times, there is a general lack of service systems for business development.. For example, it is really difficult to access needed information, technology, finance, insurance, skilled human resources, market data, legal services and other inputs and advice crucial for business and industry growth.

Unsafe business environment

Nepal ranked 94th out of 190 countries in ease of doing business. Businessmen complain of unsafe business environment, unpredictable policy decisions, and a general feeling of insecurity, especially in the forest sector. For example, banks do not issue loans without insurance, insurance companies cannot issue insurance policies to timber businesses as the tenure over forestland lies with the government, and supply may be restricted anytime. Timber traders in the past have lost millions of rupees due to a sudden ban on tree felling and transport. In other cases, the lowest bidders in timber auction have been isolated by other traders and are not able to collect the timber. Informal payment, including bribery and satisfying chundre-mundre (informal dons) also discourages investment in the sector.

SWOT analysis of CF timber enterprises in Nepal

The above analysis of the prospects and challenges has been briefly summarised in the form of bullets in the table below.

Table 2. SWOT analysis of CF timber enterprises in Nepal

Strengths/Opportunities	Weakness/threats
<ul style="list-style-type: none"> • Positive broader policy thrust – forestry for prosperity, forests as economic assets • Well-stocked timber, non-timber and natural scenic places • Strong demand for forestry products, especially natural products, in both domestic and international market • Local governments ready to support CFEs for creating income and employment 	<ul style="list-style-type: none"> • Policy uncertainty and institutional factors often result in inconsistent and constrained supply • Seasonal nature of production – timber harvest season is legally defined, and many fruits and flowers have seasonality • Small economy of scale: management units are rather small, leading to unfit for industrial processing and transportation, high transaction costs • Heavy regulatory requirements for small business increases transaction costs and low profitability • Availability of cheap industrial substitutes has undermined the forest product economy

During the last few years there have been some policy improvements in timber enterprises, especially in Bagmati Province. Study findings and communications with authorities have somehow contributed to some of these reforms.

Some recent initiatives in easing CF timber enterprises

1. Recognition of CFUGs as business entities in Forest Act 2019, Forest Regulations 2022
2. Exemption of distance related provisions for CF run enterprises
3. No mandatory auction is required to sale-buy timber from CFUG to its own enterprise

Recommendations

The following six recommendations can be made based on our analysis of the state of community forestry enterprises in Nepal.

1. Enable the sustained and predictable supply of timber

Unrestricted and sustained flow of timber is a prerequisite to the timber business. There needs to be a range of policy, regulatory and administrative reform to assure the business community that they can invest in and expand timber businesses. Apart from policy reform (discussed below in this section), facilitating the increasing economy of scale is also equally important. Currently, the CFUGs are too small to run a viable timber business, even for production and primary processing.

2. Explore suitable institutional modalities:

Most of the Community Forestry enterprises (CFEs) promoted by aid agencies were collectively owned and managed by community forest user groups or some kind of associated collective entities. However, with changing livelihood patterns, increasing opportunity costs and declining collective action, these collectively managed enterprises have largely failed. In this context, there is an urgent need to explore suitable institutional small scale forest enterprise (SSFE) modalities in different contexts. In particular, modalities including private sector partnerships and networking and resource pooling among neighbouring CFUGs should be explored through an active research approach.

3. Support for capacity building:

CFEs are run by communities or individuals with relatively limited managerial and technical skills and often face tremendous competition from larger companies in business dealings, quality, price, etc. There are serious gaps in skilled personnel, and entrepreneurship in rural areas. Well-designed capacity development interventions targeting those already undertaking initiatives can help sustain and expand CFEs.

4.Reform forest policy and tenure:

Despite some incremental reform, multiple regulatory issues still exist, such as interrupted supply chains, impractical environmental standards, transportation hurdles and tax-related issues. Reforms are needed in allowing CFUGs to exercise their resource assessment, planning and management rights; simplifying compliance with environmental standards; increasing transparency in the permit process; grant autonomy to CFUGs to set product prices and deal freely with the market.

Some urgent policy/regulatory issues

- Ease timber harvest, sale and transport-related process
- Resolve the confusion around timber measurement formula
- Efficient and effective timber auction process
- Facilitate the sale of standing trees from forest
- Recognise CFUGs as a business entity and allow them to register and run CFEs
- Facilitate CFUGs to get a permanent account number(PAN) so that they can engage in any enterprise business

5.Business development service including technology and finance:

Entrepreneurs including CFUGs are in dire need of business development services, along with financial and technological support. No specific government institutions are in place to provide dedicated support to CFEs, such as information, counselling, legal advice, development and branding assistance, marketing and access to services such as power supply and communication. An integrated mechanism combining these services with appropriate technology and a range of financing options would assist the establishment and operations of CFEs.

6.Promote safe and fair business environment:

E-bidding, single window tax policy, maintaining a strong digital database could help to keep track of the status of existing enterprises and also improve planning for future interventions in support of CFEs. As the country moves towards a federal system, collaborating with local governments, which are keen to demonstrate their strong performance, could be a viable strategy for the promotion of SSFEs. These could include establishing administrative services such as registration, issuing permits and organising local periodic hat-bazaars (small local markets), among others.

References

[We will update the reference later on]