

NEPAL AUSTRALIA COMMUNITY
RESOURCE MANAGEMENT AND
LIVELIHOODS PROJECT

Towards the creation of
an enabling environment
for community forest
based enterprises:
Recommendations for
policy adjustments



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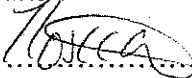
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Acronyms

ADBN	Agricultural Development Bank of Nepal
CCI	Chamber of Commerce and Industry
CF	Community Forest
CFUG	Community Forest User Group
DFO	District Forest Officer
DFRS	Department of Forest Research and Surveys
EIA	Environmental Impact Assessment
FECOFUN	Federation of Community Forest Users, Nepal
IEE	Initial Environmental Examination
m ³	Cubic metre
MFSC	Ministry of Forest and Soil Conservation
MT	Metric Tonne
NRs	Nepalese Rupee
NTFP	Non Timber Forest Product
NTRMC	National Training and Resource Mobilisation Centre
OP	Operational Plan
VAT	Value Added Tax

Summary

Whilst the Forest Act of 1993 and the Forest Regulations of 1995 are, on paper, very empowering for Community Forestry User Groups (CFUGs), the *de facto* regulatory environment CFUGs face when they attempt to start trading forest products is, in fact, disabling and runs counter to the Government of Nepal's 10th Development Plan and its Millennium Development Goals.

This report, which was prepared through broad consultation with District Forest Officers (DFOs), CFUGs, the Federation of Community Forest Users, Nepal FECOFUN and major buyers, identifies the key areas in which change is needed and proposes some remedial actions. The following are the main findings and recommendations for making policy changes.

Timber Business

While the business of CFUGs is supposed to be guided by the Forest Act and Regulations, various government decisions and circulars have introduced an element of uncertainty into the process. In some cases, explanations are not clearly worded and the resulting confusion among users has hampered CFUG business. Accordingly, suggestions for policy reform follow:

- DFOs should encourage operation plan (OP) facilitators to prepare and revise OPs by recognising their work, as has been the case in Sindhu and Kabhre districts.
- CFUGs should be allowed to harvest and sell forest-based products according to the provisions in their OPs (articles 32.1 and 32.3 of the Forest Regulation). A separate document should be prepared to stipulate how the harvest, transport and sale of forest products by CFUGs will be regulated.
- The double hammering system (whereby DFOs are insisting on applying their hammer-mark in addition to that of the CFUG) should be abolished and community hammering should be recognised by the DFO and other concerned authorities.
- CFUGs should be allowed to implement the authority prescribed to them by law to provide transport permits for timber.
- The provision that enterprise registration in the hills must not take place within three kilometres of a forest edge (in effect a forest boundary) is impractical and should be repealed.
- There needs to be a provision for long-term contracts for CFUG pine log sale businesses in order to ensure CFUGs better access to markets and to increase the value of pine logs. The MFSC circular of 2060/7/30 suggesting that CFUG businesses follow finance administration regulation 2056 is not practical and should be cancelled.
- The MFSC circular dated 2062/2/23 limiting the period in which forest products can be collected to between October and June is not practical and should be cancelled or clarified.

NTFP Business

- The policy of requiring initial environmental examination (IEE) or an environmental impact analysis (EIA) needs to be made clearer and more practical.
- Both policy reform and regulations for the cultivation of NTFPs on government land, community forest land and private land are needed.
- A system of stamping, "from a DFO" on NTFP packaging after the name, quantity and collection area are confirmed, should be introduced to reduce delays at various check posts. Once stamped, a package need not be reopened and rechecked.

1 Introduction

Community forestry is central to the livelihoods of many rural Nepalese; indeed, 38% of the national population are members of CFUGs, which manage and preserve their forests in order to meet their subsistence needs for goods such as firewood, timber, fodder, NTFPs, and leaf litter. Most CFUGs are protection-oriented and quite reluctant to cut down trees even when harvesting is essential for maintaining plantation productivity.

After many years of protecting their forests, many CFUGs now have valuable stands capable of yielding substantial (and to some extent sustainable) yields of marketable timber. The pine plantations in Sindhu Palchok and Kabhre Palanchok districts alone could, with suitable management, yield saw logs worth more than NRs 1 billion every year (see Annex 1). This is additional money which could be spent on broad-based livelihood improvement activities.

The Forest Act and Regulations do enable CFUGs to develop enterprises, but they have been superseded by a number of circulars and orders which work against the spirit of the original legislation and make enterprise development increasingly difficult.

To address these problems, the NACRMLP assembled a multidisciplinary team comprising DFOs, national level buyers, CFUG representatives and NACRMLP staff which visited different log-selling CFUGs, sawmill owners, furniture entrepreneurs, NTFP producers, NTFPs buyers, other concerned stakeholders and service providers to elicit information about the major issues involved. Ideas were also generated at the Pine Plantation Management and Business Promotion Workshop that was held in Banepa on 17 and 18 May 2006.

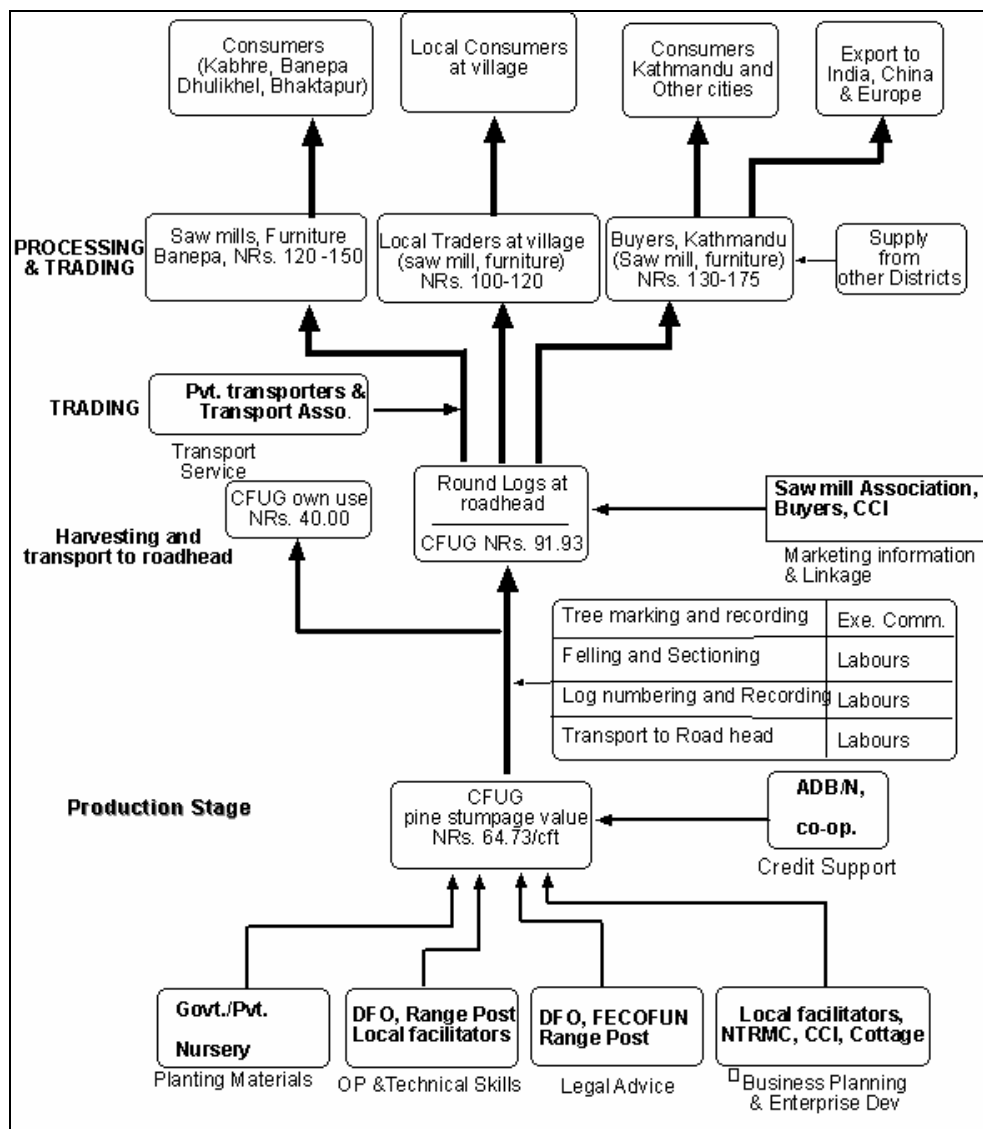
2 Status of pine log-sale business

There are about 450 CFUGs in Sindhur and Kabhre districts with pine plantations. Together they control about 15,500 ha of pine plantations (see Annex 1). The largest 50 CFUGs amongst these controls about half this area.

While these plantations are not currently managed for timber production, most have the biological capacity to be managed for this purpose and the NACRMLP has worked with DFRS to develop suitable plantation management guidelines.

In addition, in the fiscal year 2005/2006 the Project helped nine pine-producing CFUGs carry out silvicultural thinning and sell the logs removed. The estimated sales volume will exceed 2,100 m³ and will have a factory-gate value of about 10 million NRs this fiscal year. In the future, with appropriate management, sales should increase to around 1 billion NRs. per year. Figure 1 indicates the major services required in the log-sale business.

Figure 1: Sub-Sector Analysis of Pine Log-Sale Business



3 Review of existing CFUG business related policy and practice

3.1 Current issues related to compliance with the Forest Regulations 1995

Forest-based enterprises are governed mainly by the Forest Act of 1993, the Forest Regulations of 1995, government circulars, industry guidelines and national fiscal policy. Some of the key regulations found in the first two documents are given below.

A CF OP is prepared after forest rangers or OP facilitators conduct wide-ranging discussions among CFUG members. The resultant OP must abide by the Act and Regulations. It is a contract between the DFO and the CFUG for managing and utilising the forest for a stipulated period. After the DFO approves its OP, a CFUG should be allowed to implement it. Implementation, however, has resulted in some conflicts between policy and practice, as presented below.

Task	Policy (Article)	Practice	Remarks
OP preparation and revision	A CFUG should prepare an OP (28)	It is usually a ranger who prepares an OP	The role of local service providers in OP revision needs to be promoted
Harvest of forest products	A CFUG can harvest according to its approved OP (32.1)	A CFUG has to get permission from the DFO for every harvesting operation	CFUGs are discouraged from managing plantations and developing enterprises
Timber selling	A CFUG has to notify the DFO about rates of sale (32.3)	A CFUG has to get permission from the DFO for every sale and is required to follow finance administration Regulation 2056 (MFSC circular 2060-7-30)	This is intended for government offices and is not appropriate for CFUGs. There needs to be a clear and enabling process for CFUGs to sell timber
Hammer mark	Each CFUG has its own registered marking hammers and is permitted to mark its logs prior to transit (35.1)	In some cases DFOs insist on double hammering logs	Double-hammering causes a range in problems, including delays and the resulting degradation of logs
Timber transportation permit	A CFUG is allowed to hammer its own logs and issue its own transport permit to the hauler (35.1)	A CFUG has to get a permit from the DFO before it issues its own permit	As business levels increase, this needless step will not be sustainable

Task	Policy (Article)	Practice	Remarks
Transportation of forest products other than timber	After informing the DFO, a CFUG can issue a permit (35.3)	A CFUG must get a permit from the DFO first	Practice does not comply with policy
Establishment of forest-based enterprises by CFUGs	With the recommendation of the DFO to the concerned institution, a CFUG can establish enterprises outside the forest as specified in its OP (32.4)	Forest-based enterprises are not permitted within 3 km of the forest boundary in the hills and 5 km in the Terai	No prescriptions on distance should be included as they cannot be enforced and they prevent economic development
Registration of enterprise in the name of a CFUG	Forest policy encourages forest-based enterprises development	Cottage industry offices do not permit CFUGs to register enterprises	Provisions to register enterprises registered in the name of CFUGs must be made
VAT	Non-profit-making social institutions are VAT free. Even VAT-liable organisations are VAT-free unless sales exceed NRs 2 million a year	DFOs are collecting VAT against every CFUG sales transaction	CFUGs are being unfairly penalised; this practice should be stopped
Collection of forest products limited to the period from October to June	The MFSC sent a circular 61 districts on 2062-2-23 limiting the collection of forest produce to the period from October to June	This circular has reportedly resulted in the premature harvesting of some NTFPs	This circular should be reviewed
Marketing information and linkage with buyers		Some CFUGs do not have marketing information and have not established linkages	A marketing support programme should be incorporated in the DFO's annual programme. Links with the Sawmill Association and CCI should be established
Technical knowledge on harvesting and log-hauling systems			Such programme needs to be incorporated in the DFO's annual programme or can be done through other projects

3.2 Other current issues

According to the Forest Act and Regulations, CFUGs are independent organisations which abide by their constitution and OP. Within the bounds of its OP, a CFUG decides by consensus on the harvesting, selling and distribution of its forest products. The following issues in the timber and NTFP businesses are of concern.

3.2.1 Timber business

The following issues need to be clarified if a healthy CF timber business is to develop.

Policy consistency and stability

Where CF policy and practices are inconsistent, they need to be rationalised and made clear and predictable. Frequent policy changes, including swings between 15% and 40% of sales as government royalties, have baffled CFUGs. In addition, though policy states that forest land should not be put to any other use, there are clear violations.

Over-stocking

Most CF forest plantations are over-stocked and CFUGs are currently unable to conduct silvicultural thinning operations. This results in economic loss in two ways: first, it creates an unhealthy and underproductive stand of low value timber and second, it interferes with the intermediate production of firewood and small timber. To counter this problem, the NACRMLP has recently prepared a pine-thinning guideline for economic production of high value saw logs with intermediate returns from thinning. These need to be approved and OPs revised accordingly to optimise harvests. The long-term outcomes will include economic benefits and better quality timber.

Contract selling of timber

The market for timber is very irregular because it is dominated by big contractors. If pine-thinning operations in CFs are conducted simultaneously, there might be a glut of timber in the market, driving down prices and resulting in substantial losses to CFUGs. A contract-selling mechanism would reduce this risk and promote the production of high-quality timber as CFUGs would be motivated to practice plantation management.

International marketing

According to the Forest Regulations of 1995, non-prohibited timber can be exported to international markets. Despite the demand, no timber is, in fact, exported, in part because the excise and duty is as high as 200%. There needs to be a process for promoting exports.

3.2.2 NTFP business

The NTFP-Management Policy of 2061 (2005) addresses most issues required for NTFPs management and business, but there is a need for clarification if implementation is to proceed smoothly.

Environmental impact assessment/ Initial environmental examination:

According to the Environmental Act and Regulations, forestry operations require that an EIA or an IEE be conducted before any NTFPS are collected or transported. If 5-50 MT are collected, then an IEE is required, while an EIA is mandated for collection over 50 MT. It is not, however, clear, what unit—block, forest or district--those volumes of collection apply to, and, therefore, it is not clear whether EIAs or IEEs are needed. This type of regulation is not practical in the context of Nepal, where country data on NTFPs is still to be prepared and where private traders do not have to carry out either an EIA or an IEE. Since the result of this provision has been to hamper legal trade while promoting illegal trade at the expense of farmers and collectors, it must be thoroughly reconsidered.

Difficulties at check posts

The free transport of NTFPs, mainly medicinal and aromatic plants and products, is impeded by repeated checking at various customs posts, even when all the required legal procedures have been observed. In addition, even when a trader has paid the royalties due in the concerned district, he is obliged to pay additional local taxes during transport. One possibility for facilitating problem-free trade is to have the DFO, in the point of origin, stamp NTFP packaging to confirm the name, quantity and collection area and then instruct other check posts along the way not to re-open the packages.

Restrictions and revenues imposed on lichen

Five species of *jhyau* (*Lichen spp.*) are currently found in local markets, but the Government of Nepal's Gazette prescribes rates of revenue for only two: NRs. 3 per kg for *buduni jhyau* (*Parnelia nepalensis*) and NRs 15 per kg for *jhyau* (*Lichen spp.*). To avoid confusion among DFO staff, the royalty rates of all five species should be specified.

Since lichen collection and transportation requires processing industries, of which there are few in Nepal, to have a permit, most trade is illegal. To counter this problem, the ban on the export of lichen could be lifted and royalties for domestic industrial use reduced.

Differentiation between NTFPs produced on private farms and in community forests

At present, NTFPs produced by individual farmers on their own land and those produced in government forests, or on community land, are all treated the same. Transporting a truckload of broom grass, for example, involves the same procedures as transporting small quantities of more valuable species.

Two distinct systems are needed. Therefore, a system should be introduced to differentiate the treatment between privately grown NTFPs and community forest grown NTFPs, whilst transporting them. CFUGs should have the authority to collect or transport NTFPs grown in CFs as per their OPs, while NTFPs produced on private land should be treated in the same simple manner as are other agricultural products.

4 Conclusions and Recommendations

Below are the major recommendations for the promotion of forest-based enterprises based on the findings of this study.

4.1 Timber

1. OP preparation and revision is a critical service for CFUG business because OPs enable CFUGs to use their resources in a sustainable manner. The DFO does not have sufficient staff to provide this service, and so, as has been done in some area of Kabhre and Sindhu districts, must recognize local facilitators trained in OP preparation.
2. CFUGs should be allowed to harvest and sell their forest products as per the provisions of their OPs (Forest Regulations, Articles 32.3 and 32.1). In addition, a separate document regulating the harvest, transport and sale of timber and other forest products should be developed so that all concerned parties share a common understanding of the process.
3. Double hammering should be abolished and community hammering recognised by DFOs and other concerned authorities.
4. By law, CFUGs have the authority to provide transport permits for timber; their right should be enforced.
5. There should be no restrictions on the distance between various enterprises which may be established and forest boundaries.
6. Cottage and Small Industry Offices must allow CFUGs to register forest-based enterprises in their own names.
7. As CFUGs are non-profit-oriented social organizations, they should not have to pay VAT or other taxes on their businesses.
8. The MSFC circular dated 2060-7-30 which stipulates that the sale of forest products should follow finance administration regulation 2056 should be cancelled as it applies only to government organisations.
9. The MFSC circular dated 2062-2-23 restricting the collection of forest products to the period between October and June does not seem practical. It should be clarified or cancelled.
10. DFO's annual programmes focus mainly on forest management, but they should be extended to address second-generation issues, marketing and other support programmes.
11. In order to deal with the problem of over-stocking of pine plantations and to manage forests effectively, the thinning guidelines prepared by the NACRMLP should be approved and implemented.
12. In order to increase the demand for and value addition to pine logs, attention should be given to developing pine products markets. Long-term contracts between CFUGs and industries which guarantee CFUGs demand, and industries supply, should be drawn up.

4.2 NTFPs Business

1. The confusion associated with the policy regarding IEE and EIA must be cleared up.
2. In order to promote the cultivation of NTFPs in CFs and on private land, legal reforms should be carried out.
3. A system of stamping “from such-and-such DFO” on NTFP packaging can be introduced to reduce delays at check posts. Once the name, quantity and collection area is confirmed at the place of origin, there should be no need to re-open it at other posts.
4. In order to facilitate the trade of lichen, the ban on its export should be lifted and royalties for domestic industrial use reduced. Rates for all five species on the market should be specified.
5. The regulation of NTFPs should vary with where they are grown, whether in a CF, on private land, or in government forests. CFUGs should have the authority to collect and transport the NTFPs they grow as per their OP provisions. NTFPs produced on private land should be treated as is any other agricultural product.

Annex 1

Unlocking the value of the pine forests of Sindhu Palchok and Kabhre Palanchok Districts

Annex 1: Unlocking the value of the pine forests of Sindhu Palchok and Kabhre Palanchok Districts

The pine plantations in Sindhu and Kabhre districts have recently been mapped by the NACRMLP and their overall assessed (see Table 1).

These plantations are a potentially valuable asset for the communities which have invested in their establishment and protection for over two decades, but the plantations are currently overstocked and in need of active management. Presently, the communities gain but a fraction of the benefits that could flow from these forests. The potential sales value of plantation produce is substantial (see

Table 2) but certain challenges must be addressed. The resource is managed by over 400 CFUGs which do not yet have appropriate silviculture, harvesting, marketing or governance-related skills. The Government of Nepal does not currently have adequate resources to address these deficits, but the NACRMLP is doing what it can to help.

Table 1: NACRMLP's initial assessment of the pine plantations in Sindhu Palchok and Kabhre Palanchok districts

Forest Type	Sindhu Palchok	Kabhre Palanchok	Both Districts
CFUG Pine Plantation (ha)	3,931.00	6,207.00	10,138.00
Government Pine Plantation (ha)	2,247.00	1,182.00	3,429.00
Total Pine Plantation (ha)	6,178.00	7,389.00	13,567.00
CFUG Mixed Pine and Broadleaf forest (ha)	2,127.00	4,004.00	6,131.00
<i>Total Area of Forest with Pine Trees (ha)</i>	8,305.00	11,393.00	19,698.00

Table 2: Initial estimates of the potential productivity and revenue-generating capacity of the pine plantations in Sindhu Palchok and Kabhre Palanchok Districts

Description	Unit	Amount
Area of pine forest resource (assuming 13,567 ha of pine plantation plus 1,933 effective ha of pine within the 6,131 ha of mixed forest)	ha	15,500
Potential annual log production of pine forests assuming an 8 m ³ /ha/yr mean annual increment throughout the rotation	m ³ /yr	124,000
Potential annual average harvest of saw logs during the second half of the rotation	m ³ /yr	248,000
Estimated value of average annual sawmill gate sales of saw logs over the next two decades assuming a sawmill gate value of NRs. 4,590/m ³ (or NRs. 130 per cubic foot)	NRs./yr	1,138,320,000
Approximate value of annual sales per CFUG member household (assuming 44,823 beneficiary households)	NRs./yr /hh	25,400

Limitations

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