



Discussion Paper

Non-timber Forest Products Enterprise Development: Regulatory Challenges Experienced in the Koshi Hills of Nepal¹

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Summary

Nepal's government policy recognizes Non-Timber Forest Product (NTFP) enterprises as one of the potential sectors to contribute to poverty reduction. In practice, however, there are only limited NTFP enterprises that have been successful in creating income and employment for the poor. Drawing on the experience of promoting NTFP enterprises in the Koshi Hills, this paper demonstrates that there are a number of regulatory issues and practical challenges related to the development of NTFP enterprises. Particularly, it identifies regulatory challenges that affect all key processes of forest-based enterprise management, including enterprise registration and operation, marketing and trade, taxation, and private sector investment. This is demonstrated through case studies and experiential narratives of the local stakeholders. Finally, the paper explores the direction of policy change and possible strategies. It is argued that the proactive involvement of civil society groups, including the networks of forest dependent peoples, is important in addressing the local level policy challenges as well as influencing national policy and regulations.

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Introduction

Nepal's government policy recognizes NTFP enterprises as one of the potential sectors to contribute to poverty reduction. Since there are limited numbers of successful forest based enterprises operating in Nepal, the potential economic value of forest is not harnessed. Community as well as government managed forests remain underutilized, and at best, unprocessed forest products are exported to India with little revenues or incomes realized by local communities and the Government of Nepal.

Currently, there is a growing optimism on the potential of community-based NTFP enterprises in rural livelihoods in Nepal, and several development organizations and forestry stakeholders have taken initiatives and incurred substantial cost to develop and implement strategies to promote these enterprises. Consequently, there are a number of enterprises set up in the rural areas in the recent years. However, only a few such enterprises are successfully operating on the ground and the outcome has remained far below the expectation. While policy is generally considered as one of the strong deciding factors for enterprise success, there is still limited knowledge about how policies actually affect the success of the enterprise.

In this context, this paper reviews government policies and its implementation mechanisms to find out the policy obstacles. Drawing on the experience of promoting NTFP enterprises in the Koshi Hills of Nepal, our analysis shows that policy affects enterprise success through creating disabling environment in production and/or supply of raw materials, processing those materials and marketing of the semi-processed and/or final commodities. The findings show that unfavorable government policies and regulatory frameworks have remained a major barrier to the establishment and commercial operation of the NTFP enterprises. Similarly, it is realized that without developing enterprises and attracting private sector investment in forestry sectors in general and NTFP in particular, employment generation for rural people is a distant phenomenon.

Data and insights for this paper are based on a variety of data collection tools, mainly literature review, key informant interview, focus group discussion, field- observation other personal communication with several stakeholders (micro, meso and macro level) and business service-providers. In addition to these, we have taken the lessons from 2-3 success and failure cases of the different types of community based forestry enterprises in the Koshi Hills. Lokta handmade paper, briquette, and essential oil processing enterprises are taken as successful cases whereas essential oil processing (private sector investment at Dhankuta) enterprise is taken as a case of how policies are unfavorable for enterprises.

Background

The wide network of protected area in Nepal has been supporting to conserve the biodiversity and partly therefore, it has rich biodiversity per unit area (GoN 2002). About 150 km of North-South and 800 km East-West expansions of the country hosts a wide range of climatic, floral and faunal variations. In Nepal, there are more than 700 plant species that have medicinal value, of which 238 are in active use and 100 are traded. The government has kept 30 species in priority, of which 12 are for commercial cultivation and market promotion (AEC/FNCCI 2004, Subedi 2006, Shrestha and Das 2008). NTFPs are increasingly gaining popularity in national and international markets as they have been used as important ingredients of several consumer items such as cosmetics, tea, food, medicines, etc. Almost all actors in the field of forestry in Nepal agree that NTFPs could be a strong component in our economy if utilized commercially and sustainably. A survey of producers, traders and processors of NTFPs operating from the eastern border of the country to the mid-western town

of Nepalgunj in 1995 shows that a total of 100 entrepreneurs handled 42 thousand tons of over 100 different NTFP items, equivalent to USD 26 million (Subedi 1997). It is estimated that about 10,000 to 15,000 tons of plant products of more than 100 species are exported to India annually, i.e., 90% of total NTFP trade (Edwards 1996).

Despite the significance of NTFP in the rural livelihoods and the national economy, the resources have come under serious threat due to negative impact of human influences. Some invaluable medicinal plant species are already on the verge of extinction because of unsustainable harvesting. This has called the attention of the organizations, professionals, practitioners and the scholars that the concerns of NTFP conservation, management, harvesting, processing and use need to be brought in the centre of the development discourse (Belcher *et al.* 2005, Subedi 2006). Recently, the government of several developing countries, including Nepal, received pressure to formulate policies that promote NTFPs. Following the changing global focus, forest policies in Nepal for the last two decades have also highlighted NTFPs through various policy documents (Banjade and Paudel 2008).

By correcting the old mistake of nationalization of forest, the government realized the importance of local people's participation in the management of forest and formulated a participatory forestry policies in 1978 particularly the then Panchayat Forest and Panchayat Protected Forest. These policies facilitated to hand over patches of government forest to local political unit – the then Panchayat for conservation and management. After a decade, government prepared a Master Plan for the Forestry Sector (MPFS)-1988 with the exclusive objective of attracting forest dependent people's participation in forest management. Consequently, the Forest Act 1993 and Regulation 1995 have formulated and enforced as legislative measure that has regulatory role in forest management and also has specified authority and responsibility of forestry actors. The forestry policy is lauded as highly successful model in participatory and sustainable forest management in Asia and elsewhere.

The Community Forestry (CF) intervention has raised sense of ownership on forest resources among rural people. However, the potential of CF to create income is not fully realized. In particular, the wide range of NTFPs found in CF is yet to be promoted through community-based enterprises. Often community lack knowledge and institutional capacity to harness NTFPs and others forest products. Success of community-based forest enterprises depends on the degree to which policy environment facilitates development of entrepreneurship, market access, appropriate technology and business services.

In line with the policy, the government established seven gene banks (plant resource conservation and management areas) and invested in the development and extension of medicinal and aromatic plant processing technology during the tenth plan period (2002-2007). Similarly, in the current fiscal plan (2008/09), the government has considered agriculture sector reform as a priority and the budget statement lauds foreign exchange earnings by enhancing export through boosting forest- and agro-based industries that enjoy comparative advantage. In addition, the promotion of herb cultivation in public land for poverty reduction in the form of a campaign has been planned. Budget is also allocated to produce 11.5 million seedlings of medicinal herbs, bamboo, cane and fodder. A plan to establish an herb processing center in Karnali Zone is also prepared. Further, to effectively harness the potential of the biodiversity, the fiscal policy has also adopted the strategy of 'one area-one species'.

Synopsis of Government Policy

Before 1926, the contemporary government encouraged on converting forest land into agricultural land by clearing forest. Forest at that time had been taken as granted. In 1957, the government brought a policy to nationalize private and open-access forest. Then the local people no longer felt ownership over nearby forest which caused rampant deforestation. To correct this historical mistake

to alienate people from the forest, government has brought participatory forestry policies from late seventies. Currently, forest sector is governed by a number of national level sectoral policies (acts, regulations, directives, guidelines, circulars etc.) and five-year periodic plans and international level conventions and the treaties. All these policy documents are equally relevant to the enterprising of NTFP in Nepal. A glimpse of some of the pertinent national level sectoral and cross-sectoral policies and international level treaties and conventions are given in the following Table 1.

Table 1. National level sectoral and cross-sectoral policies and international level treaties and conventions

Sectoral Laws and Policy	Cross-Sectoral Laws and Policy	Treaties and Conventions
<ul style="list-style-type: none"> • Master Plan for the Forestry Sector 1988 • Forest Act 1993 • Forest Regulation 1995 • Community Forestry Directive, 1996 • Collaborative Forest Management Guidelines, 2003 • NTFP Policy 2004 	<ul style="list-style-type: none"> • The Industrial Enterprise Act 1992 • The Company Act, 1997 • The Cooperative Act 1992 • The Income Tax Act 2002 • The Value Added Tax Act 1996 • Environment Protection Act 1997 • Environment Protection Rules, 1997 • Local Self-Governance Act, 1999 • Food Act, 1966 • 10th Five-year Plan 	<ul style="list-style-type: none"> • Treaty of trade between Government of Nepal and The Government of India 1991 • Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) 1973 • Treaties under the World Trade Organization • Convention on Biological Diversity (CBD)

Since the major forestry policies and the legislations have greater implication in implementing international treaties and also to link the international instruments with local practices, these are given with their main focus in the following Table 2.

Table 2. Major forest policies and legislations with their major focus

Forest Policies and Legislation	Major Focus
Master Plan for Forestry Sector 1988	<ul style="list-style-type: none"> • Community forestry and forest conservation • Fulfillment of people's basic needs (fuel & fodder) • Species conservation • Environment protection for ecological balance • Utilization of forest for the benefit of people • High value NTFPs
Forest Act 1993	<ul style="list-style-type: none"> • Ensure easier access for the basic need of local people (fuel and fodder) • Economic development of people • Cooperation and participation of people in conservation and utilization of various types of forests.
10 th Five-year Plan	<ul style="list-style-type: none"> • Income and employment generation • Leasing scheme of NTFPs and medicinal herbs • Focus and encouragement on farming of high value NTFPs • Emphasis on forest –based micro-enterprise
NTFPs Policy 2004	<ul style="list-style-type: none"> • Private sector participation for NTFPs development • Emphasis on local processing • Conservation and preservation of high value herbs and NTFPs
Local Self Governance Act 1999	<ul style="list-style-type: none"> • Empower local government bodies to better regulate natural resources • Create conflict between local bodies and users groups over control of natural resources

Cooperative Act 1992	<ul style="list-style-type: none"> • Cooperative organizations can open forest-based enterprises
Industrial Enterprises Act 1992	<ul style="list-style-type: none"> • Small and large scale industry can be opened under this act • Mechanism for one-window system

Likewise, there are different government-institutions that are responsible facilitate the trade processes of NTFPs in Nepal (see Table 3). These differentiated responsibilities of the institutions often create administrative hassle and barrier during the facilitation of trade process.

Table 3. Different government line agencies' responsibilities to facilitate NTFP trade

Certificate and Documents	Concern government line agencies & organizations
Certificate of Origin	FNCCI, Nepal Chamber of Commerce
Export permit license	District Forest Office, Department of Forest and Plant resources Department
CITES Certificate	Department of Forest and Plant resource Department
Quarantine Certificate	Plant quarantine offices under the Department of Agriculture

Overview of External Support to Forestry Development in the Koshi Hills

The credit of current initiatives of NTFPs development in the Koshi Hills area goes dates back to Koshi Hills Rural Development programme (KHARDEP) and Nepal UK Community Forestry Project (NUKCFP) periods when the main focus was on development of community forest users groups. In the beginning, efforts were made to provide training to the forest user groups to enhance the institutional capacity of the local people particularly forest dependents. During KHARDEP period, more focus was on integrated approach of intervention at the community level whereas during the NUKCFP period the focus was on the community forestry intervention through users' groups approach. During KHARDEP and NUKCFP period, there were good initiations in forest resource management. However, no proper and adequate attention was given to NTFP management. The main objective of NUKCFP was to identify and form the user groups and handover the community forest to them. Further, the working modality was to strengthen the capacity of government organization particularly District Forest Office (DFO) and provided support to the community through the DFO.

Livelihood and Forestry Programme (LFP) started in April 2001, builds on the experience and lessons of the NUKCFP, which is implemented in fifteen districts of Nepal including Koshi Hills for 10 years. LFP aims to contribute to reduced vulnerability and improved livelihoods of poor and excluded rural people through the financial, social and technical intervention where the DFO is the key partners to deliver technical forestry activities and local Non-Government Organizations (NGOs) for the social mobilization work. The programme purpose is to enhance the livelihood assets of rural communities by promoting more equitable, efficient, and sustainable use of forest and other natural resources including NTFPs. The case of Bhojpur given in the following Box 1 gives a glimpse how LFP mobilize other district based government agencies, NGOs and communities to establish and run community-based NTFP enterprise that generates income and employment at the community level.

Box 1 Lokta handmade paper enterprise generate income and employment

Salpathulimpa community forest is situated in the lap of famous mountain wetland Salpa Pokhari, Dovane VDC of Bhojpur district which is approximately 22 mile far from district Headquarter. It spreads over an area of 1093.20 ha and 53 HH of Sherpa and Tamang communities are managing its resources. LFP, DFO and the NGO named Samuhik Abhiyan have been jointly working since few years back to manage the forest, utilize its resources, establish enterprise and support livelihoods of the local forest dependent people. In this connection, DFO staff and Local Resource Persons have jointly and closely worked together for several forest management and livelihood related activities. They completed forest inventory in 2008 and recommended 6350 kg of Lokta to be harvested per year sustainably so as to open and run an enterprise of hand-made paper. According to the recommendation and the community forest operational plan, these organizations conducted a series of discussions with the community forest user group and established a Lokta handmade paper enterprise around which a NTFP network is also functioning currently. The handmade paper enterprise is now registered in the District Small and Cottage Industries Office of Bhojpur. This community-based enterprise has been regularly providing employment to six community members directly who are getting approximately NRs 4500 monthly.

Findings and Discussions

There are several policy issues related to smooth functioning of NTFP enterprises in Nepal particularly in Koshi Hills area which are discussed as follows.

Contradictory Policies and Legal Provisions

The Local Self-Governance Act 1999 provided local government legal authority to control forest resources within its boundary and levy local tax. This has created a contradiction, confusion and duplication with the Forest Act 1993 about the regulation of forest products particularly the NTFPs. Both the central and local governments started to tax NTFP trade on the basis of Forest Act 1993 and Local Self Governance Act (1999), respectively. In addition, another case of ineffectiveness of the government policy can be observed in the implementation of NTFP policy 2004. Though the policy has envisioned private sector participation on farming, processing and trading of NTFP products, government has not yet prepared environment conducive for private sector's entry and active participation in these activities. Despite the significant people's participation in forestry sector, forestry policies and management system have not brought about long expected objective of becoming a significant revenue source, income and employment generation for rural people, which recent policies have much emphasized upon. There are some inherent flaws and lacuna in government's operations where formulated policies and legislation are not implemented according to letter and spirit of those (Paraluli and Luintel 2006).

Cumbersome and Complex Process for Enterprise Registration and Community Forest Hand Over

For the registration of forest based enterprises in Cottage and Small Industries Development Office/Board, the industries using under 5 ton raw materials of same species within a district can simply be registered by submitting an application to the office enclosing the specially designed "kha" form, citizenship card and concerned line agency's consent letter. Similarly, the industries using 5 to 50 ton raw materials are considered as environmentally sensitive and they need to go through Initial Environment Examination (IEE) process as specified by the Environmental Conservation Regulation 1998. If the industry is using above 50 tons of raw materials, that need to submit Environment Impact Assessment (EIA) report. The processes for conducting IEE and EIA are complex and lengthy to complete and therefore entrepreneurs are less interested to bear the burden of these processes. Similarly, the government has now brought new policy that imposes either IEE or EIA for handing

over of community forests. IEE or EIA is needed if the forest area that is to be handed over is up to 200 ha and/or more than 500 ha respectively. These provisions of IEE or EIA have delayed the handing over process as they need more time and technical experts that are scarce at the local level. It further adds financial and other burden to buy experts' services for local communities. This implies adverse impact in promoting community-based NTFP enterprises at local level.

Box: 2 Government policy frustrates NTFP entrepreneur

Mr. Tilak Thapa invested NRs 1500,000 to install a distillation plant at Bhedetar Dhankuta. He was very optimistic and enthusiastic about his business. He had planned to produce essential oil from *Artimissia vulgaris* and *Cinnamomum tamala*. He went to District Forest Office (DFO) to get permission but the office turned down his application on the condition that his plant location lies less than 1 km from forest. Mr Thapa had no option available which is more than 1 Km away from the forest in the nearby location where he could relocate his plant. He was forced to close his distillation plant and suffered by a heavy loss. In fact, the raw materials he was going to use would not have adverse impact on environment. Rather it would motivate local people to cultivate the plant species in their degraded lands.

In contrast, DFO allowed establishing a distillation plant closed to forest run by community forest user group. There is no logic for not allowing a private investor and on the other hand permitting such ventures to local community forest user group. In this way, Tilak's case not only frustrates a single investor but send frustrating message to potential investors all over the country. This field level practical case has discouraged potential private sector investing in the NTFP enterprises. This seems to be shame for the higher level plan and policy advocates for public-private partnership in the development of forest sector.

From practical point of view, the specification of the forest regulation about the location for establishing NTFP enterprise is generally inappropriate and cost ineffective. There is provision to maintain at least 1 km distance in the hill and 3 km in the Terai from the forest for the establishment of NTFPs enterprises. The restriction severely discourages small entrepreneurs entering in the NTFP business. This has hindered the government's own prioritized plan of NTFP development and poverty reduction. The case given in the Box 2 below demonstrates how the government distance related policy for establishing NTFP enterprise frustrates the entrepreneurs.

Multiple Taxation in Non-timber Forest Products Trade

The central and local governments impose tax in NTFP trade at different forms and levels. The central government imposes tax as royalty for the commercial collection and trade of NTFPs from the wild. Similarly, the government formulated custom act and regulation that need the payment of Value Added Tax (VAT) to export any goods and commodity. The customs office requires clearly spelled out HS code or receipt of VAT payment. Without this, customs office does not give permission for export the NTFPs. This provision has been relaxed for the export of medicinal herbs and its essences but international export regulation has failed to specify under which HS code and how the exemption is to be made. Therefore, the exemption has been useless to the NTFPs exporters.

Moreover, the multiple way of taxation by the local government at district level is also prevalent in the NTFP sub-sector. The District Development Committee (DDC) impose tax on NTFPs in two ways i.e, get 10% amount of the total revenue accruing from DFO's taxation/royalty and impose certain taxes on NTFPs in the district as per the authority given by the Local Self-Governance Act. Besides these, if the products are to transport through several districts, traders have to pay levy at each district check posts both formally and informally (bribe). The Local Self Governance Act 1999 article 215 has unauthorized DDC to tax on NTFPs on the condition that the DDC council approves the royalty rates. However, the Local Self Governance Regulation 2000 annex 23 has made provision that the DDC can tax NTFPs that are produced within the district. The annex also clarifies that when one DDC takes export tax on its local products once, another DDC cannot charge the export tax on the same products to avoid double taxation. Though, Local Self Governance Regulation has clarified to

some extent, the ambiguity in the act has created confusion. Most of the DDCs have interpreted the act on their own way and impose tax on local products passing from another district. The Supreme Court has also given verdict in the favor of DDC right to tax in such cases which has given continuity to dubiety and controversy on the rights of DDC to impose tax.

Inappropriate Royalty System of Non-timber Forest Products

There are at least two ways of inappropriate taxation in NTFPs. One is taxing on the private and community products which are against the legal provisions and the other is to determine the royalty in an *ad hoc* basis. NTFPs are mostly extracted from forest because the domestication of these is at infancy stage. Less than 20% of the total collection of NTFPs, including herbal products, comes from private land and the rest from natural forests (nepalnature.com 2005 cited in Devkota 2006). The government has provision to tax the NTFPs produced in the government forest but not in the community managed forest and the private land. However, due to the difficulty to identify the origin of the product, the government has been imposing tax on the products that are produced from the community forest and the private land. For example, many farmers are encouraged by DFO and forestry development institutions to cultivate *Swertia chiraita* in private land but the DFO questions about its origin at the time of sale. Farmers have to encounter many hassles to get approval from DFO to sale the products. This has seriously discouraged commercial farming of *Swertia chiraita*.

There are several complexities in fixing royalty on NTFPs. The complexities have arisen from the classification of forests, different conflicting rules and absence of coordination among government functionaries. The royalty rate for NTFPs is not scientific in terms of its market price for most species of NTFPs in Nepal. The following Table 4 gives an example of unscientific royalty.

Table 4. Example of royalty, DDC tax, market price and export quantity from Sankhuwasabha and Dhankuta

Species	GoN Royalty per kg NRs. in raw form	DDC Tax /kg of product in NRs.	Market price of finished product/kg (KTM)	Royalty as a percentage of Market Price in NRs	Qty exported from Sankhuwasabha in FY 2007/08 in kg
Lokta	5	3.75	425	2.05	528
Argelli	5	3.75	325	2.69	700
Lemongrass	1	1	1200	0.16	
Citronella	1	1	600	0.33	
Palmarosa	1	-	1000	0.1	

For example the royalty rate on perennial crops on Citronella, Palmarosa and Lemongrass has fixed the same rate i.e, NRs. 1 per kg. However, the market price of Citronella oil is low as compared to Lemongrass and Palmarosa. Similarly, for Lokta (*Daphne bholua*) and Argeli (*Edgeworthia gardneri*) same royalty rate has been fixed by the government i.e, NRs. 5 per kg though both have different prices at the market. In addition, royalty for either raw or processed materials is not mentioned clearly.

Similarly, the custom office levies 5% duty on the market price of the NTFPs at the export point but there is no clarity about which market price it takes as base for its duties. Market prices may be either at collection point or at export point or at international markets. Practically, the custom office have been imposing tax in an *ad hoc* basis.

Ban on Export of Some Non-timber Forest Products

The government has imposed ban on the collection, trade and export of *Dactylorhiza hatagirea* and *Juglans regia*. Likewise, *Nardostyichis gradniflora*, *Valeriana jatamansi*, *Cinnmomum glaucescens*, *Taxus baccata*, *Abies spectabilis*, *Rawolfia serpentine*, *Permlia* spp, and Silajit (a mineral) are banned to export in crude form. It seems that the government has banned the export of NTFPs either in raw

or in processed form is to protect the species from over exploitation. However, decisions to select the species to ban are not based on the scientific study but on the *ad hoc* basis. In some cases, traders consider exporting NTFPs in crude form is profitable than processed form due to different reasons. It is found that some of the products like *Swertia chiraita*, no international buyers want to pay higher price for the processed product due to the chances of adulteration. NTFP traders of Mid-Western Region told that grading, cleaning and initial processing of NTFPs before trading to India was more of an additional burden to collectors and processing entrepreneurs because these do not increase the income since the wholesalers at Indian city centre are often reluctant to pay higher price for the graded (value added) products. However, government made the processing mandatory before exporting in the international markets without precise study and strong logic about the species. The processing cost and their corresponding international market price in processed form need to be considered before selecting the species that need to be processed for export. In addition, government has not specified and defined the forms of processing for different species. It is also found that the traders have not knowledge and information regarding the processing technology of different species including *Swertia chiraita* at local or district levels.

Multiple and Conflicting Non-timber Forest Products Collection System

Officially, DFO allow outsiders to extract timber as well as NTFPs from government managed forests. Anybody can get a permit from the DFO to collect NTFPs from such forests. Often more than one person is allowed to collect NTFPs from the same forest, leading to unhealthy competition by permit holders resulting in unsustainable harvest practice. Such a system has contributed to increase the rate of NTFP depletion in given areas (see Box 3 for a case). In addition, the government seems to ignore its own policy commitment that involves local people in conservation, management and

Box 3. NTFPs Depletion Causes Trouble for Producers

Bishnu Maya B.K., the resident of Tamafok VDC ward no. 9 Okhre has 8-member family that live on traditional subsistence economy particularly based on forestry and agriculture. The family holds 30 *ropani* of land where they grow corn, potato, ginger and turmeric. The household has a pair of oxen, a buffalo, a goat and few chickens. The family concerns about dropping land productivity and its decreasing outputs on family food supply every year. The production from land covers only six month food requirement and for the rest of the months they have to manage from the alternative means. Bishnu Maya planted Chiraita in a small patch of land last year and harvested about 7 kg in its dry form. Besides this, her family collects Chiraita from nearby national forest and sells it to NRs 250/- per kg to local buyers every year. Few years ago, she could collect 10 kg Chiraita per day but she can hardly collect 2 to 3 kg these days. When government allowed private collectors harvest in the forest, Chiraita availability has been dropped sharply. Thus, her family income has decreased as a result they have to depend on wild grass and root during her food scarcity months. She knows that Chiraita does not become mature enough to harvest in October but she is compelled to collect premature Chiraita. If she does not collect it somebody else would already have collected it. The prematurely harvested Chiraita fetches lower price because of poor quality and weight. Bishnu Maya fears that Chiraita would completely disappear the way it has being harvested for last couple of years without giving emphasis on sustainable management.

utilization of forest resources by issuing licenses to outside contractors. The outside contractors have only profit motive and concern about volume of collected materials rather than sustainability of the resources.

Lack of Government Support to Make Rural-based Enterprises Competitive

To make private sector friendly investment environment for the promotion of NTFPs enterprises, there is need of crucial supports other than policy. Most of these supports are related to the (i) management, (ii) marketing, (iii) financing, (iv) infrastructure development, and (v) technological innovations.

To coordinate and synthesize all factors of production effectively and efficiently, entrepreneurs need management knowledge and skill. Equipping rural entrepreneurs with critical management knowledge and skills is one of the key needs in the promotion and development of NTFP enterprises at present (Luintel *et al* 2004).

Generally, the rural/community-based enterprises produce goods and services without market assessment and try to sell whatever has been produced. Basically having very poor market information and unable to understand the dynamics of present global competitive market, the rural based NTFP entrepreneurs have been following the conventional marketing strategy often resulted into uncompetitive in the market and unsuccessful in the long-run. This situation may come partly due to the ignorance of changing market environment and less bargaining power. Besides, NTFP marketing channel is too long in the Koshi Hills and also the business is captured by some key market players who have good relations with the Indian traders. These players also control the flow and price of NTFPs at the local level. To end up the monopoly of such traders by making the marketing information more transparent and accessible to all the concerned including collectors, government has not given due consideration. Similarly, the unequal treaty with India has also caused various difficulties in NTFP trade. There are certain restrictions posed by Indian government while exporting NTFPs to India. In addition, the study shows that the trade is largely informal; the corruption and bribery is rampant; intervention that encourage NTFP trade and enterprise development are limited; international market is non transparent, keeping the traders and entrepreneurs always at risk; quality control is always a question; and many hassles are there in collection, trade and enterprise development (Edwards 1996, AEC/FNCCI 2006).

Community-based NTFP enterprises have not been the priority sector for the financing institutions particularly due to lack of investment friendly policies, market uncertainty and high risk to be successful. There are no government policy directives to make financial sectors investing certain portion of their profit to NTFP sectors. Financing is one of the major problems for the community-based NTFP enterprise development in the context of Nepal and particularly in the Koshi Hills (see Box 4).

Box 4. Reasons for financial problems faced by the community-based NTFP enterprises in the Koshi Hills

- NTFP enterprises are not sound in terms of business plan and enterprise management
- Poor knowledge of market which raise the question of sustainability of the business
- Inability of management committee to pool and access available financial resource
- The perception of financial institutions towards NTFP enterprises is not positive due to poor performance of these enterprises
- Inadequate and poorly developed infrastructure facilities such as telephone, road, electricity communication that hinder the business
- Most of the NTFP enterprises are established in remote areas where financial institutions are not interested to invest
- Unfavorable fiscal policy of government towards promotion of NTFP enterprises

Another main reason for poor financing is that most of the community-based NTFP enterprises lack property to keep as mortgage to access the financial resources from the bank. Moreover, the higher interest rates and rigid investment policies of the financial institutions also discourage the rural community-based NTFP entrepreneurs to take loan. Reluctance of non-local and larger private investors to invest in NTFPs enterprising is also due to the confusions of resources ownership and lack of confidence between local community and them. Besides, nearly 90 percent of NTFPs are collected on an *ad hoc* basis from the wild which indicates the question of reliable and sustainable supply of raw materials though some initiation has been taken by the private sector and forest users groups for the commercial cultivation of NTFPs in some parts of Nepal. Without commercial farming/cultivation of the NTFPs that sustainably supply the raw materials in adequate quantity, there is high risk for investor to invest in this sector.

Availability of physical infrastructure facilities such as road, transport, electricity and communication are the prerequisites and prime conditions for the establishment and successful operation of NTFP enterprises. Some of the enterprises are established in Terai region whereas such facilities are available. However, most of the high-value NTFPs are found in high Hills and mountain regions where basic infrastructure facilities have not been built yet. The private sector will not invest unless and until such infrastructure facilities are available to the area. The established enterprises and the producers of the NTFPs in Koshi Hills have faced such types of problems. As a result local entrepreneurs and collectors bear the higher for the NTFPs to collect and process. For example, to deliver the Lokta handmade paper from Sankhusabha district to Kathmandu, the producer has to pay to NRs 35/kg (airfare) and local government tax NRs 1.5 per kg in finished products resulted into lowering the profit.

Most of the NTFP enterprises based in the Koshi Hills use the technologies that are inappropriate, old, obsolete and cumbersome. This is partly due to entrepreneurs' choice based on limited information and partly due to the unavailability of locally suitable technology. The wrong choice of technology has hindered the business. The government has not been able to introduce innovative program for the development of new technology to add value. In addition, the government has not given facilities in custom duties and tax to import the technologies from abroad. It has also not taken lead role for the research and development of the high value NTFPs products. Due to the old and poor technology of essential oil of Dhankuta, the processing machine cannot be well functional and the production rate of oil is not satisfactory. It negatively affects the production cost in the one hand and also creates obstacles to produce good quality products as per the market demand on the other. For example, the Tenjure handmade paper has not been able to diversify its products in various forms such as envelopes, file and others decorative items. Likewise, most of the essential oil processing enterprises in the Koshi Hills are confined to produce only citronella oil and are not able to use other NTFPs and aromatic plants.

Limited Civil Society Influence

There are only few membership based civil society organizations working in the field of policy advocacy in forestry sectors in Nepal. Some of these include Federation of Community Forestry Users of Nepal (FECOFUN), Community Forestry Supporters' Network (COFSUN), and Himalayan Grass Roots Women's Association for Natural Resource Management (HIMAWANTI) etc. Similarly, there are very few research institutions to support the development of NTFP sub-sector in Nepal. Moreover, these both types of organizations are not able to influence the policy formulation and enforcement to promote NTFP enterprises development significantly. However, some efforts have been made through different community based organizations at the local level but those have not been scaled up. The government policy formulating agencies are also found to be less consultative. Besides, there are no professional and technically sound personnel at different civil society organizations including FECOFUN to support policy processes at different levels and hence problems surface at the time of enterprise operation (pers. comm. Bal Bahadur Rai, FECOFUN Central Member). Institutional set up and the rapidly changing operational agenda of FECOFUN are also some of the limiting factor to produce professional member that work for policy advocacy for longer term.

Such obstacles are playing role in one way or the other for influencing law making body through civil society perspectives. Availability of financial and human resource is one of the important factors to influence natural resource policy processes and the resource-crunch has been one of the main limitation for these civil society organizations to carry out policy advocacy activities timely, adequately and appropriately.

Limited Incentive to Private Sector Involvement

The private investors will invest where they see assurance of profit, hassle free business environment, low establishment cost, availability of basic infrastructure and easy access to market and information. However, finding such environment is far possibility and therefore investors are not encouraged in investing in the field of rural/community-based NTFP enterprise. Though the government has made provision of 'one window system' to provide the various services to make conducive environment to the investors, the establishment of NTFP enterprise has many hassles

Table 5. Types of NTFP enterprises in the Koshi Hills

SN	District	Commodities produced by the enterprise
1	Dhankuta	<ul style="list-style-type: none"> • Essential oil • Bael squash • Khoto • Briquette
2	Sankhuwasabha	<ul style="list-style-type: none"> • Lokta handmade paper • Allo • Lalgurans squash • Briquette • Spices (agricultural base)
3	Bhojpur	<ul style="list-style-type: none"> • Lokta handmade paper • Bael squash • Briquette • Spices and vegetable (agricultural base)
4	Terahthum	<ul style="list-style-type: none"> • Chiraita • Ginger

pertaining in the process of registration, operation and marketing the products. Such types of hassles often discourage potential investors to invest in this sub-sector. The very limited researches and documentation of practices lead to less availability of required information to the investors. Similarly, non-transparent market and its complex and hidden channel further put the investor at risks. Hence, there are limited incentives to the investors and consequently lower numbers of NTFP enterprises have been established in Nepal so far. Subedi (2006) finds over 161 plant species being harvested for commercial transaction, in which at least 137 entrepreneurs are engaged and about 71 community-based enterprises are operating in Nepal. Likewise, in Koshi Hills few different types of community based NTFP enterprises have been established (see Table 5).

Conclusion

Though several studies have explored the problems and prospects of community-based NTFP enterprises in Nepal, few have analyzed how policies, legislation and institutions affect the operation of enterprise on the ground. This paper has provided an in-depth account of how a wide array of regulatory challenges affects community-based NTFP enterprises in the Koshi Hills. Despite some favorable policies developed in the recent years, policy and regulatory constraints continue to remain a major hurdle to the growth and development of NTFP enterprises in Nepal. The reasons are two-fold: on the one hand, the policies are still restrictive, and on the other, even the enabling aspects of policies get distorted in practice.

The experience from the Koshi Hills shows that most of the problems regarding the development of NTFP enterprise lie at the district level where policies are [mis] interpreted and implemented. The government continues to see policy formulation as its own sole job, without engaging concerned and affected civil society groups. There is very little or no practice of impact assessment, feedback mechanism and policy review to capture the insights from the ground level. Local NTFP entrepreneurs find regulations unclear and ambiguous, as well as experience contradicting among different policy instruments. In addition, they have to pass through age old bureaucratic formalities and red-tapism to establish an enterprise. There is also a lack of coordination among various government organizations related to forestry enterprise regulation.

Enabling business environment and business services are the crucial factors to boost up community-based enterprises but investors see a lack of investment-friendly environment in the NTFP sector. In fact, the rural investors are micro entrepreneurs with little capital investment and they generally do not set up a business without outside assistance, both in terms of finance and technology. Despite restrictive regulatory environment, there are some cases of successful NTFP enterprises in the Koshi Hills. But their success is questionable in the long-run given the unfavorable business environment that prevails in the forestry sector.

Clearly, development in the small scale enterprise sector can only be achieved if the policy environment is conducive and all regulatory bottlenecks are removed. One direction for policy change could be to deregulate particularly removing restrictive policies. While this can have positive effects on enterprise registration and operation, there is also a need for pro-active government incentives in promoting enterprise development services targeting small scale and pro-poor NTFP enterprises. Tax and fiscal incentives should enable the private sector to invest in the forest product sector. Another option is to take corrective measures, which could include amending a number of specific regulatory provisions (such as licensing, enterprise registration, exporting after processing, and verification). This will encourage local entrepreneurs in rural area.

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