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## **Community Based Forest Enterprise: A Pro-poor initiative** *(Case studies from Nepal)*

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## **Abstract**

*A growing concern about the contribution of community forestry to livelihood improvement and poverty reduction has led to a commercial orientation of the program. The establishment of community based forest enterprises (CBFE) is one of the strategies to shift existing subsistence oriented forest management towards commercialization of forest products to increase income and improve livelihood of the poor people. With an objective to assess whether and under what conditions a CBFE can contribute to livelihood improvement, a case study was carried out in three enterprises of Dolakha district, a middle hill district of Nepal. For the purpose of this study, well performing (Everest Gateways Herbs Pvt ltd.), medium performing (Deudhunga Wintergreen Processing Napkey Unit) and poorly performing (Vimeshwor NTFP Production and Processing Pvt. Ltd.) enterprises were selected based on a formal evaluation by stakeholders. Expert consultation, key informant interviews, direct observation including PRA tools were used for data collection. The study focused mainly on the analysis of the shareholder composition of CBFEs, the livelihood benefits for the poor gained through CBFE activities, and factors making an enterprise to be pro-poor oriented. The study shows that enterprises vary in terms of composition of different shareholder categories, their number and percentage of share owned by the individual categories. Shareholders categories in the studied enterprises include CFUGs, the poor, local interested individual investors, local private entrepreneurs and National Company. Virtually all studied enterprises have maintained at least half of the share under the control of the CFUG and the poor to ensure their ownership and participation in decision-making. The study shows that when pro-poorness is maintained, CBFEs could contribute in poverty reduction in different ways. The livelihood of the poor is enhanced by providing economic benefit through employment opportunities and dividend distribution. The human and social capital of the poor is enhanced by developing their skills and knowledge through capacity and networking building. The in depth analysis of the quantitative and qualitative data allowed to identify nine factors to be important in affecting the pro-poorness of the enterprises. The internal factors include share allocation for the poor, constant cash flow, scale of enterprise, enterprise governance, pro-poor focused enterprise policies, awareness of the poor, participation of the poor and benefit distribution mechanism; as external factor the support from external service providers are important. A discussion about the relevance of the individual factors influencing the performance of CBFEs allowed drawing conclusions and recommendations for future activities in community forestry.*

**Key words:** Community Based Forest Enterprises, Pro-poor, Livelihood, Employment, Participation, Benefit Distribution, Shareholder

## Zusammenfassung

*Die wachsende Bedeutung der gemeinschaftlichen Bewirtschaftung der Wälder (community forestry) zur Verbesserung des Lebensstandards der lokalen Bevölkerung und zur Armutsreduktion in Nepal hat zur einer Kommerzialisierung des Programms geführt. Die Begründung von gemeinschaftlich geführten Forstbetrieben (community based forest enterprises - CBFE) ist eine Strategie, um von einer rein auf den Wald ausgerichteten Bewirtschaftung zu einer verstärkten Vermarktung von Waldprodukten zur Verbesserung des Lebensstandards der armen Bevölkerung zu gelangen. Um den Beitrag von CBFE zur Armutsreduktion zu untersuchen, wurde daher eine Fallstudie in der in den mid hills gelegenen Region Dolakha in Nepal mit drei Unternehmen durchgeführt. Als Untersuchungsgegenstand wurde ein gut funktionierender (Everest Gateways Herbs Pvt ltd.), ein mittlerer (Deudhunga Wintergreen Processing Napkey Unit) und schlecht funktionierender (Vimeshwor NTFP Production and Processing Pvt. Ltd.) Betrieb nach formalen Kriterien von Stakeholdern ausgewählt. Die Befragung von Experten, Interviews mit Informanten sowie die Anwendung von PRA Techniken wurden zur Datengewinnung eingesetzt. Die Arbeit konzentrierte sich auf die Analyse der Stakeholder Beziehungen in den CBFEs, die Identifizierung der Vorteile die sich für die ärmere Bevölkerung aus den Aktivitäten der CBFE ergeben, und die Faktoren welche für ein Armut orientiertes Unternehmen wichtig sind. Es zeigte sich, dass sich zwischen den Betrieben die Anteile der unterschiedlichen Stakeholder Kategorien, ihre Anzahl und der ihnen zugehörige Betriebsanteil unterscheiden. Als wichtigste Mehrheitseigner wurden dabei Mitglieder der CFUGs und der armen Bevölkerung, lokale Investoren sowie private und nationale Unternehmen identifiziert. Bei allen Betrieben zeigte sich, das rund die Hälfte des Unternehmens unter der Kontrolle der CFUG und der armen Bevölkerung stand, um die Verantwortung für und die Partizipation in Entscheidungen zu sichern. Die Studie zeigte unterschiedliche Wege für die Armutsbekämpfung in den CBFE auf. Der Lebensunterhalt der armen Bevölkerung wird verbessert durch die Einkommensmöglichkeiten der neu generierten Arbeitsplätze und laufende Dividendenzahlungen. Das Human- und Sozialkapital der ärmeren Bevölkerung wird durch Trainingsaktivitäten und die Bildung von Netzwerken verbessert. Eine vertiefte Analyse der erhobenen quantitativen und qualitativen Daten erlaubte die Identifizierung von neun Hauptfaktoren die für die Armutsbekämpfung in CBFE wichtig sind. Als interne Faktoren lassen sich die Höhe der Eigentumsanteile, der konstante cash flow, die Größe des Unternehmens, die Betriebsführung, eine auf die Armut ausgerichtet Betriebspolitik, die Bewusstseinsbildung und Partizipation sowie die Mechanismen für die Verteilung der Zuschüsse identifizieren; als externer Faktor ist die Unterstützung von externen Dienstleistern bedeutend. Die Diskussion über die Bedeutung der einzelnen Faktoren für die Leistung der CBFEs erlaubte die Formulierung von allgemeinen Schlussfolgerungen und Empfehlungen für zukünftige Aktivitäten einer gemeinschaftlichen Waldbewirtschaftung.*

Schlüsselwörter: Gemeinschaftlich Geführter Forstbetrieb, Armutsbekämpfung, Lebensunterhalt, Arbeitsmöglichkeit, Partizipation, Förderung, Stakeholder

*Dedicated to*  
**My Late Grandfather Tek Bahadur Rana**  
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## Acronyms

AAH	Annual Allowable Harvest
ANSAB	Asia Network for Sustainable Agriculture and Bioresources
CBFE	Community Based Forest Enterprise
CF	Community Forest
CFUG	Community Forest User Group
CFUGC	Community Forest User Group Committee
DD	Deudhunga Co-operative
DDC	District Development Committee
DFO	District Forest Office(r)
DWPNU	Deodhunga Winergreen Processing Napke Unit
ECARDS	Ecology, Agriculture and Rural Development Society
EGHPL	Everest Gateways Herbs Pvt Ltd
FECOFUN	Federation of Community Forestry Users, Nepal
FSC	Forest Stewardship Council
FY	Fiscal Year
GA	General Assembly
gm	Gram
ha	Hector
HBTL	Himalayan BioTrade Pvt. Ltd.
HH	Household
HPPCL	Herbs Production and Processing Co. Ltd.
IGA	Income Generation Activity
kgs	Kilograms
LILI	Local Infrastructure for Livelihood Improvement
LRP	Local Resource Person
MC	Management Committee
MFSC	Ministry of Forests and Soil Conservation
MPFS	Master Plan for the Forestry Sector
MT	Metric Ton
NG	Nepal Government
NGO	Non-Governmental Organization
NRs	Nepali Rupees
NSCFP	Nepal-Swiss Community Forestry Project
NTFP	Non-Timber Forest Product
OP	Operational Plan
PPE	Pro-Poor Enterprise
Pvt. ltd	Private Limited
SDC	Swiss Development Cooperation
SFM	Sustainable Forest Management
SP	Service Provider
sq km	Square kilometer
UNDP	United Nation Development Project
VDC	Village Development Committee
VNPPL	Vimeshwor NTFP Production and Processing Com. Ltd
Med	Median
Avg	Average

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# **Chapter one: Introduction**

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## **1.1. Background**

### **Community Forestry in Nepal**

Nepal has predominantly an agrarian and under developed economy. Most of its people live in rural area and have high dependency on the local forest resources to support their livelihoods. Realizing the intricacies of forests and people's livelihoods and failure of top-down and command-and-control approach to forest governance, concept of engaging local people in the process emerged in Nepal and worldwide. In Nepal, community forestry (CF) evolved with a shift in existing perspectives and practices to intimately involve rural forest dependent people in forestry activities (FAO 1978). With the realizing inclusion as right approach for forest protection, Master Plan for Forest Sector (MPFS) legitimized the local users as owner of the local resources, gave the highest priority to CF program, and projected 61% of national forest as potential CF (HMG/N 1988). People traditionally depended on a patch of national forest were organized as Community Forest Users Group (CFUG), recognized by law as independent and self-governing institution, and the patch of the forest is handed over to the CFUG for its protection, management and utilization for the collective benefit (HMG/N 1993; HMG/N 1995). Though Nepal's CF started in late 1970s, it took greater momentum after the promulgation of Forest Act 1993 and Forest Regulations 1995. The experience of CF program in Nepal to date suggests that the program is gradually leading towards the improved forest condition and generation of substantial financial income from sale of timber and non-timber forest products (NTFPs). Until 2008 September, about 1.22 m ha (approximately 25% of potential CF area) of forest ha so far been handed over to 14,337 CFUGs, constituting 1.64 millions household (HHs) (DoF/N 2008).

Fourth CF workshop held in 2004 analyzed the achievement and challenges of CF for last 25 years within the themes of CFUG governance, livelihoods improvement and sustainable forest management (SFM) since they were identified as the key "second generation issues" of CF in Nepal. Many studies including this workshop assessed the CF program need to shift the orientation from subsistence towards livelihoods improvement and commercialization (Joshi *et al.* 2000; Malla 2000; Springate-Baginski *et al.* 2001; Baral & Thapa 2003; Pandit & Thapa 2004; Ojha & Kandel 2005; Bhattarai *et al.* 2007).

NTFPs drew the attention for promotion since most of them may generate income in short run and are being the part of marketing chain in the past albeit in raw form.

### **Non Timber Forest Products**

NTFPs consist of all the products other than timber, fuel wood and fodder for the domestic purpose (De Beer & McDermott 1996). NTFPs were traditionally neglected and priorities were laid on timber, gradually they are receiving more and more global attention due to the recognition of their diverse values and potential to contribute rural economy and poverty reduction. Some studies also show that economic value of NTFPs is higher (e.g. see K.C. 2004). It provide returns in shorter period (Brennan *et al.* 2003).

CF carries huge potentiality to commercialize NTFPs and contribute rural people socially and economically (Subedi 1997). It offers medicinal value, HH food security and nutrition, generate employment and income especially for the poor through NTFP based enterprises (FAO 1995). NTFPs in Nepal can play significant role both as source of rural and national economy. At present, there are numerous efforts to increase awareness on NTFPs, their management and market potential. Edwards 1996 states that every year, between 10,000 to 15,000 MT of NTFPs are harvested in the mid-hills and high mountains of Nepal. The value of these NTFPs are approximately US\$ 10 million per year. Hill 1999 estimates the incremental benefits of making this shift are NRs 30,700/ha/year (US\$1=NRs 72) for medicinal plants only. Given the present area of CF, these are clearly significant amounts—the relative financial impact of focusing on ‘commercial’, i.e. traded, products as opposed to subsistence fuelwood and fodder is also noticeable (Pokharel *et al.* 2005). Issue of value addition and entrepreneurship within a CFUG is, therefore, increasingly recognized, and the community based forest enterprise (CBFE) with a focus on NTFPs is evolving.

### **Community Based Forest Enterprise**

The potential significance of CBFEs is large when one considers the current worldwide trend toward devolution of forestlands to local communities (White & Martin 2002). CF in Nepal is flourishing. CBFEs are forest industries managed by local communities for livelihoods and profit and engaged in production, processing and trade of wood products and commercial NTFPs (Clay 2002). Similarly, Peredo & Chrisman (2005) define CBFE as community acting corporately as both entrepreneur, and planner and manager of an enterprise in pursuit of the common good of creating and operating new enterprise

embedded in existing social structure. CBFEs are operated in rural areas, usually near the resource base that supplies the raw materials. Its development presents an opportunity for strengthening the livelihoods of forest-dependent people, at the same time providing an economic incentive to conserve forests through sustainable management (Carter *et al.* 2007). CBFEs have expanded dramatically in developing countries with the recognition of historic tenure rights and responsibilities transferred at local levels (Molnar *et al.* 2007).

A recent analysis of enterprise development opportunities for low-income producers indicates precisely conditions such as those that prevail in Nepal, i.e. opportunities for trade in NTFPs with high national or international demand, existence of strong community organizations (i.e. CFUG), few domestic substitutes available, and sustainable management of wild resources is possible (Scherr *et al.* 2004). This implies that the commercial approach to forest resource utilization (especially for the direct benefit of poor people) has significant, but yet largely untapped, potential (Pokharel *et al.* 2005).

CBFEs are designed and operated with the framework of participatory forestry that enable people having direct stake in forest resources to be part of decision-making in all aspects (The Forests Dialogue 2007). They are characterized with use renewable natural resources and raw materials; and seasonal with large number of collectors/suppliers with small quantity of raw materials (labor intensive) (The Forests Dialogue 2007; Kula *et al.* 2006). They have low-capital requirements and small production volumes (Kula *et al.* 2006).

In Nepal, the Department of Cottage and Small Industries registers small-scale industries and CBFEs in the districts. About 1,331 enterprises based on agricultural and forest resources including 300 community-based enterprises were recorded (Pokharel *et al.* 2005). An earlier but more detailed study, identified 66 CBFEs in the forest sector with different enterprise ownership structures none of which was specifically pro-poor (poor people at least own partial ownership) (Subedi *et al.* 2002). Innovation on CBFE with pro-poor focus is growing recently and can have different forms. Therefore, it needs to explore different forms and derive lessons from them so as to come up with better models of pro-poor CBFE. Aspect of the challenge lies in maintaining an appropriate balance between profit optimization and equitable benefit sharing (The forest Dialogue 2009). Nepal-Swiss Community Forestry Project (NSCFP) fifth phase has made it explicit about NTFP based enterprise development piloting. It categorizes enterprise model into types including single HH-based, a group of HHs, single CFUG, a network of CFUGs, public private tripartite,

cooperative, small scale private enterprise. In NSCFP area , the partnership model between CFUGs, identified poor and private sector has bigger impact by generating employment and income (Paudel 2007).

### **Role of Community Based Forest Enterprises in Rural Livelihood**

Appropriate enterprise development and integration approach can represent a promising option for the poverty reduction potentiality of CF that translates benefit to poor HHs by engaging poor in enterprise as well as forest conservation through SFM (Mahanty *et al.* 2006; Donovan *et al.* 2006). CFUG-based enterprises can create a strong link between conservation efforts and individual economic incentive (as extra motivation) by highlighting the importance of resource conservation as it relates to the community-owned business and reliant on the CF for its raw materials (FAO 2009; Gouttierre *et al.* 2005).

CBFE presents multiple social and economic benefits including improving environmental protection; stimulating local economic activity; creating new opportunities to assist the rural poor; providing higher tax and royalty revenues for the government; and promoting gender equality in rural communities. CBFEs are being scaling up as they are directly linked to the poor community, and the major shares of the benefits goes to the local people (Gouttierre *et al.* 2005). It has positive social impact through creating innovative organizations and service provision models. CBFEs catalyze the collective action by involving multiple actors as entrepreneurs from within as well as outside the CF. Management of rural CBFE can generate income, control access to resources to ensure some semblance of SFM and resolve local conflicts at the fragile forest/agriculture interface (FAO 2009). CF ensures the easy access to forest raw materials for forest dependent poor and involvement in forest-based activities particularly in CBFE (Arnold 1994). CBFEs generated employment and income are of increasing importance in the rural economy and has real potential to produce wealth for poor communities in emerging and developing economies (The forestry Dialogue 2007).

### **Pro-Poor Enterprise: why?**

CBFE is a vehicle for SFM and rural livelihood improvement. SFM defined in terms of economic, environmental, and social criteria, commercial forestry (serve as pro-poor forestry) must contribute holistically to improving the lives (economic well-being) of the forest-dependent poor with respecting of cultural values as well as enhancing and

empowering their political and social independence (FAO 1978). Poverty is more than simply a lack of income and resources webbed in highly complex social structure. *Lack of representation* in policy and decision-making, inappropriate *laws and policies* resulting locally *weak institutional relationships* and the *isolation* of the poor from supportive infrastructure and services are the major common interlinked issues (Macqueen 2008; Macqueen *et al.* 2001; FAO 1995). In Nepal, the initiatives usually recognize the need to ‘commercialize’ forest products but frequently fail to recognize the complexities of poor’s livelihoods. Inequity in decision-making, imbalance power structures, lack of social and political capital which results very limited scope to develop skills and attitudes to unlock the rigid socio-cultural framework that prevent to move out of poverty and altering their livelihood strategy (Pokharel *et al.* 2005). Economic class, caste, gender, geography and vulnerability (ill health, disability and suffering related to the armed conflict) are considered as the particular aspects of chronic poverty (Pokharel & Carter 2007).

Pro-poor means more poverty reducing (Ravallion 2004). Economic growth can be considered pro-poor when growth rate is higher for the poor than the non-poor (Kakwani *et al.* 2004). According to SDC’s (2004) relative definition of pro-poor growth, economic growth can be considered pro-poor when the average income of the poor grows more quickly than the non-poor population. In absolute definition, economic growth can be considered pro-poor when the poor benefit in absolute figure simply taking the income of the poor into consideration. Experience from Mexico (Antinori & Bray 2005) has shown that CBFEs do have some characteristic features e.g. ability to combine economic efficiency with equity, makes them particularly attractive as development interventions.

- PPE characteristics by NSCFP (Pokharel *et al.* 2005)
- Established through a more cautious and stepwise process to ensure poor people’s active involvement,
  - Poor people are always involved as owners,
  - Private sector involvement is a key feature as a source of financial investment and marketing skills for success of the enterprise,
  - Identified market or demand-driven,
  - Natural resources based, and
  - People and livelihoods centered.

Therefore, not all these benefits from CBFEs would accrue to the poorest

HHs, intervention needed to promote PPEs. Pro-poor CBFEs differs radically from the conventional models of CBFEs having significant poverty impacts (Pokharel *et al.* 2005). Pro-poor focus CBFEs can play role in addressing the issue of their representation, power, well being, mainstreaming from social isolations (Narayan *et al.* 2000; Sunderlin *et al.* 2005). PPE provides new livelihood opportunities to poor for livelihood improvements

with increased income, assets, rights and greater general engagement in society (decision-making, etc) (Carter *et al.* 2007). It creates forest diversification niche, work together and create new possibilities for poor to improved living quality and income (Witteveen & Ruedin 2008). Not all poor people are all the same. Hobley 2005 classifies elites, capable, improving, coping poor and declining poor as different types of poor in relation of forests and ability to benefit from PPE. In order to ensure the most appropriate type of support it is necessary to distinguish between different types of poor and their needs.

In PPE identified poor HHs, private sectors and CFUGs hold more shares to prevent traditional elites gaining control over the enterprise and ensures the poor people's involvement as an owner (Pokharel *et al.* 2005; Chettri 2005). Poor groups as shareholder receive financial benefits through dividends from their shareholding capital if profitable ; as members of their respective CFUGs, the share of dividends going to CFUG funds; employment in the activities related to the enterprise and enjoy premium price from collected raw (Pokharel & Carter 2007; Chettri 2005). Poor people trained as entrepreneurs can support to lift themselves out of poverty through a change in their livelihood strategies. The concept of PPE recognizes the limitations of previous approaches leading to a particular enterprise structure designed to create livelihoods benefits for the poorest HHs (Pokharel *et al.* 2005). PPE, intends to serve for the poor and marginalized group of the community not only empowering poor but also sensitizing other members of the CFUG, is very essential to make it more equitable.

### **Factors affecting Community Based Forest Enterprises**

There are number of enabling conditions and factors in simply steering CBFEE successful towards poverty reduction. CF as basis of CBFEE, OPs analysis indicates CF are still almost exclusively subsistence-oriented witness the lack of sufficient vision to see beyond the subsistence-level existence and visualize a different type of CF usage that may bring greater benefits (Tumbahangphe 2005). Still subsistence usage of forest is seen as primarily the rural people role whilst commercial forest usage stays within the government control (Pokharel *et al.* 2005). Numerous CFUGs are involved in developing their own social enterprises but found it difficult to implement successful business models and many of these initiatives failed due to a lack of training or entrepreneurial sophistication. In community members, especially the poor have had little opportunity to become empowered decision makers and beneficiaries of financial success (Gouttierre *et al.* 2005).

Various Service Providers (SPs) are largely focusing on providing support for the establishment of forest-based income generation and employment opportunities using the natural resources available from their CFs – often with a strong focus on NTFPs (Subedi *et al.* 2002; Peredo & Chrisman 2005; Kula *et al.* 2006). In the forestry sector, the prevailing view is that CBFEs characterized as not generally appropriate for poor to become directly involved. It depends upon external support and beset by inefficiencies and somewhat complex bureaucratic regulations (Pokharel *et al.* 2005). In the absence of external support, it rarely addresses “second generation issues” such as social inclusion, a pro-poor and a systematic approach to enterprise development & livelihoods (ARD, Inc. 2006).

Pokharel *et al.* (2006) concludes the scale of the enterprise; pro-poor governance of community; necessary skills and capacity to empower the poor producers, both socially and economically; partnership building among private, community groups and poor households; and specialized services to tap competitive markets and conducive policy environment as five key aspects for a successful PPE. Any attempt at market system development requires the basics of an enabling environment (Wältring 2006). A good understanding of the relevant markets is crucial for the development of CBFEs and their successful positioning in supply chains (Carter *et al.* 2007). Most important saleable forest products face uncertain markets because of growing competition from industrial or synthetic alternatives or domesticated sources of the materials (Arnold 1994). Enterprise opportunity overview, sustainable supply of natural products, regulatory environment and forest user groups, technology management and finance, marketing and sales, enterprise development plan are the requirements for the successful enterprise (Kunwar *et al.* 2009).

Macro-economic stability, transparent and entrepreneurial-friendly policies and laws at the macro-level, provision of basic communication, access to information for improving entrepreneurial competitiveness at the micro-level, stimulate demand for reform among key Stakeholders (SHs), knowledge and capacity building to implement reforms are some of enabling environments (FAO 1995). Well organized social and labor movements, equitable long term local partnerships, effective company and SHs leadership and engagement, building of local capacity to enter into effective relationships are some of the necessary drivers (or barriers if non-existent) included effective leadership and capacity to lead, advocacy, markets, incentives and clear progress indicators (The forestry dialogue 2007). Clones 2003 identifies access to income earning opportunities; access to education,



information, and training; access to ownership of, control over, and use of assets and productive resources, including credit and technical assistance; equal remuneration of effort (including for domestic activities); effective participation (voice) in decision-making and policy formulation as the factor affecting the enterprise successfulness. NTFPs based enterprises as the potential sectors to contribute to poverty reduction, face regulatory issues and practical challenges regarding enterprise registration and operation, marketing and trade, taxation, private sector investment that affect all key process of CBE management . 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 (Kunwar *et al.* 2009).

PPE not only needs to be sensitive to livelihood issues in rural areas but also actively enhances opportunities for the poor. Legislation should be specifically pro-poor. Pro-poor policies directly target poor and more generally aim at reducing poverty (Pokharel *et al.* 2005). There can be no 'blueprint' for poverty reduction, and that each country is required to 'mix and match' its own set of policies and processes which are appropriate to the context in order to achieve the goal of poverty reduction (Currn & Renzio 2006).

## **1.2. Problem statement and Justification**

Enterprise development is a progressive step towards shifting the priorities from subsistence toward commercialization considering availability of the resources and people's interest (Ojha & Kandel 2005). Integrating enterprises into the CF program increase the profit share of poor by the opportunities gained from NTFPs processing and value addition as collectors and suppliers of raw materials, workers or even owners (Pandit *et al.* 2006). In this regard, enterprise managed by community has high potential to make a significant contribution and transform their livelihoods (Paudel 2007). Yet most of the poor live in rural areas where there are few enterprise-generated job possibilities and many more enterprise opportunities (Kula *et al.* 2006). Most importantly, the whole progress so far in establishing PPE has set a scene or background for accelerated establishment of many more enterprises in near future and opportunities should actively explored to expand into new geographic areas and product (Gouttierre *et al.* 2005). In fact, there are a number of enterprises, which are established from the replication effects of already established enterprises. There is a need for a study to identify their implications (Paudel 2007).

Increasing CFUG income and contributing to the poor are different issues. Socio-economically heterogeneous groups of CFUG are challenge to promote pro-poor agenda. Generally, the medium and upper level people capture the benefits of sale products and opportunities from CFs than the ultra poor (Pokharel *et al.* 2005). The poor are often assumed to contribute manual labor than to participate in enterprise management. Evidence has increasingly been produced showing that its impact on poorer households (HHs) have, at best, been minimal, and under certain circumstances may have even been negative (Chhetry 2005; Pokharel & nurse 2004; Bhattarai & Ojha 2001). Pioneer pro-poor strategies and innovative methodologies to reach the poorest HHs are therefore needed to address these critical issues to benefit the poorest groups (Pokharel *et al.* 2005). There are no blue prints on the model of PPE, rather more context specific. With CF as the existing national forestry policy framework and increasing call for enterprise development, it requires to understand the models of CBFE and track the lessons and learning of existing CBFE in order to improve and promote it (Pandit *et al.* 2006 ; Kula *et al.* 2006).

Different perception and experience exist regarding CBFEs. The local (usually poor) people primarily benefit through employment opportunities as wages, while the CFUGs are primarily receiving royalties and CBFEs can capture the market value of the resource. CBFEs not only generate the direct benefit but also indirect benefits in terms of social, political, and institutional aspects of rural communities. However, there are not proper records about it yet (Paudel 2007). Thus, holistically tracking existing situation of livelihood benefits from CBFE in poor communities is necessary, and this study assesses the livelihood benefits for poor groups involved in CBFEs. Nepal's rural communities are still mostly of subsistence types and lack experience on profit making businesses from the products they have (Paudel 2007). Pokharel *et al.* (2006) concludes that prevailing views has limited the CBFEs from fully realizing the potentiality to be PPE. It indicates the need for innovation that can serve as 'beacons' to convince policy makers and business people that this new paradigm is indeed worth pursuing" (Scherr *et al.* 2004).

Effectiveness of the CBFE to address the pro-poor issue depends on various factors in term of sustainability, livelihood support and empowerment. There are very limited studies looking at the various factors responsible for and/or constraining to pro-poor CBFE. Realizing the potentiality of CBFE expansion and its contribution for livelihood improvement, understanding the PPE and its role in poverty reduction is necessary. Taking

the CBFEs with public private partnerships as case studies, this study assesses the current practices and directions of these enterprises in relation to their promise for poverty reduction while maintaining their basic ingredients of viable enterprises.

### 1.3. Research Hypothesis

- The main hypothesis is that CBFEs have contributed to the different aspect of livelihood of the poor shareholders
- The another hypothesis of the study is that pro-poorness of the enterprise increases with poor people participation

### 1.4. Research Objectives

The general objective is to assess whether and under what conditions a CBEF can contribute to in poverty reduction. Specific objectives of the study and research questions based on specific objectives are as below.

*Objective 1: To identify the **composition of CBEF.***

- Who are the **main shareholders** of the CBEF?

*Objective 2: To assess **livelihood benefits** of the poor groups involved in CBEF.*

- What are the **livelihood benefits** received by poor group?
- What are **benefit-sharing mechanisms** in the CBEF?

*Objective 3: To identify the **factors affecting CBEF to be pro-poor.***

- What are the **major factors affecting** CBEF to be pro-poor focused?
- In **what way** different factors are, affecting CFE to be poor focused.

### 1.5. Conceptual Framework

To explore the outcomes of the CBEF in relation to the poor, it is imperative to understand the shareholder composition of the enterprise. Figure 1 indicates the conceptual framework of this study. It requires the explanations who are involved and what are their major roles; is there any connection with the poor shareholders who are involved in the enterprise? Although there are many aspects to be explored, this study will focus mainly on the poor shareholders and issues related to them in connection with enterprises. Thus, this study will examine the relationships between poor shareholders and CBEF especially “what are the real benefits they are getting from the enterprise?” Focusing on the question,

CBFE aims to contribute to the livelihood improvement of the poor shareholders but there are several factors, which affect the enterprise to be pro-poor. These factors are categorized into internal and external factors. Internal factors include the factors that CBFE has at least certain degree of control on it. External factors are the factors, which are beyond the control of CBFE i.e CBFE has no influence on them but they have certain degree of impact on overall performance of the enterprise to be pro-poor.

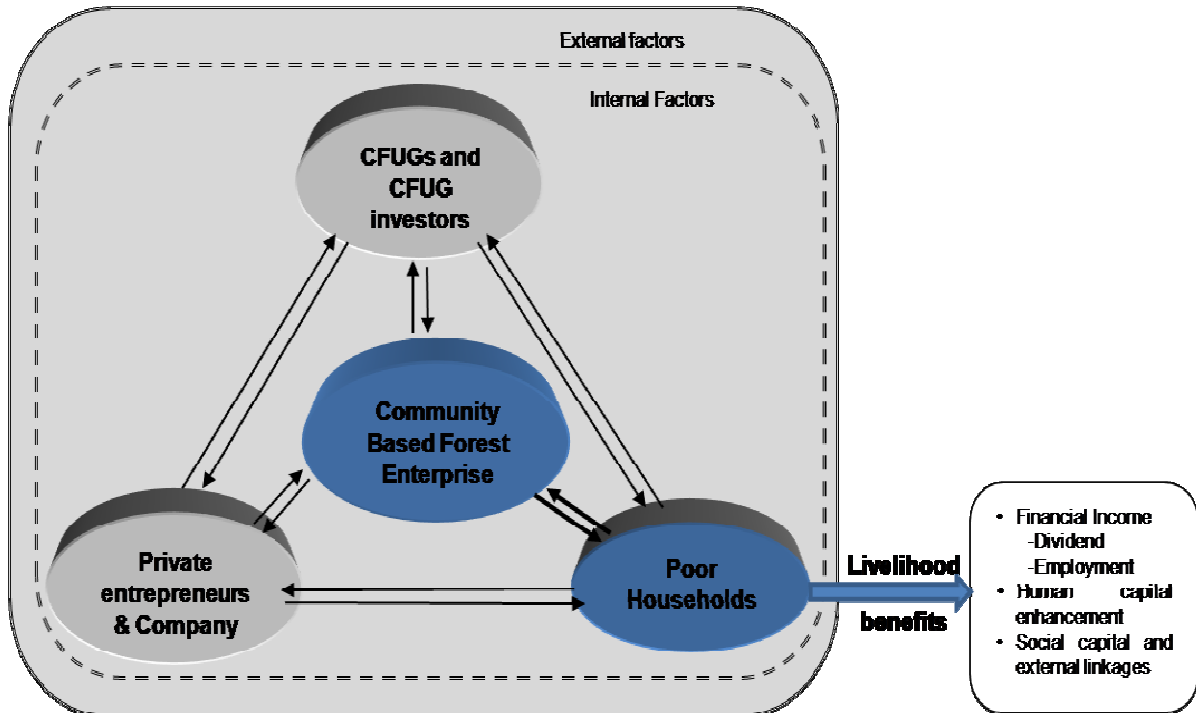


Figure 1: Conceptual framework of the CBFE

## 1.6. Research Process

Brainstorming on the contemporary forestry issues and previous experiences was the initial step to explore the research questions, finalized through different literature review. Series of formal and informal discussion with supervisor's critical thoughts shaped the concept applied in this research. Different forestry professionals and others experts working in forestry sectors also provided their input directly and indirectly. Proposal write-up for the study commenced at Boku-University initially. Part of field preparation along with consulting SHs for sharing study issue and site selection as well as questionnaire pre-test and data collection was conducted in Nepal. Part of field preparation that encompasses questionnaire preparation and schedule preparation of research and thesis write-up was completed at the University (Figure 2).

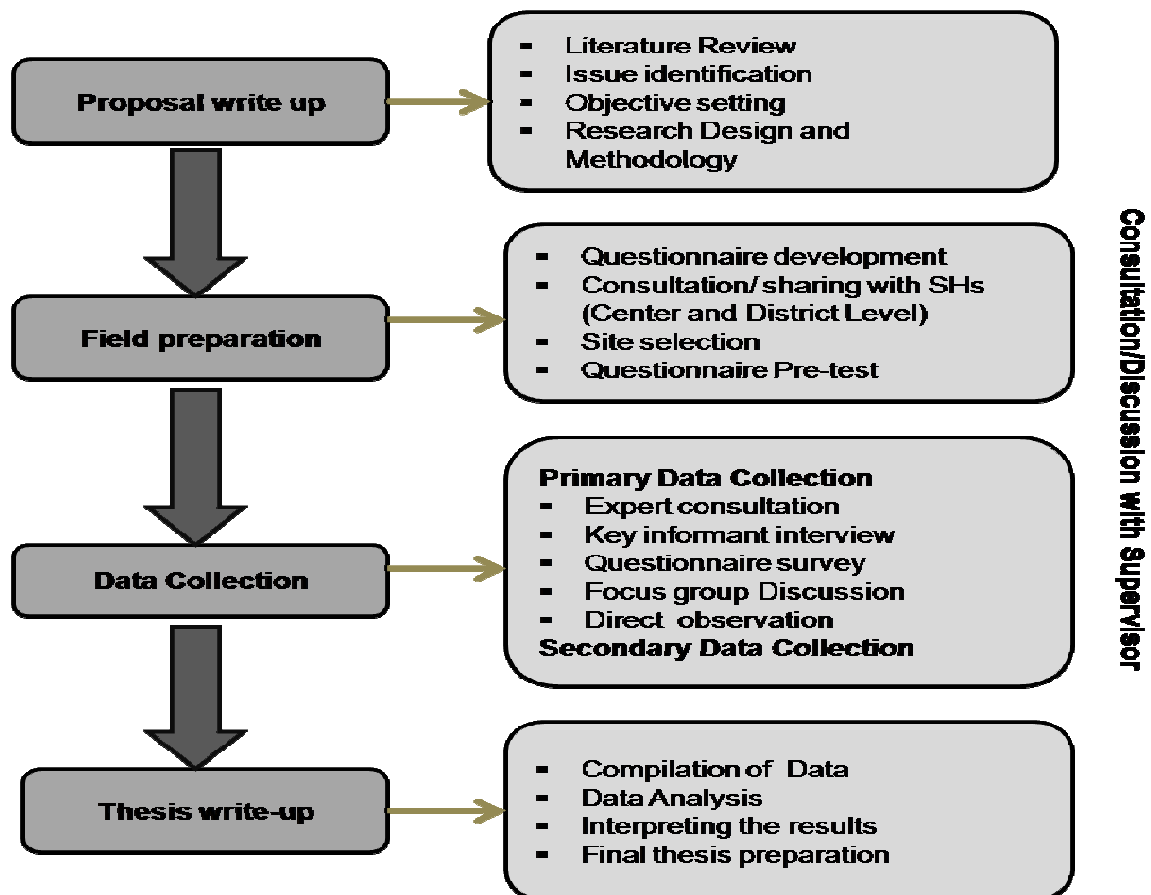


Figure 2: Steps followed for research work

### 1.7. Thesis Structure

This thesis is organized into five chapters beginning with introduction on Chapter One consisting background of CF and CBF E and their related issues, problem statement stating existing problem regarding to CBF E and scope of this research, which leads the research questions and research objective, research procedure. The conceptual framework that guides the overall study is also presented in this the chapter. Chapter Two on research methodology includes the approaches applied within this research, research design, study site with criteria for site selection, background of the study site, method of data collection and data analysis. Chapter Three on result deals with findings of the research according to the research objectives and research question. Based on the findings, Chapter Four on discussion tries to discuss the theoretical and practical consequences from different perspective including researcher on the basis of conceptual framework of study. Similarly, in Chapter Five on conclusion and recommendation presents the conclusion drawn based on results and discussion. It also put forward recommendations to deal with the problems related with CBF E to be more pro-poor focus.

## Chapter two: Methods and Materials

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### 2.1. Research Approach

This research is based on case studies of three enterprises and their comparative analysis. Case study research provides in-depth information on an entity allowing insights into relationships and effects. It is, in general, a preferred strategy to pose “how” and “why” questions in order to identify or assess some measurable objective when contemporary phenomenon within some real life context (Yin 1994). Three CBFEs were selected using different criteria of selection. This study describes the composition and performance of existing CBFEs with reference to the poor shareholders. It identifies the current situation of the poor group and explains the casual relationship to CBFEs.

### 2.2. Site Selection

Dolakha District, which lies in the mid hill of Nepal, was purposively selected as the study area following general criteria of selection:

- Existence of a sufficient number of already established CBFEs (Pioneer district)
- CBFEs experienced district allowing to generate lessons applicable to other areas
- Involvement of different SPs to promote PPEs
- Medium level of accessibility

Three CBFEs were selected for the study based on following general criteria of selection:

- CFUGs having their certain amount of share in the enterprises
- CBFEs involving and benefiting particularly poor groups
- At least 4 years of establishment or completed at least 2 FYs of operation

6 enterprises were selected based on above criteria. Based on a list of parameter (Table 1) each enterprise were evaluated by the SHs and were classified as successful, medium and poor performing enterprise. One enterprise from each group was finally selected for study purpose. The parameters and their definitions are discussed as following list;

- *Establishment period* according to selection criteria means if enterprise has crossed 4 years of establishment or 2 consecutive FYs of its establishment.
- The enterprise needs certain infrastructure to operate. *Infrastructure development* implies construction of the physical structure of enterprise and their existing condition.

- Shareholder's investment is important for enterprise establishment and operation. *Investment* accounts situation of enterprise share investment and other SHs support.
- The main purpose of the study is to explore poor's condition in the enterprise as enterprise is the unit of analysis. Poor shareholder involvement is very essential criteria. Whether poor have share or not is taken into account under *poor shareholder*.
- *Marketing linkage* means their market related information and target market (local, national and international) and their current existence.
- *Contribution to CFUG* implies enterprise contribution to CF in terms of dividend, revenue for raw material, or capacities building to users.
- *Dividend distribution* meant disbursement of any monetary profit to its shareholders.
- Seasonal or permanent employment contributing income and other opportunities like capacity building that effect in their livelihood are considered under *livelihood impact*.
- *Existence of conflict* meant existence of any conflict related to enterprise, its shareholders and stakeholders that can hinder the enterprise operation and management.
- *Product quality and quantity* accounts products type, grading systems and quantity.
- Documentation and recording system is essential part for maintaining transparency. *Availability of necessary docs* mean types of records, minutes, business plan and other enterprise related documents readily availability when asked or searched.
- *Collaboration* accounts types and range of stakeholders, collaborators and partners.
- The perception and trust of different SHs and shareholders towards enterprise are regarded as mutual *understanding among SHs*.
- *Legal foundation* implies legal status of the enterprise if it is registered or not.

**Table 1: Criteria and process of CBE selection**

Parameters	Direction	Weight	Max	DWPNU	BNPPL	EGHPL
Establishment period	↗	5	25	25	25	25
Infrastructure development	↗	3	15	6	3	9
Investment	↗	5	25	15	10	20
Poor share holders	↗	5	25	25	25	25
Market linkage	↗	5	25	15	10	25
Contribution to CFUGs	↗	4	20	16	4	12
Dividend distribution	↗	5	25	25	5	20
Livelihood impact	↗	3	15	9	3	3
Existence of Conflict	↘	5	25	15	5	20
Product quality and quantity	↗	4	20	12	12	16
Necessary documents availability	↗	3	15	6	3	9
Collaboration	↗	5	25	15	10	25
Mutual understanding among SHs	↗	5	25	10	5	20
Legal foundation	↗	5	25	25	25	25
Total	↗		310	219	145	260

Source: Field survey, 2008

### 2.3. Study Site



Figure 3: Map of Nepal with the Study area

#### 2.3.1. Dolkha District: An overview

*Dolakha* district lies in Janakpur Zone of central development region of Nepal. The district is situated between  $27^{\circ} 28'' - 28^{\circ} 0''$ N latitude and  $85^{\circ} 50'' - 86^{\circ} 32''$ E longitude, covers 2,191.87 Square km, which is 1.49% of the total area of the country. The elevation ranges from 762 to 7183 meters and shares the border with *Sindhupalchowk* and *Kavreplanchouk* in the west, *Ramechhap* in the south and *Solukhumbu* and *Ramechhap* in the east and *China* (Tibet) in the north. Politically, the district is divided into 51 VDCs and only 1 municipality. Charikot, the district headquarter, is only 133 km away towards the east north from Kathmandu, the capital city of Nepal.

The total population (acc. to 2001AD census) is 217,218 comprising 108,170 males and 109,048 female. Total HHs is 39,945 and average family size is 5.43/HH. The growth rate is 2.5% and population density is 91.14 Person/ sq km. The district has high diversity in caste/ethnic and language, constitutes *Chhetri*, *Brahman* (so called higher caste), *Tamang*, *Sherpa*, *Magar*, *Newar* (so called ethnic caste) *Kami*, *Damai*, *Sharki* (so called lower caste / untouchable caste). *Thamis* and *Jirels* are the endemic ethnic community in the district. The literacy rate of the district is only 48.98% (male 61.74 % and female only 36.23 %) where as the national average is 54.1% (DDC 2002).

Forest cover of the district is 47.37 % that is higher than the average forest cover of Nepal (39.6%). Agriculture and arable land covers 26.45 % of total land of district and rest are



rangeland, snow covered area and water body (DDC 2002). 91. 90% of total population depends upon agriculture. By 2006, total 214,287 ha of National forest is handed over to 301 CFUGs covering 35,111 HHs, and that covers 75% of the total HHs of the district (DFO 2006).

Dolakha district is rich in biodiversity, especially NTFPs, which play a crucial role in rural people livelihood especially poor people. The major NTFPs are Lokta (*Daphne bholua*), Argeli (*Edgeworthia gardnerii*), Dhasingare (*Gaultheria frarantissima*), Majitho (*Rubia Manjhith*), Jhyau (*Permalia sps*), Chiraito (*Swertia chirayita*), Allo (*Girardiana diversifolia*), Angeri (*Loyania ovalifolia*), Pakhanbet (*Bergania ciliate*), Salla cone (*Pinus cone*), Nagbeli (*Lycopodium clavatum*), Jatamashi (*Nardostachys jatamansi*), Sunpati (*rhododendron lepidotum*), Kutki (*Picrorhiza Kurroa*), Sugandawal (*Valeriana Wallichii*), Bikhma (*Aconitum heterophyllum Wall. ex Royle*) etc.

There are more than 707 cottage and small industries among them 76 are based on forest and agriculture in this district including furniture industries, veneer industry, wood based and other NTFP based enterprises. In this district, various SHs including NSCFP (LILI, SDC), DFO, FECOFUN, ANSAB, ECARDs, ForestAction, Cottage and small industries office are playing major role in CF management and enterprise development (DDC 2002).

### **2.3.2. Overview of selected CBFs**

Series of rigorous parameters based discussion selected three CBFs namely Everest Gateways Herbs Processing Pvt. Ltd. (EGHPL) categorized as well performing, Deudhunga Wintergreen Processing Napke Unit (DWPNU) as medium and Vimeshwor NTFP Production and Processing Pvt. Ltd (VNPPL) as poor performing enterprise.

These enterprises have adopted an innovative pro poor model for profit making and improving poor people livelihood through the sustainable management of the NTFPs. By resource and the prime shareholder, CFUG constitute the fundamental part of the company. Thus, users from these representing CFUGs are core people involved in the enterprise. Each HH involved in CFUGs is placed into economic categories through well being ranking and poorest HHs are involved as poor shareholders and other interested users are involved as interested individual investors. All three enterprises are certified from FSC chain of custody certification (ANSAB 2005). Details of each enterprise are described below.

## Photo plates of Selected Enterprises



Deudhunga Wintergreen Processing Napkey Unit



Vimeshwor NTFP Production and Processing Pvt. Ltd.



Everest Gateways Herbs Pvt. Ltd.

**Table 2: Salient features of studied CBFE**

	DWPNU	VNPP L	EGHPL
<b>Location</b>	Boch-1	Bhimeshwor-10	Jiri-7
<b>Established</b>	2003		2004
<b>Main Product</b>	Essential Oil	Handmade paper	Handmade Paper
<b>Production Capacity</b>	1,000 Kg	1,200 Kori	2,500 Kori
<b>Type of raw Material</b>	Wintergreen	Lokta / Argheli	Lokta / Argheli
<b>Raw Material (in MT)</b>	250	12 (Lokta and Argali)	Lokta: 15 and Argali: 15
<b>Energy (fuel wood in kg)</b>	417	1,200	1,500
<b>Shareholders</b>	5 CFUGs and 25 poor HHs	10 CFUGs; 51 Poor HHs, 4 Private entrepreneurs	7 CFUGs ;126 Poor HHs; 94 int. ind. investors & 5 Nat. Co.
<b>Capital required ( NRs)</b>	750,000	1,021,625	3,113,200
<b>Actual Investment (NRs)</b>	266,550	493,400	1,545,700
<b>MC</b>	9 members	9 members	12 members
<b>No of current employee</b>	2	15	45 (including collectors)

Source: Enterprise business plan and financial plan, and field survey, 2008

### 2.3.2.1. Deudhunga Wintergreen Oil Production Napke Unit (DWPNU)

DWPNU, established in 2003, is located in Boch VDC-3, Dolkha district. Its goal is to generate income through employment utilizing the locally available resources and aims on production diversification through processing essential oil from different NTFP species. It uses traditional distillation method of Oil processing by modifying in techniques and equipments. It uses Wintergreen (Botanical Name: *Gultheria Frarantissmia*; local Name: Machino, dhasigare) leaves and twigs. Its production capacity is 1000 kgs per annum, consumes 250 MT raw material and 417 kgs fuel wood demanding 15 employees. The target market is HBTL and HPPCL. Enterprise area has dominant settlement of Tamang, dalits (so called untouchables) and other middle castes people. UNDP /GEF project, ECARDS, DD, FECOFUN, DFO, NSCFP and ANSAB are supporting external SPs. It has share of 5 CFUGs and 25 poor HHs from member CFUGs (Table 3) covering total 1,273.01 ha area and total 1,162 HHs with average forest 1.09 ha area/HHs.

**Table 3: Salient features of CFUGs involved in DWPNU**

Enterprise	CFUG	Address	Area	Total HHs	Poor shareholder
<b>Deudhunga Wintergreen Oil Production Napke Unit</b>	Shankadevi	Lankuri 9	260	230	5
	Napkeyanmara	Lankuri 1	145.30	169	5
	Bodle setidevi	Boch 1,2,3	171	215	5
	Vettripakha	Boch 4,5,6	361.31	237	5
	Dhadesimadevi	Boch 7,8,9	335.40	311	5
		Total		1,273.01	1,162

Source: CFUG's OP and constitution, and field survey, 2008

### 2.3.2.2. Vimeshwor NTFP production and processing Pvt. Ltd (VNPP L)

VNPP L, established in 2005, lies in Vimeshwore Municipality-10 in Dolakha district. The enterprise goal is to generate income from the enterprise and provide incentives to local

people through pro-poor activities. It uses Lokta (*Daphne bhoula*) and Argeli (*Edgeworthia gardneri*) as raw materials. The production plan is to produce 1,200 kori (*One kori = 200 sheet of 20"X30" paper of 20 gram*) using 12 MT Lokta (*Daphne bhoula*) and 1,200 kgs of fuel wood each year. It uses traditional method for paper production. It aims on product diversification capitalizing previous experience beginning with processing handmade paper as final product and trained for paper made handicrafts but yet to produce in commercial scale. It targets local retailers as well as HBTL and Tibetan handicraft for market. Enterprise area has dominant settlement of *Thami* , *Tamang* , *dalits* and other middle castes people. It has share of 10 CFUGs, 51 Poor HHs from 10 CFUGs, 4 local private entrepreneurs and one national company (Table 4). ANSAB, DFO, FECOFUN, NSCFP, ECARDs are supporting external SPs covering total 2,726.6 ha area and total 2,492 HHs with 1.09 ha average forest area/HH.

**Table 4: Salient features of CFUGs involved in VNPPL**

Enterprise	CFUG	Address	Area	Total HHs	Poor shareholder
Vhimeshwor NTFP Production & Processing Pvt. Ltd	Shankadevi	Lankuri -9	260	230	6
	Bodle setidevi	Boch -1,2,3	171	215	6
	Vettripakha	Boch- 4,5,6	361.3	237	6
	Dhadesimadevi	Boch -7,8,9	335.4	311	6
	Charnawati	Bhimeshwor -13	244.8	281	6
	Suspa	Suspachhamawoti-6,8,9	635.4	303	5
	Jharine	Suspachhamawoti-4,7	208	173	2
	Damarthami	Suspachhamawoti-1,2,3	147.3	249	2
	Thangsa deurali	Bhimeshwor -12	216.8	287	6
	Majh kharka	Bhimeshwor-11,13	146.6	206	6
	Total		2,726.6	2,492	51

Source: CFUG's OP and constitution, and field survey, 2008

### 2.3.2.3. Everest Gateways Herbs Pvt. Ltd.(EGHPL)

EGHPL, established in 2004, is located in Jiri-3, Dolkha district. It envisions improving livelihood of the poor people of CFUGs through the forest based enterprise program with sustainable management of the forest resources through pro-poor development approach. It uses Lokta (*Daphne bhoula*) and Argeli (*Edgeworthia gardneri*) as raw materials. It uses traditional as well as japans paper making technique for papermaking and produces paper made handicrafts in small amount as experiment. The annual production capacity of the enterprise is 2500 Kori (*200 sheet of 20"X30" paper of 20 gram*), consumes 30,000 Kg raw materials and 1,500 Kg of fuel wood. HBTL, Tibetan handicraft is the target market. Enterprise area has dominant settlement of *Jirel*, *Sherpa*, *dalits* and other middle castes people. NSCFP, a Swiss funded project working in the district, is main SP for PPE model development. It has share of 7 CFUGs, 126 Poor HHs from 7 CFUGs, 94 Local

entrepreneurs from 7 CFUG and 5 national company (Table 5) covering total 2422.8ha area and total 1464 HHs with 1.65 ha average forest area/HHs.

**Table 5: Salient features of CFUGs involved in EGHPL**

Enterprise	CFUG	Address	Area (ha)	Total HHs	Poor shareholder
Everest	Pathvara	Shyama -1,3	710	112	16
Gateway	Buddha	Mali-1,5	457.26	183	20
Herbs Pvt. Ltd.	Kyansesetep	Jiri-6	180.25	236	15
	Kalobhir	Jiri-5	545.25	245	19
	Thulonagi	Jiri-8	239.53	251	24
	Hanumanteshwor	Jiri-1,2	251.51	282	18
	Baisakheshwori	Mirage-9	39	155	14
	Total		2422.8	1464	126

Source: CFUG's OP and constitution, and field survey, 2008

## 2.4. Data Collection

### 2.4.1. Primary data collection

#### Expert consultation

Primary data collection was commenced with expert consultation. Experts from different organizations at central level including NSCFP, ANSAB, ForestAction and HBTL as well as from district level NSCFP office, ANSAB office, ECARDs, DFO, Cottage and small industry office, FECOFUN were consulted. It provided an overview of the field situation, general background of enterprise and people, enterprises related key issues at national level and organize field in an effective and efficient way along with enterprise selection.

#### Key informant interview

Key informant interview is the basic methodology of this study. Key informants were interviewed in-depth based on prepared check list. Total 9 (3 from each enterprise) key informants representing SHs representatives of each enterprises including supporting organizations, founder members and local leaders, local facilitators were interviewed. Respondents selection, enterprises and shareholders general overview, enterprises development and performance, legal and procedural issues, factors affecting the enterprises, practical implications of the pro-poor model and challenges that enterprises are facing and improvements to be made were some of the key focused aspects.

#### Questionnaire Survey

This research used stratified random sampling for selecting the individuals for survey. The shareholders of the enterprise were stratified into poor shareholders and executive body. Representatives of MC and CFUGC are combined and presented as executive body in this study. This study used different sampling % (Table 6) according to the number of

shareholders in each enterprise. Semi-structured questionnaire survey was conducted with focus on share composition, awareness level and perception in different aspect of enterprise, enterprise management and CFUG, benefits received and sharing mechanism.

**Table 6: Stratification of respondents of each enterprises**

	Stakeholder	Sub total	Total	Sampling %	Sample size	Total sample
<b>DWPNU</b>	Poor Shareholders	25	39	60%	18	25
	Management Committee	9			2	
	CFUGC	5			5	
<b>VNPPL</b>	Poor shareholder	46	73	55%	24	42
	Management Committee	12			8	
	CFUGC	10			10	
<b>EGHPL</b>	Poor Shareholders	126	142	40%	44	58
	Management Committee	9			7	
	CFUGC	7			7	
<b>Total</b>			<b>254</b>	<b>Total respondent</b>		<b>125</b>

Focus Group Discussion

Focus group discussions were conducted to determine whether any evidence or sentiments of discrimination among and within the shareholders group existed. A total of 6 group discussion comprising one poor SHs group and one MC group from each enterprise was conducted. The researcher facilitated to form homogenous group of 5-8 people in each discussion. The group discussion provided an opportunity to express and share participants' opinion more freely without any pressure and encouraged the them to open up through observing other participants. Checklist was prepared to track discussion on the focused issue.

Direct observation

Direct observation is a reliable method for the primary data collection often used to understand the real ground situation and such observational data as information triangulation. The researcher directly observed CFUGC meeting, meeting among shareholders and/or MC to understand the level of participation of different categories of users, meeting process and level of voice heard information sharing method / transparency and MC accountability and their relationship. According to Yin (1994), carefully observing, probing and recording these meeting provides additional information about the topics being studied. Besides, the researcher also observed the forest, enterprise , production process as well as the settlements to have the overall idea of the working situation and resource setting.

## Photoplates of Research data collection



Expert Consultation ( from DFO)



Key Informant interview (from VNPPL)



Questionnaire survey (from DWPNU)



Focus Group Discussion (from EGHPL)



Direct Observation (Suspa CFUGC meeting from VNPPL)



Direct Observation (from EGHPL)

## **Secondary data collection**

In this study, enterprise related secondary data were collected from enterprises, CFUGs and concerned SHs. It includes management plan, financial plan, business plan, constitution of enterprise, meeting minutes, annual progressive report, financial records and company account books and records, employment logbook, resource assessment record, etc from enterprises. OP and constitution, annual audit reports, minutes and other records of the CFUG, progress reports were source of secondary data from CFUGs. Similarly, project reports and other records of DFO, DDC, District small and cottage industry office, NSCFP, ANSAB, FECOFUN Dolkha district chapter, HBTL, ECARDs and relevant organization were also the information source for secondary data. Policy documents including Forest Act, Forest Regulation, MPFS, five year Periodic Plans and other were reviewed to get the information about the enterprises related provisions and issues. Besides, in-depth review of relevant published and unpublished reports, books, research paper, journals, bulletins, and articles were done to gather valuable information.

### **2.5. Data Analysis**

The study has clustered the shareholders in two groups namely poor shareholders and executive body. The poor shareholders are the potential as well as target work force of the enterprise, some of the respondents are part time as well as full time employees. Their records have been recorded accordingly; Second cluster executive body includes rest of the shareholders along with CFUG representatives, Board Member/MC, interested individual investors, private entrepreneurs as well as National Company. This study used these clusters in isolation as well as together named as mixed group and responses are recorded separately.

Most of the data analysis was qualitative; however, study has tried to crosscheck them with quantitative information. The visualized form of data from direct observation and focus group discussions are presented in textual form. Descriptive statistics and scoring were used to analyze the socio-economic data gathered from the HH raster. MS Excel and SPSS is used for producing descriptive statistics in form of graphs, bars and diagrams. Non-parametric test are performed in order to compare differences between the mean values of selected parameters between the enterprises.



## Chapter Three: Results

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### 3.1. Development process of Enterprise

Successful establishment of pro-poor focused CBFE, it is imperative to follow specific steps in order to address the local socio-economical issues during its development. Studied enterprises have followed all the steps (Table 7) as they all developed under the pro-poor model with same procedure. The steps followed during establishing enterprise does not meant to be a blueprint. The sequence of the steps are flexible, can differ and some of them can be omitted and/or repeated according to the social context. The main steps are concept development (step 1, 3 and 4), sensitization and capacity building (step 5 and 8) consensus building through CFUG assembly (step 6), committee formation (step 7 and 11), resource assessment (step 2, 9 and 10), company registration (step 12), infrastructural setting and production (step 13-15).

**Table 7: Process of CBFE (Public Private Partnership)**

SN	Steps
1	Concept development
2	Resource identification
3	Network development if necessary
4	Workshops for discussion on model of enterprise
5	Well being ranking and governance coaching, Hamlet discussion on proposed enterprise model
6	FUG assembly determining share to the company
7	Adhoc committee formation
8	Skill development for production and management
9	Resource inventory
10	Preparation of business plan
11	Formation of Executive Committee
12	Legally registration of enterprise
13	Enterprise setup
14	Production
15	Marketing

Source: Updhaya 2007

#### **Deudhunga Wintergreen Oil Processing Napkey Unit**

Deudhunga Co-operative (DD) initially established DWPNU with assistance of UNDP. This enterprise is one among the thirteen-wintergreen essential oil-processing unit of Dolakha district which is managed under DD. Initially DD owned and managed this enterprise but was opposed by local people as it consumed huge amount of fuel wood even green wood and deteriorated the surrounding forest condition. This enterprise became functional just a short while ago after pro-poor model concept with collaboration between DD and CFUGs on 2003. Following the required procedure (Table 7) for the CBFE development, they accessed the need financial capitals of about NRs 0.75 million for

establishment. District FECOFUN Dolkha, ECARDS and NSCFP facilitated the process and supported in capacity building and financially.

This enterprise faced difficulties even after its establishment as CBF. Initially over all management role was provided solely to Napkey CFUG but they were unable to manage properly as a result enterprise was in loss. The researcher observed that Napkey CFUG was more interested than other member CFUGs in the enterprise as they have experience on enterprise management and have more accessible as it is located nearby and they (CFUG and poor shareholders) received the dividend from this enterprise. In initial days of becoming functional, DFO criticized the consumption of huge amount of firewood and recommended reducing it. CFUG were also reluctant to invest share though they agreed during discussions due to effect of nearby enterprise failure. Few CFUG invested only after enterprise made profit out of it. Now, the role between DD and MC is not so explicit. DD manage enterprise and receives payment for its management role enterprise annually.

#### **Vimeshwor NTFP Production and Processing Pvt. Lt.**

VNPPL was established following the learning of EGHPL. Sufficiency of raw material within surrounding CFUG forest area, CFUGs enthusiasm, SPs support and small private enterprises interest were the driving factor for its establishment. Interest of private enterprises were expressed when pro-poor model CBF established in Jiri and these private enterprises surrounding VNPPL had to face raw materials shortage because Jiri is main vicinity for raw materials supply. The consequences were reflected to these private enterprises depending on CFUGs for raw materials and it forced them to collaborate. The enterprise faced difficulties during establishment process started with enterprise location debate as Suspa CFUG, the largest CFUG in terms of area and raw material abundance, was willing to establish it nearby their premises but was refused because of road inaccessibility. Though, CFUGs agreed on the location but repulsion still seemed in Suspa CFUG activeness and sometime express complains. CFUGs were suspicious to private enterprise's interest. Finally, private entrepreneurs and CFUGs joint collaboration with SPs support following intensive procedure made enterprise establishment possible. Private enterprise provided materials and equipments and skill workers which reduced the cost enterprises installation and skill development for paper making. After establishment, this enterprise was seriously affected by the contemporary political crisis and was completely destroyed. This enterprise hardly managed to cover up the loss with financial contribution

of SHs. The poor management was another challenge which made shareholders suspicious towards the MC for misusing the resources and lost the trust from its shareholders which are hard to overcome recently. The company went heavy loss due to poor quality paper production with no sale at all. Recently it has started positive growth through its improving management and market.

### **Everest Gateways Herbs Private limited**

EGHPL is the first pro-poor model CBE in Dolkha. Joint meeting among SHs and CFUGs came up with the PPE concept. This enterprise was named as gateways because it lies in Jiri, one of the NTFPs hubs (collection centre) in Nepal, exports raw material especially to Khasa and Kathmandu. The shareholders jointly prepared the plan and followed the process for registration. It followed all the essential social and technical procedures rigorously. It took one and half-year period to complete the process and enterprise start up (details in Table 7). Initially its processing operation started up with very simple infrastructure. This enterprise has full financial and technical support from NSCFP. This enterprise has fewer challenges than the above two enterprises. Now, it has very well developed infrastructures with own land.

## **3.2. Products, Production Process and Position of enterprises**

### **3.2.1. Production process and Product description**

#### **Deudhunga Wintergreen Processing Napkey Unit**

DWPNU uses the distillation method for essential oil extraction. The leaves and twigs of Machino (Common Name-wintergreen, Scientific Name-*Gultheria Frarantissmia*) as raw materials are placed in boiler made up of stainless steel. The leaves are distilled by steam, which is passed through a pipe connected with distillation chamber and boiler. It requires 48 hours streaming to extract approximately 4 and half kg of essential oil from 600 kg of leaves and twigs. Wintergreen essential oil is collected in the bucket with water. Oil is separated from water. The leaves and twigs after extraction of the essential oil are dried and re-used for heating purpose to reduce the fuel wood demand and cost. **Figure 4** shows the process of wintergreen oil extraction. This enterprise has raw material store with capacity of 48,000 kg. The enterprise is producing about 500 Kg of essential oil per year. Table 8 shows the current detail prices of raw materials Table 9 shows the detail manufacturing prices and selling price in Kathmandu.

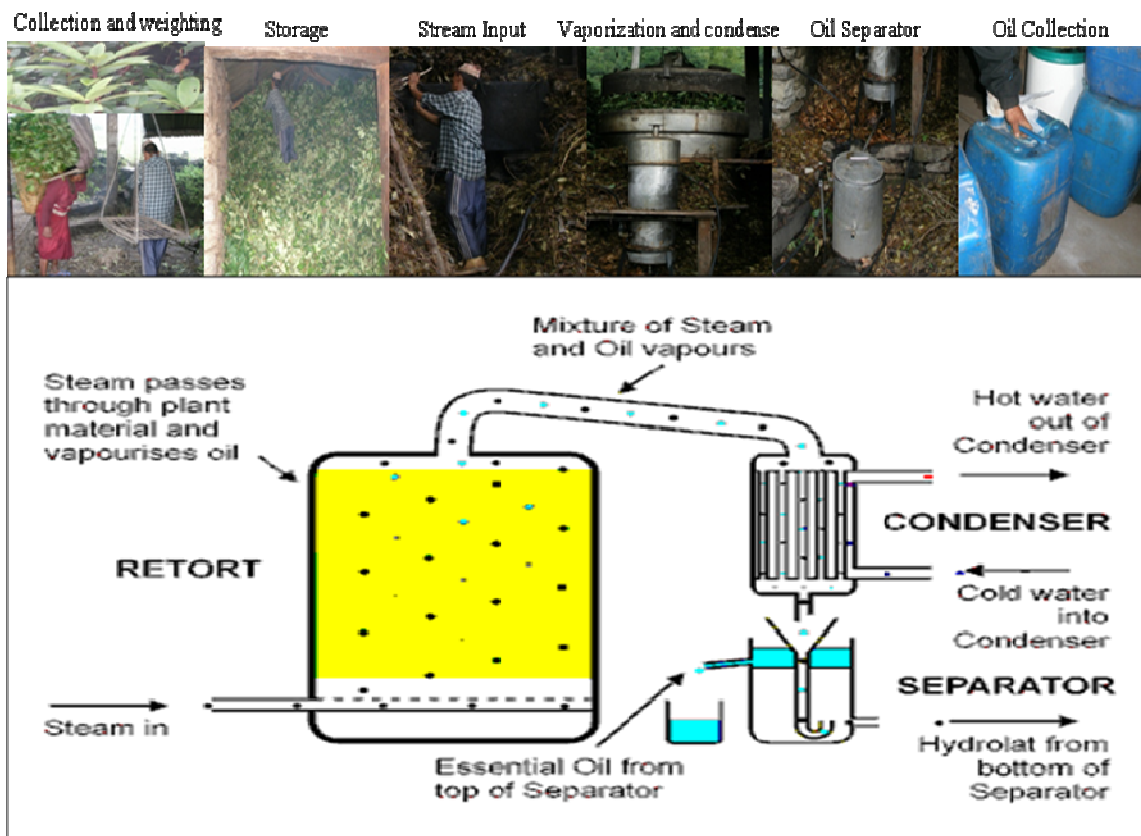


Figure 4: Wintergreen essential oil processing

### Vimeshwor NTFP Production and Processing Pvt Ltd

Handmade paper production varies by weight, color and texture. VNPPL produce different types of paper based on weight. It uses the traditional Nepali handmade papermaking process. The Table 8 shows the current prices of raw materials and Table 9 shows the detail manufacturing and selling prices for Lokta and Argeli paper in Kathmandu. It is producing 400 Koris of papers annually and planning to expand its production capacity and using waste paper for making finished paper products. The papers produced from this enterprise are sold in local market (within Dolkha district) and Kathmandu.

### Everest Gateways Herbs Pvt Ltd

EGHPL produce different types of paper based on weight and texture. It uses the traditional method as well as Japanese Method (new method) and produces more than 800 Kories of papers annually. The traditional method is labour and time intensive process and the Japanese Method produces higher quality finished paper; are less labour intensive and use Japanese machine “a technological innovation”. Table 8 shows the current detail prices of raw materials and Table 9 shows the manufacturing and selling price for Lokta and Argeli paper in Kathmandu.

### Nepali Handmade Papermaking Process

The process includes cleaning, boiling, and pulping of raw material. Depending on the desired paperweight, the prepared pulp is mixed with water in different ratio and placed on individual frames to dry in sunlight (Sunny day is essential for paper production). After the cleaning, boiling and pulping of the raw material, a skilled worker can produce about 400-500 sheets of 10g paper a day. Individual sheets are placed on tin sheets to dry in the sun. The traditional method needs a frame for each sheet of paper produced and the Japanese method needs one tin sheet per sheet of paper to finish the drying process. The size of the paper is 50 cm x 80 cm in both methods. Finished sheets of paper are bundled based on their specific weight (10 gram, 20 gram or 40 gram). Price varies depending on weight and paper quality. E.g. 20 gm lokta paper price range from 1500 for very good to 1400 for average quality.

Both enterprise produces Nepali handmade papers from Lokta (Common Name- Nepali Paper Plant, Scientific Name-*Daphne bholua*) and Argeli (Common Name -Japanese paper bush, Scientific Name- *Edgeworthia gardnerii*), are the main raw materials for producing paper in Nepal. They are trying to diversify their products as they have also started producing envelopes, diaries and other paper goods as trail, which are planned to be supplied locally and in Kathmandu. EGHPL has prepared other finished paper products like greeting cards, shopping bags, lamp covers and photo albums than the VNPPL.



Figure 5: Traditional Handmade papermaking process

Table 8: Cost of raw materials

	Cost (NRs/Kg)			
	CFUG as revenue	DWPNU	VNPPL	EGHPL
Wintergreen	0.25	1	-	-
Argheli	5	-	50	45
Lokta	5	-	64 (72)	55
Firewood	2		50	50

Source: Field survey, 2008

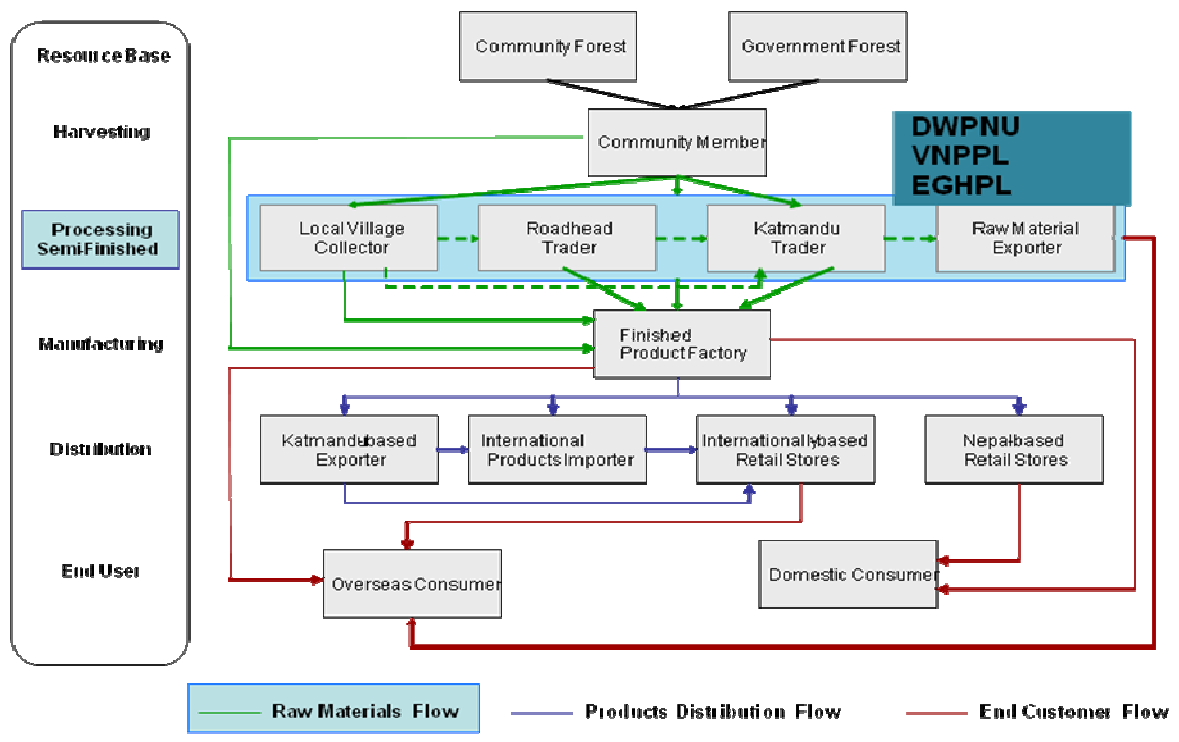
Table 9: Production Cost and Sale price of the products

Product	Weight	Cost of production (NRs)	Market Price (NRs)
Wintergreen oil	1 kg	650 per kg	900-1,000 per kg
Lokta Paper	20 gm	1,200 per Kori	1,400-1,500 per Kori
	40 gm	2,300 per Kori	3,000 per Kori
	10 gm	600 per Kori	650 per Kori
Argheli	20 gm	1,200 per Kori	1,200-1,300 per Kori
	40 gm	2,300 per Kori	2,400-2,600 per Kori
	10 gm	600 per Kori	600 per Kori

Source: Field survey, 2008

### 3.2.2. CBEF's business model and position in Value Chain

The current business model of the three enterprises and their position in value chain is presented in Figure 6. In case of VNPPL and EGHPL, the green arrow indicates the raw material flow within local village collector, collector head and kathmandu trader but in case of DWPNU, these elements do not exist. The raw material directly comes from local collectors to the enterprise and the produced semi final product, i.e wintergreen essential oil goes to product finishing factory.



Process Flows Involved by Enterprises

Adapted source: Gouttierre et al. 2005

Figure 6: Overview of current business model and position in value chain

### 3.3. Shareholders types and composition

#### 3.3.1. Shareholders description and their role in enterprises

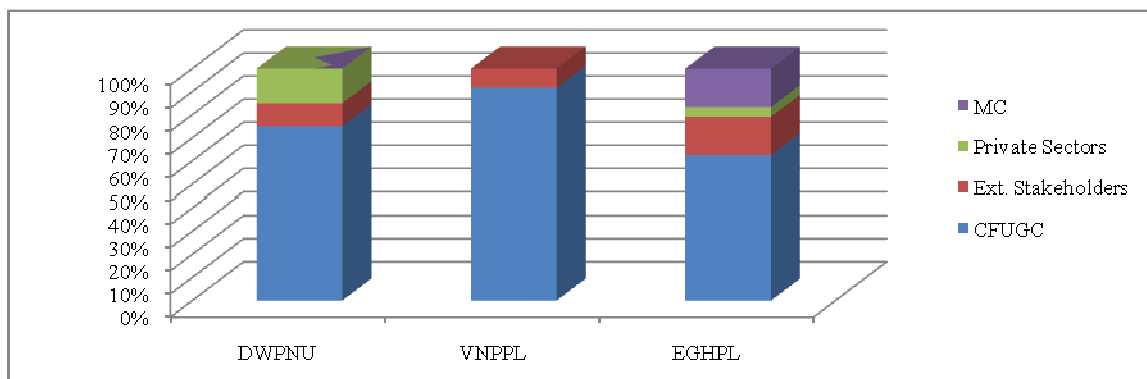
All enterprises comprise at least two or more types of shareholders. Except DWPNU, EGHPL and VNPPL have non-CFUG shareholders also i.e. National Company. All other shareholders including local interested individual investors are subset of CFUG. This section describes the shareholder composition and their roles in the enterprise.

#### Poor HH shareholders

Poor shareholders are the subset from CFUG. They are playing the two role; firstly, as the general member of the CFUG they have stake in enterprise and secondly, an individual

shareholders. The ultra poor from each CFUG are selected as shareholders and their share is invested by SPs which is substantial to the enterprise. Number of Poor HHs from each CFUG differs in studied enterprises. DWPNU has highest % of poor's share and EGHPL has highest number of Poor HHs. Poor HHs share allocation is presented in Table 10 and actual invested share are presented in Table 15, Table 16 and Table 17 for DWPNU, VNPPL and EGHPL respectively. Table 21 indicates the involvement of respondent from the poor shareholders in the enterprise related activities. Poor shareholders play major role in raw materials collection including part time labor work as well as full time employee. In DWPNU, out of total poor respondents six are involved in collection except one full time employee. Among 21 employees in EGHPL, seven are full time and four are part time.

Poor HHs involved, as enterprise shareholders are not their own initiatives, rather the initiatives and investments on share were done by SPs on their behalf. Different SHs (Management Committee, private sector, external SPs and CFUGC ) played vital role for their involvement. Figure 7 indicates the response of the poor shareholders on who encouraged them to participate in corresponding enterprise. Here, the SHs those are part of enterprise are internal SHs like MC, private sectors and CFUGC where as external SHs (latter term SPs is used) like donor agencies, DFO, local N/GOs, networks are.



Source: Field survey 2008

N=86

**Figure 7: Poor respondent's response on who encouraged involving in enterprise**

In three enterprises, CFUGCs' role in encouraging poor shareholder seems highest. As after the decision was made on enterprise establishment and investment from the external SPs, CFUGC were the first who communicated selected poor HHs about their share. Poor shareholder perceived it as encouragement for their participation. The role of external SPs seemed active and supportive in case of EGHPL and VNPPL and for DWPNU, private sector's involvement seems quite prominent after CFUGC as DD was the founder of DWPNU and private company is involvement in DD. In VNPPL, ANSAB's role was

significant to encourage poor to participate in enterprise as they facilitated the process. In case of EGHPL, after CFUGCs, local leaders and SP's role seems equally important.

### **Community Forest User Groups**

CFUGs are the main stakeholders in the CBFEs. Concept of CBFEE came with the recognition that communities can play leading role in establishing and running the enterprises successfully. CFUGs contribute enterprise for financial capital as share investment, forest resource as raw material and human resource as worker. CFUGs' direct investment in enterprise share is significant and share % is allocated for CFUG (Table 10) where as actual investment is presented in Table 15, Table 16 and Table 17 for DWPNU, VNPPL and EGHPL respectively. Donor agencies are using CFUGs as the platform for supporting enterprise sector to uplift the livelihood status of the poor. Enterprise highly depends on member CFUGs for raw materials though they are partially importing from government forest as well as other non-member CFUGs except DWPNU. In EGHPL, CFUGs also flow information among shareholders regarding their enterprise.

### **Local private entrepreneurs**

Local private entrepreneurs' involvement is an opportunity for the enterprise as they provide the skills and knowledge from their past experiences and perform the role of skilled workers. Due to involvement of the four local entrepreneurs, VNPPL is sustaining without any capacity building event in handmade paper production and enhancing capacity of others people without any formal training. They also have significant % of investment as share. Only VNPPL has involvement of local entrepreneurs so far and they are the subset from CFUG having 35% of total share (Table 10).

### **National Company**

This shareholder has insignificant share % (allocated share of VNPPL and EGHPL, and actual investment for VNPPL and EGHPL in Table 15, Table 16 and Table 17) in comparison to other shareholders but plays the influential role for bridging the local enterprise to the outer market (national and international). However, they play the crucial role for overall success of the enterprise as they flow information to the enterprise from outside and can advertise for the products on the behalf of enterprise using their relative advantage of external networking and credibility.



### Local interested individual investors

Local interested individual investors are from general users of member CFUG, invested as interested individual investor. In VNPPL, these investors from CFUG are included into the CFUG share but in EGHPL they have separate share investment % (Table 10). CFUGs are the platform for the interested individual investors as well as external SPs.

#### 3.3.2. Shareholder composition

The studied enterprises have different types of shareholders and their shareholding composition varies between enterprises (Table 10) that are described in this section. In studied enterprises one share equals to NRs 100 ( US\$ 1.39)

**Table 10: Share holding structure of selected enterprises**

SN	Enterprise	Types of Shareholders and their share %					Total share
		CFUGs	Poor hhs	Ind. investor	Private entrepreneurs	National company	
1.	DWPNU	11	89	-	-	-	100
2.	VNPPL	30	15	10	35	10	100
3.	EGHPL	30	25	25	-	10	100

Source: Enterprise records, 2008

#### Deudhunga Wintergreen Prossessing Napkey Unit

This enterprise comprises 5 CFUGs and 20 poor HHs as shareholders (Table 3). CFUGs hold 11 % and poor HHs hold 89 % of total share (Table 10). CFUGs invested their share by themselves where as poor HHs were supported by ANSAB and CFUG. ANSAB bore 80% and CFUG covered 20% of the total share. Share allocation between each CFUG differs whereas share for each poor HHs is equal. All the CFUG's share has been invested but only Napkeyanmara and Shankadevi CFUGs have invested the poor's share so far.

#### Vimeshwor NTFP Production and Processing Pvt Ltd

The enterprise comprises 10 CFUGs, 51 poor HHs, interested individual investors from CFUGs, 4 private enterprises and one national company (Table 4). CFUGs hold 30 %, poor HHs hold 15%, interested individual investors from CFUG hold 10%, private enterprises hold 35% and national company holds 10% of the total share (Table 10). Share allocation between each CFUG and each of the poor HHs is unequal. CFUGs invested their share by themselves where as SHs supported poor HHs by selecting 2 poor HHs per CFUG initially. ANSAB covered 50%, CFUG 20%, DFO 20% and private entrepreneurs 10% for share investment of the poor. Afterwards, total 31 HHs were selected as shareholders and NRs 4000/- each HHs on their behalf was invested by NSCFP but the

record just indicate the name list of these poor but not the investment details. The record on interested individual investors was unavaliable. Majhkharka CFUG had small CFUG fund. Therefore, all the general users collected money individually for the CFUG fund and invested on the behalf of the CFUG and mentioned as interested individual investor.

### Everest Gateways Herbs Pvt Ltd

The enterprise comprises 7 CFUGs, 126 poor HHs, 94 interested individual investors from the CFUGs and 5 national level private entrepreneurs (Table 5). CFUGs hold 30 %, poor HHs hold 25%, interested individual investors from CFUG hold 25% and national companies hold 10% of the total share (Table 10). Share allocation between each CFUG differs but between each of the poor hhs is equal. In this enterprise CFUGs as well as the poor HHs are supported by NSCFP. NSCFP supported CFUGs by 50% of their total investment where as poor share is fully invested.

## 3.4. Governance of Enterprises

### 3.4.1. Organizational Structure

Enterprise needs to be well structured for ensuring its smooth function and well management. Each of the studied enterprises has their own organizational structure (Figure 8, Figure 9 and Figure 10) which is described in this section. DWPNU and EGHPL have 9-member MC and VNPPL has 12-member MC ( called as Board) elected from the GA. In VNPPL, a three member management sub-committee is selected for day to day operation of the enterprise and it comprises managing director and other 2 MC members. For effective and efficient management of the enterprise, VNPPL and EGHPL have formulated different units by dividing work among the MC and shareholders, viz. raw material, processing, marketing, account and finance, and monitoring and evaluation.

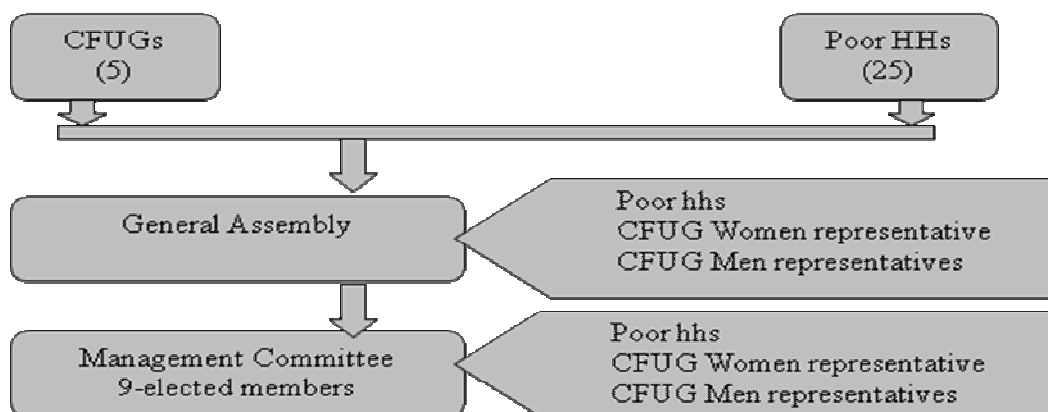


Figure 8: Organizational structure of DWPNU

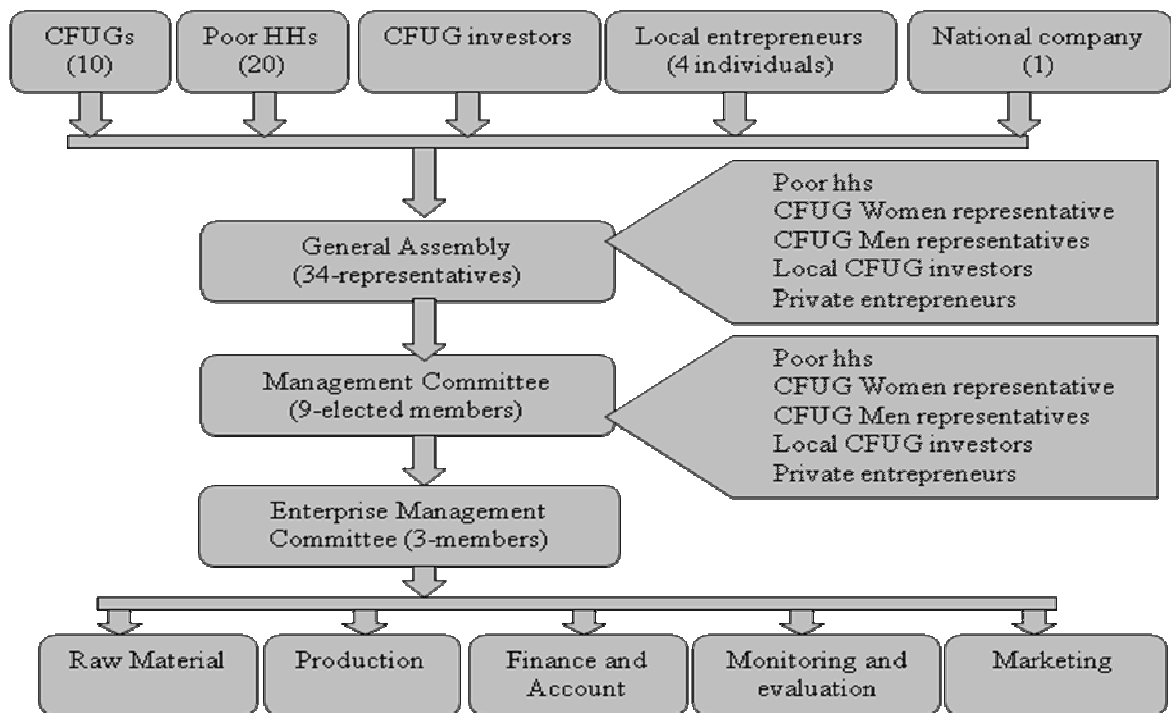


Figure 9: Organizational structure of VNPPPL

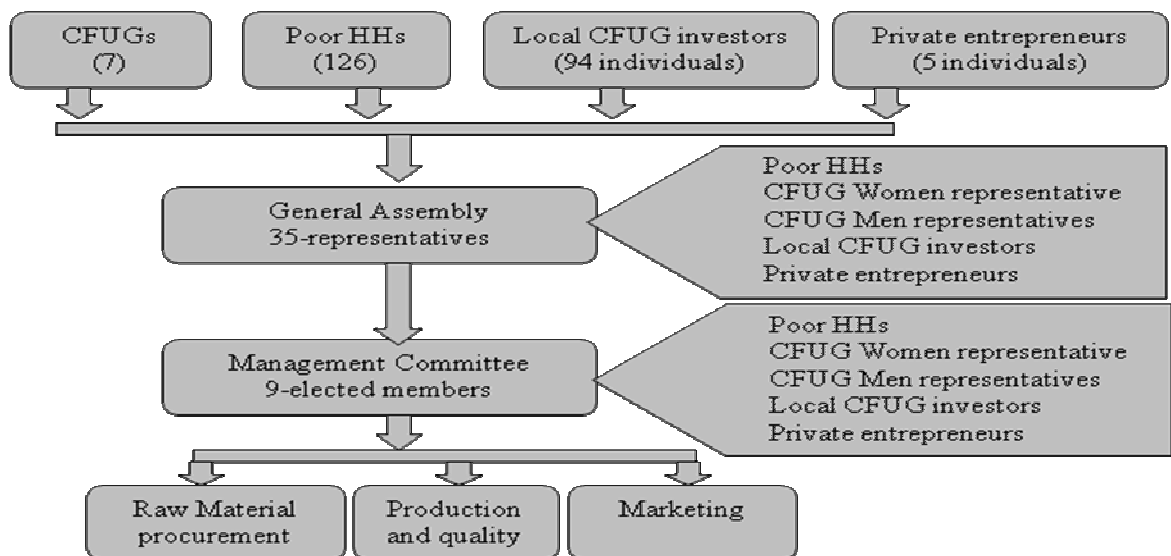
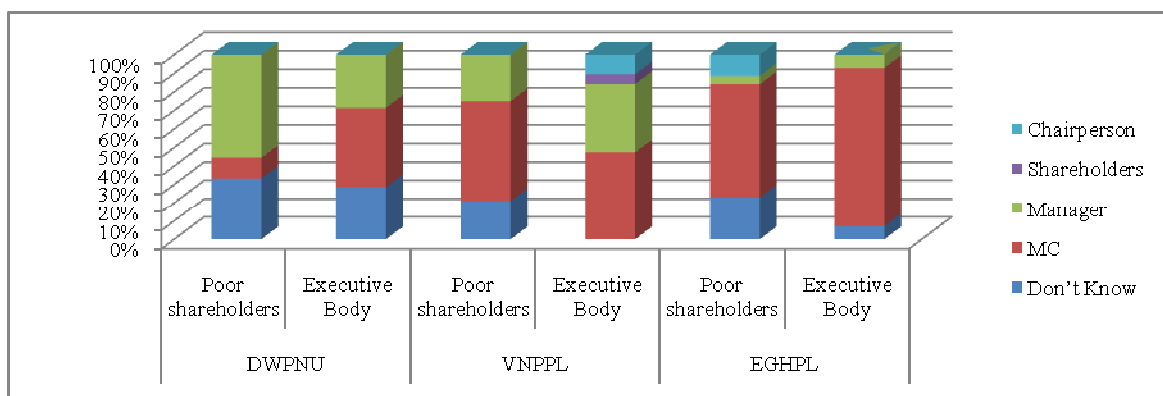


Figure 10: Organizational structure of EGHPL



Source: Field survey 2008

N=125

Figure 11: Poor and executive body respondents' response on enterprise management

Perception of the poor HHs and the executive committee's awareness differs regarding the enterprise organizational structure and their management (Figure 11). In DWPNU, most of the poor respondents perceive manager where as in EGHPL executive body respondents perceive MC, managing the enterprise. In VNPPL, about half of the poor respondents and executive body respondents think, MC manages the enterprise. In overall, DWPNU perceive manager, EGHPL perceive MC and VNPPL perceive both manager and MC responsible for managing the enterprise. There are still case that poor shareholders indeed can just state the name of the person who is dealing with enterprise related things but they hardly can say what actual position do they have in the enterprise.

### 3.4.2. Decision-making process

All three enterprises have two tiers for decision-making, namely GA and MC. GA, the major governing body, is conducted annually and is accountable towards the shareholders of the enterprises. Proposed activities and estimated budget allocation of up-coming FY, approval of income-expenses and progressive reports, amendments and addition in rules are generally discussed in GA including any other concerns of the users. Consensus of the general members approves the plan and the implementation responsibility is shifted to MC. Similarly, the urgent decisions made by MC need endorsement from the GA. Each of the enterprises follows the participatory approach of decision-making according to management plan. However, the level of participation varies within enterprises. Representatives from all shareholders group participate in GA. The number of representatives participating in the GA varies. Table 11 indicates the number of the representatives for the GA as well in MC of each enterprise. In DWPNU, all 25 poor HHs participate in the GA where as in VNPPL and EGHPL, selected representatives from each category of shareholder participate in GA.

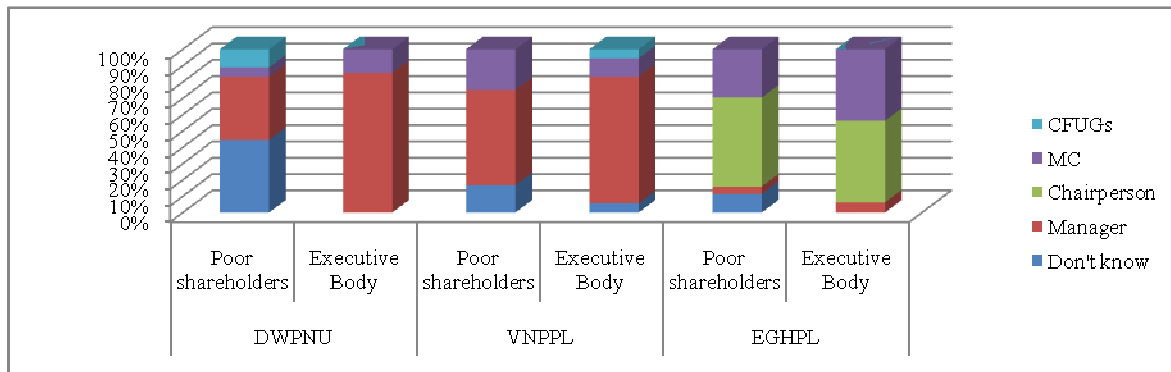
**Table 11: Number of representatives from each shareholder groups in GA and MC**

SN	Categories	DWPNU		VNPPL		EGHPL		Remarks
		GA	MC	GA	MC	GA	MC	
1.	CFUG	5	5	10	6	14	6	One representative from male, female and poor HHs in GA of EGHPL
2.	Poor HHs	25	4	10	2	7	1	
3.	Interested individual investor	-	-	10	-	9	1	
4.	Private entrepreneurs	-	-	4	4	-	-	
5.	National Company / DD	1	-	-	-	5	1	
<b>Total</b>		<b>31</b>	<b>9</b>	<b>34</b>	<b>12</b>	<b>35</b>	<b>11</b>	

Source: Enterprise record and Field Survey, 2008

The MC is responsible for the implementation of the plans prepared by GA and day-to-day operational of the enterprise. Regular meeting of MC is scheduled for every two months

but practiced for emergency. During the meeting, agendas are listed from all members for discussion, discussed among the MC members and decisions are noted after consensus is reached. GA is the main body of decision-making and MC is accountable towards the GA. VNPPPL and EGHPL have different sub-units defined for the specific implementation responsibilities for specific sectors like resource management, production and marketing. These sub-units are accountable towards the MC.



Source: Field survey 2008

N=125

**Figure 12: Perception on the responsibility for decision-making**

Chairperson and manger are the key post having influencing role in decision-making. None of enterprise have poor shareholder in key post. Generally, in studied enterprises both the respondent groups perceive chairperson or manager as responsible person for the decision-making though the perception of the shareholders towards the responsibility of decision-making varies (Figure 12). In DWPNU and VNPPPL, single person represents both the post as manager as well as chairperson but in EGHPL, they are two different people. Therefore, in case of DWPNU and VNPPPL, manager where as in EGHPL chairperson as well as MC are perceived as responsible for decisions. In DWPNU, the higher % of poor group respondent said they don't know who makes the decision. Higher % of respondent from executive body group EGHPL responded that MC is responsible for decision, which is lowest in case of poor shareholders of DWPNU. According to them, their enterprise is not transparent regarding fund and decision-making as neither have they participated in decision-making nor information is shared. Decisions are made by MC but key leaders dominate the process.

### 3.4.3. Participation

Participation in this study generally deals with who and how and denotes physical attendance, interaction and voice in decision-making of shareholders. This section deals with the participation level of the shareholders.

3.4.3.1. Participation in GA and regular meetings

Representation of the shareholders in GA and MC tends to be inclusive to a certain degree but in reality, GA and regular meetings reflects the low level of participation of poor shareholders in both forums. Comparatively, participation is higher in GA then the regular meeting in both respondent groups of three enterprises (Table 12).

**Table 12: Participation in General Assembly and Regular Meetings in %**

	Participation in %						Pearson's Chi-Square value		Asymp. Sig. ( 2-sided)	
	DWPNU		VNPPL		EGHPL		GA	RM	GA	RM
<b>Poor shareholders</b>	28	22	25	4	73	9	5.194	30.777	.023	.000
<b>Executive Body</b>	86	86	61	39	78	57				
<b>Pearson's Chi-Square Value</b>	GA		10.759				There is Significantly different between participation of respondents according to group of respondents and three studied enterprises			
	RM		8.901							
<b>Asymp. Sig. (2-Sided)</b>	GA		.005							
	RM		.064							

Source: Field survey 2008

n=125

In studied enterprises, participation of executive body in GA as well as regular meetings is very higher than for the poor respondents. For poor HHs respondent, Highest % of poor respondents participation, in GA and regular meeting is found in EGHPL and DWPNU respectively. The % of participation of executive body respondent and poor shareholders varies with huge % in all cases except GA of EGHPL. Participation in GA as well as in regular meeting is significantly different among respondents. Among the enterprises, DWHPL has highest % of GA and regular meeting participation. VNPPL has lowest % of participation of both respondent groups in GA and regular meeting. Participation in GA is significantly different among enterprises but it is not significantly different in regular meeting.

3.4.3.2. Degree of active participation

This study indicates that interactive participation is very essential for maintaining governance of the enterprise as well as raising ownership feeling of the shareholders. Shareholders who physically attend the GA or meeting don't indicate meaningful participation in term of expressing their interest, view and discussing on the enterprise related issues. Thus, respondents were asked about the degree of the active participation according to their perception (Table 13). The values are given in median and average. Here, the value close to one meant active participation and as the value increases the activeness of the participation decreases.

**Table 13: Degree of Active Participation in Enterprises**

	Resp. L Aggregate		DWPNU		VNPPL		EGHPL		Pearson's Chi-Square value	Asymp. Sig. (2-sided)
	Med	Avg	Med	Avg	Med	Avg	Med	Avg		
<b>Poor shareholders</b>	4	3.96	4	4.2	5	4.85	3	2.85	13.014	.005
<b>Executive Body</b>	4	3	4	4	5	4	2	2	Significantly different in degree of active participation between respondents group and studied enterprises	
<b>Enterprise L Aggregate</b>			4	4	5	3	3	3		
<b>Pearson's Chi-Square Value</b>	51.519									
<b>Asymp. Sig. (2-Sided)</b>	.000									

Source: Field survey 2008

N=90

Poor shareholders have lower level of participation than the executive body in all cases. In respondent level aggregate (merging the value of same respondent groups), median value for both respondent groups are same and average value is 3.96 for poor shareholders and 3 for executive body. Only EGHPL has higher median and average value than the enterprise level aggregate for both respondent group. It indicate that both respondent group of EGHPL have active participation than same respondent groups from other enterprise. The level of active participation is significantly different among the shareholders.

The enterprise wise aggregate median and average value (merging the value of both respondent) indicates that, EGHPL degree of active participation is highest among three enterprises, followed by DWPNU and VNPPL is lowest. The level of active participation is significantly different among enterprises.

*3.4.3.3. Level of Voice heard*

Along with physical presence and interactive participation, their voices need to be heard or their interests need to be incorporated. This study assumes that each shareholder has own view in enterprise related issues and need to communicate them formally and informally. This section tries to figure out the level of their voice heard and addressed accordingly (Table 14). The median and average value is calculated to access the voice heard in each enterprise. Here values closer to one indicate higher level of voice heard and vice versa.

**Table 14: Level of voice heard in Enterprises**

	Resp. L. Aggregate		DWPNU		VNPPL		EGHPL		Pearson's Chi-Square value	Asymp. Sig. (2-sided)
	Med	Avg	Med	Avg	Med	Avg	Med	Avg		
<b>Poor shareholders</b>	4	3.57	3 (6)	2.8	5	5	4	4	11.435	.010
<b>Executive Body</b>	3	2.9	2	2.1	4	4.2	3	2.9	Significantly different in level of voice heard between respondent and enterprises	
<b>Enterprise L Aggregate</b>			5	4.25	5	4.8	4	3.6		
<b>Pearson's Chi-Square value</b>	27.281									
<b>Asymp. Sig. (2-sided)</b>	.000									

Source: Field survey 2008

N=124

In all cases of median and average value within enterprises, poor shareholders have low level of voice heard than the executive body except in DWPNU where poor were not able to describe their level of voice heard. The respondent level aggregate median and average value on level of voice heard for poor shareholders is 4 and 3.57, and for executive body is 3 and 2.9 respectively. The median and average value for both groups, only DWPNU respondents are higher than both aggregate value. In case of poor shareholder respondent of DWPNU voice heard median value is 3 (with respondents with don't know excluded) and this value 6 (in the bracket when respondents with don't know included) says that they are not sure to evaluate their voice heard or not. Voice heard level significantly differs among the shareholders respondent.

In enterprise level aggregate, EGHPL has highest level of voice heard of poor shareholders (both median and average value is lower than other two) than other two enterprises. The level of voice heard is significantly different between the enterprises.

#### **3.4.4. Transparency**

Transparency is very essential element for good governance of any enterprise. Transparency denotes the easy access and efficient information flow regarding the enterprise decision-making process, decisions and funds. This section deals with financial aspect and its transparency in the enterprise. It includes share investment and current financial status and perception of respondents on transparency of the studied enterprises.

##### *3.4.4.1. Shareholding and share investment*

The level of share investment depends upon the scale, technology and products of enterprise. The financial condition of the enterprise differs accordingly. In DWPNU and EGHPL, initially planned to have equal investment from each of the participating CFUGs but due to the interest difference among the CFUG and the users, their investment amount is different. Table 15 , Table 16 and Table 17 depict details of share investment in each enterprise namely DWPNU, VNPPL and EGHPL with shareholders types and their number, the total number of share owned by each shareholder and its value, amount invested as share and due payment of allocated share by each shareholder.



**Table 15: Shareholders total share, share amount and due status of DWPNU**

SN	Shareholders	Shareholders no	Total Share no	Total Share amount (NRs)	Paid up (NRs)	Due Payment (NRs)
1	CFUGs	5 CFUGs	290	29,000	29,000	-
	Shankadevi		50	5,000		
	Napkeyanmara		100	10,000		
	Bodle setidevi		50	5,000		
	Vettripakha		50	5,000		
	Dhadesimadevi		40	4,000		
2	Poor hhs	25 (NRs 9,262/hh:5 hh/CFUG)	2,316	231,550	92,620	138,930
	<b>Total</b>	<b>30</b>	<b>5,216</b>	<b>260,550</b>	<b>121,620</b>	<b>138,930</b>
	<i>The percentage of total paid up and due amounts of share</i>				<b>46.7%</b>	<b>53.2%</b>
	<i>Percentage of actual share investment of poor shareholders</i>				<b>40%</b>	

Source: Enterprise record 2008

**Table 16: Share holders total share, share amount and due status of VNPPL**

SN	Shareholders	Shareholders no	Total Share no	Share amount (NRs)	Paid up (NRs)	Due Payment (NRs)	Remarks
1	CFUGs	10	2,930	293,000	179,800	113,200	NSCFP supported 31 hh with NRs 4000/hh & FECOFUN Dolkha district chapter supported NRs
	Shankadevi		293	29,300			
	Bodle setidevi		293	29,300			
	Vettripakha		293	29,300			
	Dhadesimadevi		293	29,300			
	Charnawati		293	29,300			
	Suspa		293	29,300			
	Jharine		293	29,300			
	Damarthami		293	29,300			
	Thangsa deurali		293	29,300			
	Majh kharka			29,300			
2	Poor hhs	20 ( 2 hh/CFUG) NRs 5,000/hh)	960	96,000	90,000	6000	47,800/- but record are not available.
3	Local investors	included in CFUG					
4	local entrepreneurs	4		175,800	175,800	-	
5	National company	1		-	-	-	
	<b>Total</b>	<b>59</b>	<b>5,216</b>	<b>564,800</b>	<b>445,600</b>	<b>119,200</b>	
	<i>The percentage of paid up and due amounts of share</i>				<b>78.9%</b>	<b>21.1%</b>	
	<i>Percentage of actual share investment of poor shareholders</i>				<b>93.75%</b>		

Source: Enterprise record 2008

**Table 17: Share holders total share, share amount and due status of EGHPL**

SN	Shareholders	Shareholders no.	Total share	Share amount (NRs)	Paid up (NRs)	Due payment (NRs)
1.	CFUGs	7	8,026	802,600	802,600	-
	Humanteshwor		1,850	185,000		
	Baishakeshowori		1,000	100,000		
	Kyanse setap		76	7,600		
	buddha		1,100	110,000		
	Pathivara		400	40,000		
	Kalobir		1,700	170,000		
	Thulo nagi		1,900	190,000		
2.	Poor HHs	126 (4000+	5,040	504,000	504,000	-
3.	Int. Ind. investors	94	4,321	432,100	432,100	-
4.	Private entrepreneurs	5	3,050	305,000	242,100	63,000
	<b>Total</b>	<b>232</b>	<b>20,437</b>	<b>2,043,700</b>	<b>1,980,800</b>	<b>63,000</b>
	<i>The percentage of paid up and due amounts of share</i>				<b>96.9%</b>	<b>3.1%</b>
	<i>Percentage of actual share investment of poor shareholders</i>				<b>100%</b>	

Source: Enterprise record 2008

EGHPL has highest investment and has highest external support. The total % of share actually invested by the poor shareholders in each enterprise is different. Poor shareholders of DWPNU has highest share among the three enterprises.

#### 3.4.4.2. Current financial status

Along with shareholders' share investment, products' sale, donations and SHs support are the main income sources of enterprises whereas raw material purchase, production cost, management cost, wages and salaries, tax and royalty are the major expenditure areas. Financial status of the enterprise depends upon the inflow of the income source and outflow through enterprise. Table 18 indicates the broader thematic income and expenditures according to the budget records of each enterprise shared in GA of 2007.

**Table 18: Allocation of enterprise fund in 2007**

		DWPNU	VNPPL	EGHPL
<b>Income</b>	Fixed capital	NA	134,822	1,110,297
	Product production and sale		581,392	1,271,430
	Raw material sale			603,449
	Others		84,068	13,215
<b>Total Income</b>			<b>804,282</b>	<b>2,998,391</b>
<b>Expenditure</b>	Raw material purchase		147,021	1,182,772
	Fuel wood		16,850	39,890
	Other production cost		22,425	162,312
	Management cost		81,489	64,142
	Service charge and installment payment		100,000	
	Miscellaneous		423,692	54,384
	Production wages			378,138
	Tax and royalty			89,556
	Capacity Building			25,778
<b>Total Balance</b>		<b>NA</b>	<b>792,928</b>	<b>1996972</b>

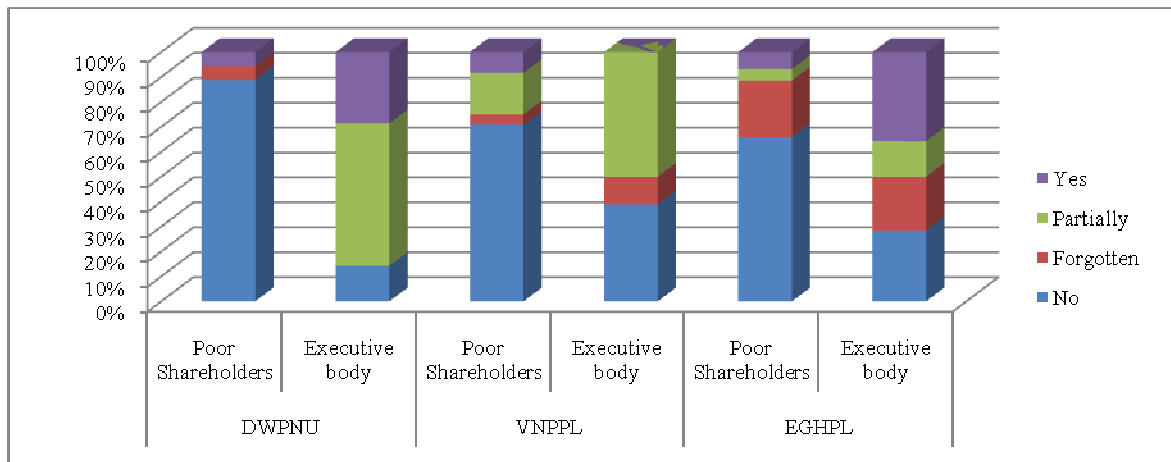
Note: Financial record of the DWPNU was unavailable

Source: Enterprise record 2008

EGHPL has started charging visitors fee and forecasted it as one of the potential sources of income. They have fixed different rates according to the visitor type, .i.e. groups, research students, individuals, etc.10% of the fee is provided to the person who guides the visitors and rest goes to enterprise account. Manager of DWPNU also charges NRs 500 for explanation of enterprise but it is completely coordinator's income. EGHPL has started to allocate fund on the shareholders' and employees' capacity building.

#### 3.4.4.3. Perception of Transparency

Access of the information varies among the individual shareholders. Principally shareholders of each enterprise should be aware of all financial decisions and enterprise funds but in reality the awareness level of the shareholders varies (Figure 13).



Source: Field survey 2008

N=125

**Figure 13: Response on information about enterprise financial matters**

In all enterprises most of the poor group shareholders have no information. Only about 25% of executive body respondent are aware about the enterprise financial matters which is very low; less than 10% in poor shareholder respondent. Partially informed executive body respondent is higher than poor shareholders in all enterprises which less in EGHPL. Respondents mentioning forgotten is higher in EGHPL than other two enterprises.

As discussed above low % of people are well informed on financial matters that simply indicate that none of the enterprises is fully transparent which is partly influenced by the interest of shareholder. Transparency depends upon documentation system and shareholders interest on enterprise financial mater. Table 19 indicates the perception of both group respondents on overall transparency of enterprise. Value one indicates high transparency. The value is presented in median and average.

**Table 19: Perception on Transparency of Enterprise**

	Resp. L Aggregate		DWPNU		VNPPL		EGHPL		Pearson's Chi-Square value	Asymp. Sig. (2-sided)
	Med	Avg	Med	Avg	Med	Avg	Med	Avg		
<b>Poor shareholders</b>	5	5.04	5	5	5	5	6	4.93	27.542	.000
<b>Executive Body</b>	4	4	4	4	5	4	2	4		
<b>Enterprise L Aggregate</b>			5	4	5	4	4	3	Significantly different perception transparency level between respondents and enterprises	
<b>Pearson's Chi-Square value</b>							31.645			
<b>Asymp. Sig. (2-sided)</b>							.000			

Source: Field survey 2008

N=125

In all enterprises, Poor shareholder respondents consider their enterprise less transparent than executive body do. Respondent level aggregate median and average value on transparency is 5 and 5.04 for poor shareholder respondent where as 4 for executive body. The average value poor respondent and median value of executive body respondent of EGHPL is smaller than their corresponding respondent level aggregate. In EGHPL,

median value 6 indicates there are more people who don't know or don't want to share their view regarding transparency of enterprise.

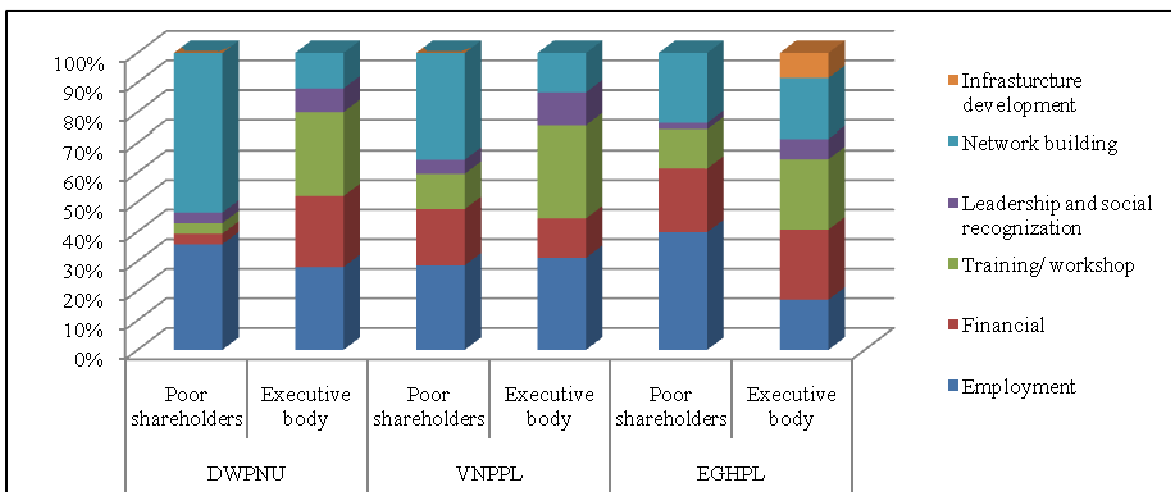
In enterprise level aggregate EGHPL has lower value than other enterprises. Thus, it indicates it is relatively more transparent than other enterprise. Level of transparency is significantly different among respondents and enterprises.

### 3.5. Benefits and Benefits sharing Mechanism

Establishment of CBFEE aims to create different benefits to its shareholders. Being PPE these benefit sharing process should be participatory and equitable focusing towards the poor. This section deals with the types of benefits generated especially employment, dividend and capacity building from studied enterprise and their sharing mechanism.

#### 3.4.1. Types of Benefits from enterprises

CBFEs can generate array of benefits for forest communities, including benefits associated with employment, investment in public goods and welfare programs, direct profit-sharing dividends and capital investments in the CBFE and enterprise diversification. It not only helps to improve the economic but also the social status as well as to built skill and capacity. Both of the respondent groups from each enterprise were asked about the types of the benefit generated by the enterprises (Figure 14).



Source: Field survey 2008

N=125

**Figure 14: Types of benefits generated from the enterprises and respondent's response**

Employment, network building, capacity building and financial benefits are major benefits realized by both of the respondent groups. In all enterprises, all respondent groups perceive employment and network building as important benefit where as capacity

building is more clearly indicated by executive body respondents. Except poor shareholder respondents of DWPNU, there is diversity in benefit realization. Leadership building and social recognition is still not perceived and/or realized as benefit. EGHPL, poor highlighted employment as the most important benefit but executive body, financial return and capacity building are more important. In both group of respondents, network building is equally important. Thus, realization of benefit varies within shareholders.

### 3.4.2. Benefit sharing Mechanism

Benefit sharing mechanism should be follow participatory, clear and transparent process with equitable basis for benefit sharing each enterprise is composed with heterogeneous shareholders. Though different types of the benefits generated through enterprise, this section includes capacity building, employment and dividend as primary benefits as they were realized by the respondents and tried to explore their sharing mechanism.

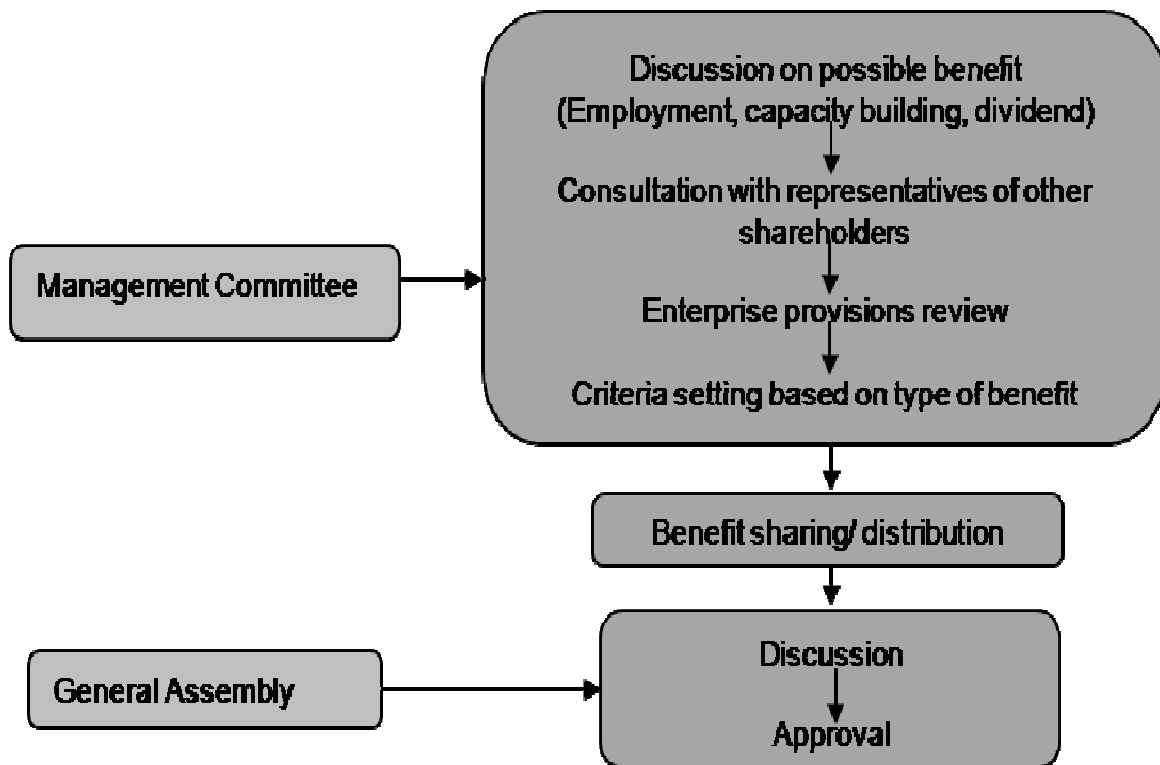


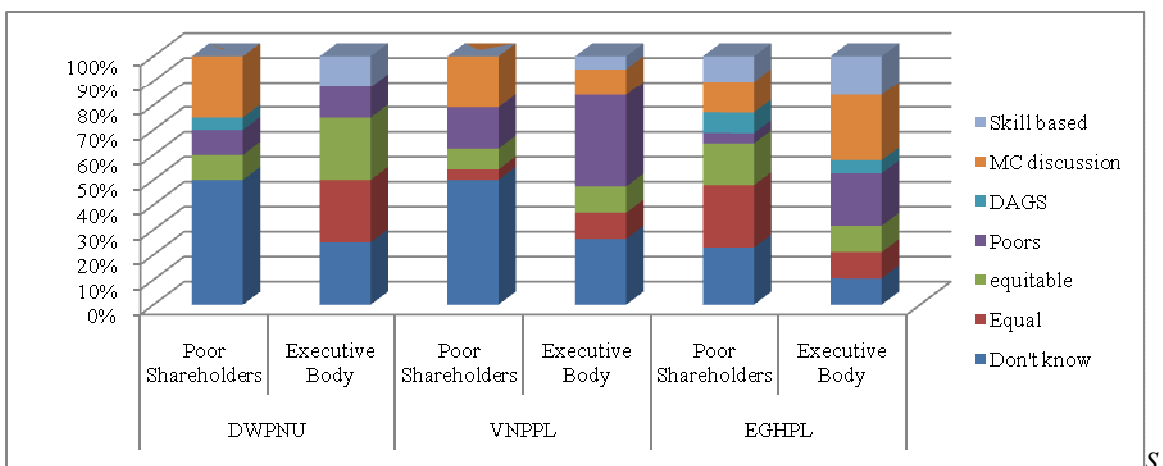
Figure 15: Flow chart of benefit sharing process

Figure 16 indicates the general benefit sharing mechanism in three enterprises. It depends upon the type of benefits (employment, capacity building and dividend) and enterprise governance. Broadly, MC is mostly involved in the process and approved by GA. In all enterprises, few elites represent MC and dominate over all process. Nevertheless, the

degree of consultation is higher in EGHPL than other two enterprises. Different criteria are used during benefit sharing depending upon types of benefit, which is described below.

3.4.2.1. Criteria adopted for Employment opportunities

CBFEs can generate jobs for communities. NTFPs collection in CF creates the partial employment and fulltime employment during processing for value addition. Employment in this study includes both partial as well as fulltime employment. However, all three enterprises offer seasonal as well as fulltime employment that refers to the employment throughout the period of enterprise operation. Seasonal/partial employment refers to employment that is not for whole period of enterprise operation. Discussion on provision for employment, manager of DWPNU informed that there are no criteria for recruiting new employees. Manager cum Chairperson of the VNPPL mentioned that they used the skills and knowledge of private entrepreneurs as skilled worker in the enterprise and rests of the crew (2-3 persons: one skilled and rest unskilled for cleaning and washing) were selected by themselves as they produce paper in contractual basis. In case of EGHPL, 3 poor from each CFUG were trained for handmade paper production. Based on performance and interest to continue in paper production, individuals were employed and they selected the rest crew. Figure 16 portrays the response from both respondents group about the criteria for the selection process of employee. Here, *equitable* denotes equity based by prioritizing poor; *equal* denotes equally considering share % of shareholders; *poor* denotes only poor are employed.



source: Field survey 2008

N=125

**Figure 16: Respondents response on selection criteria for recruiting new employee**

Response diversity of both group indicate either there is no clear understanding of process or criteria for employment opportunity distribution or low level of the awareness. Higher

% of poor respondent don't know the criteria than executive body. In DWPUN and VNPPL, about 50% of the respondents from poor shareholder groups don't know about the criteria followed for the employment and executive body expressed poor are mostly focused in all enterprises. 40% of executive body respondents of VNPPL mentioned that employment opportunities are focused towards poor. 30% of poor respondents from DWPNU and executive body from EGHPL mentioned that MC discusses the criteria.

### 3.4.2.2. Employment opportunities

Studied three enterprises are community based and focused on the benefits for the local community, the total number of employees who are directly involved in manufacturing process only are depicted in Table 20. Number of people are employed in the enterprise depends upon the scale, type of enterprise and value of raw material.

**Table 20: Total no of employment created by enterprises.**

	Enterprise	Employee		Collector		Remarks
		Female	Male	Female	Male	
1	DWPNU	0	2	75	35	
2	VNPPL	8 (1)	3 (2)	6	13	Collectors record of Charnawoti CFUG
3	EGHPL	15	7	9	74	Record of enterprise but not CFUGs collectors

Source: Enterprise record and Field survey 2008

N=125

Number of employee is higher in EGHPL which include both fulltime and partially. DWPNU shows the higher number of collectors as all the collectors deliver the raw material themselves and income is very low (1Kg raw material=NRs 1). Table 21 indicates the involvement of respondents from each enterprise in enterprise related activities including collectors, processing, fuel wood supply, wages or any kind of involvement for earnings.

**Table 21: Respondents involvement of in different activities of enterprises**

		No of Resp.		%		Ent. L Agg. %		Types of involvement			
		Yes	No	Yes	No	Yes	No	Col.	Col. H	PT	FT
DWPNU	Poor Shareholders	6	12	33	67	28	72	6	0	0	1
	Executive Body	1	6	14	86			0	0	0	2
VNPPL	Poor Shareholders	5	19	21	79	26	74	5	2	0	0
	Executive Body	6	12	33	67			1	4	0	2
EGHPL	Poor Shareholders	21	23	48	52	47	53	15	0	4	7
	Executive Body	6	8	42	58			2	5	0	1
Resp. L.	Poor Shareholders	32	54	37	63	35	65	26	2	4	8
Aggregate	Executive Body	13	26	33	67			3	9	0	5
<b>Total respondents</b>		<b>45</b>	<b>80</b>	<b>100</b>	<b>100</b>			<b>29</b>	<b>11</b>	<b>4</b>	<b>13</b>

Note: Resp. means respondent, col.- collection, H-head, PT-Part time and FT-full time employee

Source: Field survey 2008

N=125

The table shows that there is not much difference between respondent and enterprise in term of involvement of respondent in enterprise activities. In DWPNU, poor respondent

involvement is higher than executive body and vice versa for VNPPL and EGHPL. In respondent level aggregate, involvement of poor shareholder respondent and executive body respondent involvement is about 37% and 33%. It indicates that there is not so much different in their involvement. EGHPL has higher % involvement than the respondent aggregate of poor and executive body respondents.

Enterprise level aggregate indicate EGHPL has highest 47% of enterprise level aggregate in where as VNPPL is lowest with 26%. There is no significant difference in enterprise activities involvement between the respondents (Pearson's chi-square value: 4.601 and Asymp. Sig. (2-sided) with .100) as well as between enterprises (Pearson's chi-square value: 5.389 and Asymp. Sig. (2-sided) with .250) Though, in enterprise level aggregate, EGHPL has highest % of 47.

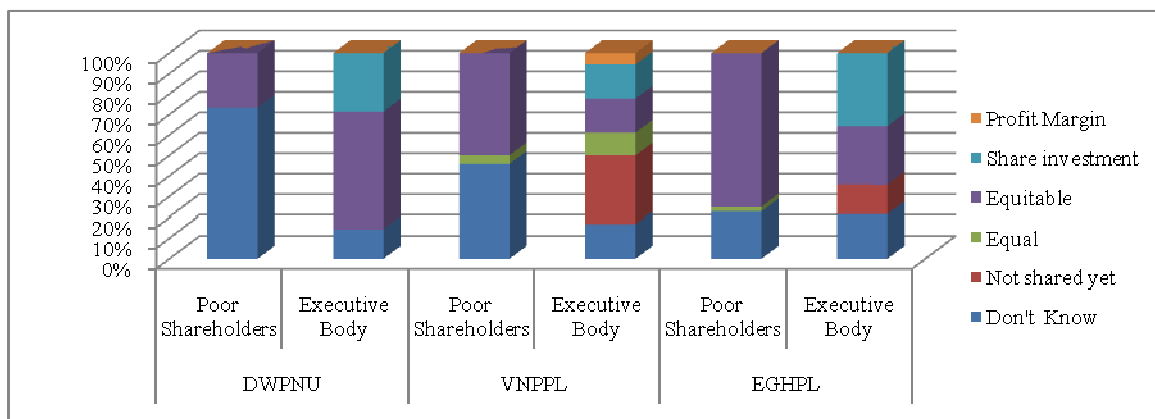
In over all, only 35.5 % of respondents are involved in the enterprise related activities. Based on the responses, this study distinguish 4 types of involvement which is collection of raw material, collection head, partial or seasonal (i.e. seasonal involvement in processing, other labor work, sometime involved as resource person etc) or full time employment. Few respondents who are skilled workers for processing and involved in the whole period of enterprise operation, rest are partial (seasonal) employee except one person from EGHPL. This person is office secretary and not involved in paper production.

#### 3.4.2.3. Criteria adopted for Dividend distribution

Business is always profit oriented and dividend is a distribution of profit from enterprise to its shareholders. All the three enterprises are newly established and they still have not yet crossed their payback period, which is generally calculated based on 10 years project period. EGHPL and VNPPL have a business plan while DWPNU has only financial plan. Generally, profit is distributed to shareholders according to the provision of the enterprise. Two enterprise namely VNPPL and EGHPL are more recent than DWPNU, thus they haven't distributed dividend yet. Only DWPNU has distributed the dividend to the shareholders. However, dividend distribution should be based on the number of share owned but it was just distributed based on general conscience. CFUG got more dividend than poor, it was less than what they were supposed to get according to the share they owned. VNPPL Chairperson cum Manager informed that his enterprise was still in loss. In such circumstance, they did not have choice for dividend distribution but they provided just daily allowance (travelling and snacks cost) to the poor only. EGHPL has better



production performance but focused is on infrastructure development which was also supported from LILI project. The amount supported by them was distributed among the shareholders as additional shares based on the amount of share they owned (ie. equality basis). EGHPL so far only provided daily allowance to the poor shareholders on distance basis. Enterprise as reference, the shareholders travelling from far distance receive higher slightly higher amount than the shareholder representatives from close area. To get the general idea on the shareholders awareness on the dividend disbursement, respondents were asked for the criteria followed for dividend distribution (Figure 17). For VNPPL and EGHPL, direct cash provided by enterprise was taken into account.



Source: Field survey 2008

N=125

**Figure 17: Respondent response on criteria for dividend disbursement**

However, the key person claimed for equitable but the response shows diversity. Above 50% of executive body respondent of DWPNU, Poor shareholders of VNPPL and EGHPL mentioned that dividend distribution was equitable where as 70% of the poor shareholders group from DWPNU and 45% of poor shareholder mentioned that they don't know about the criteria for dividend distribution. Only executive body, 30% from VNPPL and 15% from EGHPL explicitly responded on not shared yet. The responses from the executive body respondents of VNPPL were quite diverse within and between enterprises.

#### 3.4.2.4. Dividend disbursement

As mention earlier, only DWPNU has provided dividend to shareholders so far. In DWPNU, as only Napkienyanmara CFUG invested the share initially on both poor shareholders and CFUG's behalf they received the dividend. Poor shareholders (5 members) received NRs 5,698/- as dividend from this enterprises and CFUG received about NRs 9262/-. The other two enterprises have provided very small sum of money to

poor shareholders only as daily allowance (travel and snack cost) when they participate in GA as well as for training/workshop.

*3.4.2.5. Criteria adopted for capacity building events*

Capacity Building is much more than training and workshop and the study assumes that training is one of the important aspects in livelihood improvement. This study it tries to access the criteria followed during selection of the participants for training/ workshops. In DWPNU, manager mentioned that in some cases the SHs themselves select the participant during invitation and participant depends upon the type of events. VNPPL chairperson the stated that poor shareholders are primarily focused for skill development like handicraft preparation. EGHPL Manager mentioned that poor are given priority as possible.

*3.4.2.6. Participation in Capacity building*

Participation in enterprise capacity building events create awareness as well as transfer knowledge and skills to its shareholders. Therefore, participation in capacity building events and type of events they participated is important. Each of the enterprise has conducted different types of capacity building events including training related to harvesting method, recording keeping, processing and handicraft preparation as well as enterprise development workshop. The enterprise development workshop was organized in two levels, to shareholder representative in charikot by SPs; to the users and poor HHs at CFUG level by enterprise representative. The enterprise development workshop includes both level of workshop. This section deals with the participation of both respondent groups in different training/workshops. Table 22 indicates status of the respondents' participation of three enterprises which includes number and its % whether they have participated the capacity building as well as enterprise level aggregate % and types of capacity building events participated by respondents.

**Table 22: Status of capacity building events participated by Respondents**

	DWPNU		VNPPL		EGHPL		Resp L Aggregate		Significantly different in participation in capacity building events between the enterprises
	No	%	No	%	No	%	No	%	
<b>Poor Shareholders</b>	7	39	10	42	29	66	46	53	
<b>Executive Body</b>	5	83	10	55	10	71	25	66	
<b>Ent. level Aggregate %</b>	12	50	20	48	39	67	61	57	
<b>Pearson's Chi-Square value</b>					11.882				
<b>Asymp. Sig. (2-sided)</b>					.018				

Source: Field survey 2008

N=125

In all enterprise, participation of executive body is slightly higher than poor shareholder. Respondent level aggregate % in capacity building participation for poor shareholders and executive body respondents is 53 and 66 respectively. EGHPL has higher % of participation for both respondents groups in capacity building than other enterprises. There is no significance difference between the participation of respondents in capacity building events ( Pearson’s Chi-square value: 1.234 and Asymp. Sig.(2-sided): 0.54) . In case of poor shareholders, EGHPL has higher % of participation.

In enterprise level aggregate EGHPL has highest percentage of participation of respondents than other studied enterprises followed by DWPNU. Difference between these two respondent groups is highest in DWPUN. In enterprise level aggregate, EGHPL has highest % of participation and VNPPL has lowest level of participation. The participation in capacity building is significantly different between enterprises.

**Table 23: Types of participated Capacity Building events**

		Types of Capacity Building events						
Respondents		Record Keeping	Processing	Handicraft Making	Harvesting	Enterprise devel.	Marketing	Plantation
DWPNU	Poor Shareholders	0	0	0	0	7	0	0
	Executive Body	3	1	0	0	6	3	0
VNPPL	Poor Shareholders	0	0	2	1	9	0	2
	Executive Body	1	0	0	1	9	3	0
EGHPL	Poor Shareholders	1	5	2	10	17	0	0
	Executive Body	1	0	0	4	11	3	0

Source: Field survey 2008

N=125

The participant number is highest in enterprise development workshop among capacity building event in all enterprises. Comparing three enterprises, none of the respondents from poor shareholders have participated in marketing training. There was no processing training in VNPPL as it used the private entrepreneurs as the skilled worker. The poor respondents from EGHPL have highest participation diversity in capacity building event.

### 3.4.3. Income from enterprise and it’s utilization

The income from dividend is not relevant for the shareholders as dividend is not distributed yet except DWPNU. But enterprises have been able to generate income from employment. So, here income for HH level includes all kinds of income related to enterprise activities. i.e from collection of raw material, daily allowances provided by the enterprises and income from employment. In this study, income level from the enterprise is categorized into 4 levels. Income level, upto NRs 1,000/- per HH/year; NRs1,000/- to

5,000/-; NRs 5000/- to 10,000/- and NRs 10,000/- is classified. The major source of income includes income from raw materials collection, seasonal and fulltime employment in the enterprise and benefits received from participating from different events.

**Table 24: Status of income received by respondents from each enterprise**

	DWPNU		VNPPL		EGHPL		Resp L Aggregate		Pearson's Chi-Square value	Asymp. Sig. (2-sided)
	No	%	No	%	No	%	No	%		
Poor Shareholders	8	44	12	63	34	82	54	73	15,381	,000
Executive Body	2	29	7	39	7	50	16	44		
Ent. level Aggregate %	10	36	19	51	41	74	70	41	Significantly different in income received between respondents and shareholders	
Pearson's Chi-Square value									14,412	
Asymp. Sig. (2-sided)									,006	

Source: Field survey 2008

N=125

In each enterprise, higher % of poor shareholders respondents are receiving income from enterprise than executive body but their income is confined at lower level. The respondent level aggregate of income is 73% for poor shareholders and 44% for executive body respondents. EGHPL has highest % than respondent level aggregate for both respondent groups. There is a significant difference between respondents receiving income enterprises.

Enterprise level aggregate indicate the aggregate % of poor shareholders and executive body in each enterprise. EGHPL has highest % of enterprise level aggregate in respondent income where as DWGPU has lowest %. There is significant difference between enterprises in term of income received from enterprises.

**Table 25: Level of income of respondents from enterprises**

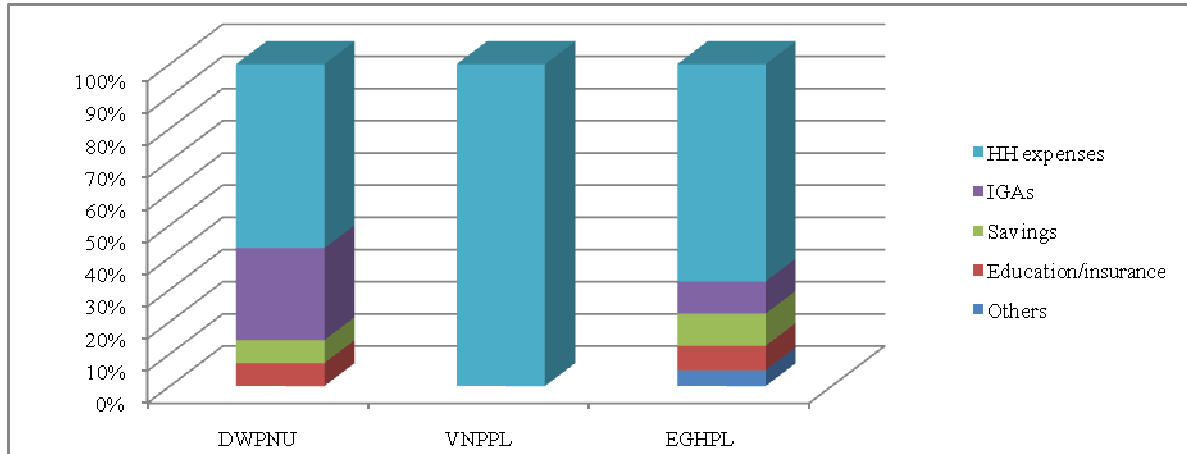
Enterprises	Respondents	Level of Income			
		<Nrs 1,000	Nrs 1,000-5,000	Nrs 5,000-10,000	Nrs 10,000<
DWPNU	Poor Shareholders	2	5	0	1
	Executive Body	1	0	0	1
VNPPL	Poor Shareholders	11	0	1	0
	Executive Body	2	3	0	2
EGHPL	Poor Shareholders	24	8	0	2
	Executive Body	1	4	1	1
Respondent Aggregate	Poor Shareholders	36	13	1	3
	Executive Body	5	7	1	4
Total respondents		<b>41</b>	<b>20</b>	<b>2</b>	<b>7</b>

Source: Field survey 2008

N=125

Out of 70 respondents (including 54 poor shareholders and 16 executive body) who are receiving income from enterprise 46 respondents (including 32 poor shareholders and 14 are involved in enterprise related activities for income generation. Rest 24 respondents income includes income from snacks and travel fair for participating in the GA, meetings, trainings etc though the income is very low.

Despite of level of income, the utilization of income can varies. As this study focuses on the poor shareholders groups, they were asked ‘How they utilize the income received from the enterprise?’ and Figure 18 indicates their response. Areas of expenses are categorized as HH expenses, IGAs, Saving, education and insurance and others.



Source: Field survey 2008

N=86

**Figure 18: Allocation of income received from enterprise.**

Most of the incomes from the enterprise are spend as HH expenses. 55% poor shareholder respondents in DWPNU, 100% in VNPPL and 67% in EGHPL spend their income in HH expenses. 30% from DWPNU and 10% from EGHPL spend in income generation activities (IGAs). Especially poor who received dividend form DWPNU, they invested portion of income in IGA because their CFUG have provision that they must invest their income in IGA but this kind of provision was not found any other CFUGs. About 5% of poor shareholders from DWPNU and EGHPL save or use in education/insurance.

### 3.4.4. Perception on benefit received

Benefit from enterprise are discussed earlier but the perception of shareholders toward the benefit received varies with the level of benefits they received, access to the information and access to enterprise related activities. Table 26 indicates the shareholder’s perception on their level of satisfaction from the benefits received.

**Table 26: Shareholder’s perception on satisfaction on received benefits**

	Resp. L Aggregate		DWPNU		VNPPL		EGHPL		
	Med	Avg	Med	Avg	Med	Avg	Med	Avg	
<b>Poor shareholders</b>	4	3.9	4	3.4	5	4.7	3	3.7	Significantly different in level of satisfaction enterprises
<b>Executive Body</b>	4	2.9	2.5	2.2	4	4.1	2.5	2.6	
<b>Enterprise L Aggregate</b>			2.5	2.4	5	4.4	2	2.3	
<b>Pearson’s Chi-Square value</b>					45.657				
<b>Asymp. Sig. (2-sided)</b>					.000				

Source: Field survey 2008

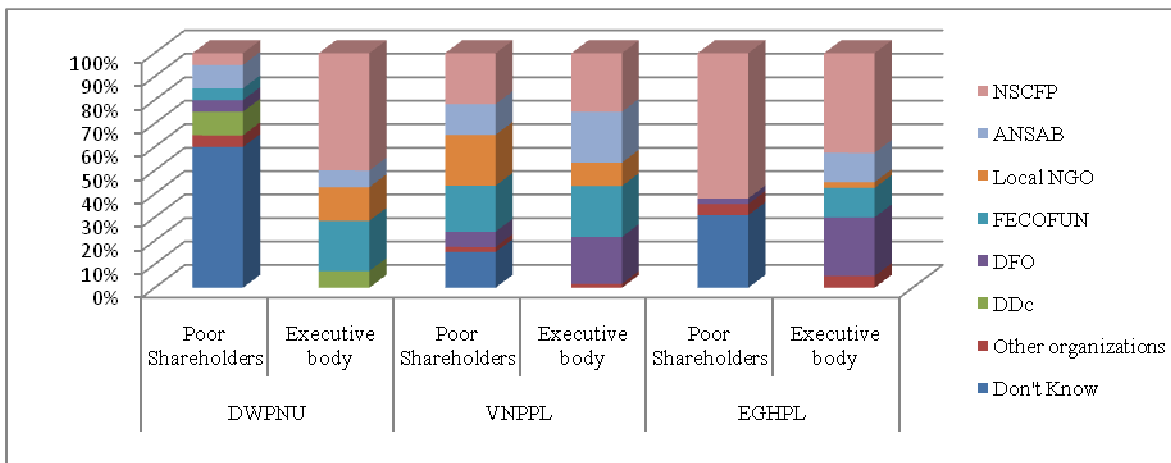
N=120

In all enterprise, executive body respondent groups' level of satisfaction is higher than the poor shareholder group. The respondent level aggregate median and average value of the poor shareholder respondent on the level of satisfaction is 4 and 3.9 and for executive body, it is 4 and 2.9 respectively. Poor shareholders from EGHPL has higher value than aggregate median and average for both respondent.

The enterprise level aggregate indicates that EGHPL has higher satisfaction level than other enterprises. There is significance different in level of satisfaction between enterprises but no significant difference between respondents (Pearson's Chi-Square value is a 6.106 and asymp. Sig( 2-sided) is 0.107). Moreover, VNPPL has the lowest satisfaction level in both cases.

### 3.6. Service provider (SP) and their Organizational role

The contribution of SPs is very essential as they provide ranges of services to the communities and supported for enterprise stability. As these three enterprises are located in same district, more or less the same SPs have supported them but the degree of support varies among them. The major SPs recorded are DD, ANSAB, NSCFP, FECOFUN, DFO, ECARDS, ForestAction, Small industries and cottage office. The information level on SPs were accessed across the respondents of three enterprises (Figure 19).



Source: Field survey 2008

N=125

**Figure 19: Involvement of the Service Providers acc. to Respondents**

Significant % of poor shareholders of the enterprise don't know who supported them especially DWPNU, 60% of the poor shareholders do not know about involvement of the SPs. NSCFP involvement seems quite high among other SPs in all three enterprises as NSCFP was the major service provider in the district. Except the poor shareholders of

DWPNU mentioned recognized their role. Along SPs diversity, they can play a different role in enterprise. Assuming that the executive body more is informed, they were further asked about their role (Table 27). Major role of SPs mapped are share investment, capacity building, technical support , marketing support and other support (facilitation).

**Table 27: Role of SPs according to Respondents from Executive body**

	Share Investment for poor	Share Investment for CFUGs	Capacity Building	Technical support	Marketing	Others
<b>DWPNU</b>	6	0	1	1	0	0
<b>VNPPL</b>	17	1	4	4	1	0
<b>EGHPL</b>	8	1	6	2	1	4

Source: Field survey 2008

N=39

Most of the respondents mentioned that share investment for the poor was the major role of SPs followed by Capacity building as well as technical support. In VNPPL, share investment for poor is the major activity followed by capacity building and technical support. They also mentioned about share investment on behalf of CFUG and marketing of the product as role of SP. In EGHPL, share investments of poor and capacity building are the major role of SPs. They also played role in CFUG share investment, marketing, technical support and other sectors.

### **3.7. Factors affecting the enterprises pro-poorness**

Based on three case studies, CBFEs have mixed set of criteria for successfully drawing benefit to poor. Although, the exact boundaries between internal and external factors are complex to delineate, this section tries to explore these factors based on whether the enterprise itself is able to make effort to influence the factors or they are out of their control. These factors are determined through comparing the studied enterprises.

#### **3.6.1. Internal factors**

*Share allocation of poor shareholders:* The share investment of poor legitimizes them to have stake in the enterprises but the percent of share allocated to poor varies between enterprises. DWPNU has highest % of share for poor. This leads to higher possibility that poor will be represented in decision-making forum and have more control over decisions including higher participation in enterprise activities. Though, causal relationship between share % and benefit received causal relationship is not explicitly proved by these cases. The poor HHs of DWPNU compare to other enterprise CBFEs are benefited during dividend distribution.

*Existence of Internal conflict:* In the studied enterprises conflict exists between enterprise and shareholder groups (i.e CFUG, poor, private entrepreneurs). All the enterprises have certain level of conflict between their shareholders but the level of conflict varies among enterprise. Poor management, insufficient documentation, ineffective communication, misuse of resources, non-transparent decision-making process and fund management are some of the key reasons for internal conflicts.

*Constant cash flow:* In studied cases, enterprises are able to secure very little amount of profits as they are mostly new comers as well as still lack sufficient capacity to operate enterprise. All three enterprises depend upon sale of the produced product as source of income. EGHPL is well supported by the SPs and show current financial strong and well develop infrastructure than other enterprise. EGHPL is unable to provide dividend but it provides employment to poor and has added extra share to poor shareholders. Ability of enterprise to maintain constant cash flow is essential for long run sustaining the enterprise and making livelihood of poor.

*Scale of enterprise:* The larger the scale, the more diverse products and service will be offered and certain degree of flexibility in resources, the number and quality of job offered for poor HHs. EGHPL produces paper using traditional and new technology and also trades the raw material. Although employment nature is seasonal, EGHPL offer higher number of employment (e.g. higher number of raw material collectors) with more working days (VNPPL is operational only for 6 months but EGHPL is operational for 8 months).

*Distance from the enterprise* also counts on benefits received by poor HHs. As poor are mostly involved in collection of the raw material, the distant collector get less price for collected raw material especially in case of hand-made paper enterprise ( EGHPL and VNPPL). Though CFUGs have abundant raw material, each poor collect the small amount of raw material and it is very inefficient for them to deliver to enterprise where they can get full price. Thus, they have to sell it to collector head with less price and collector head deliver them to enterprise when the CFUG is far away from the enterprise. Collectors are unable to get the full price of raw material. The collector of nearer CFUG gets NRs 5 more for per Kg of Lokta and Argheli when they directly sell to enterprise than they sell it to collector head. It also affect in their interest for their involvement in enterprise. Farther the distance; lower the interest of poor shareholders' interest toward the enterprise. Farther the CF, less the employee and less concern they have towards enterprise.



*Governance of enterprise:* Regularity of GA and MC meeting, active participation and transparency are the major components of the enterprise governance that affects poor shareholders' the participation in decision-making. As EGHPL is comparatively more participatory and transparent, poor shareholders benefited more through employment and capacity building than the other two CBFs. Effective communication and information flow among the shareholders and proper management system in enterprise is very essential in order to reduce conflict and maintain transparency, therefore maintaining governance.

*Pro poor focused enterprises policies:* Each of enterprise has enterprise management plan, which describes the rules and regulations of the enterprise including provisions for shareholdings, representation and benefit allocation. The provisions are mostly not included in their management plan are decided in GA as well as MC meeting (should get approval from GA) and recorded in minute book. The enterprises related policies should also be poor oriented. Except the share allocation and representation, there are no specific provisions made for poor shareholders. Some of the decisions like participation in training, recruiting new employee are done through MC meeting especially in case of EGHPL.

*Governance of CFUGs:* CFUG as the main shareholder try to bridge the gap between poor and enterprises by encouraging poor for their involvement, empowerment, information flow and further active participation in enterprise. Dhadeshima devi CFUG, shareholder of VNPPL and DWPNU, leaders misused fund provided for poor HHs and CFUG either haven't invested their own share. This CFUG with the poor governance has deprived poor shareholders for involvement in any activities of enterprise along with poor information exchange. As a result poor shareholders have no idea on enterprise except nomination for share investment. Proper management, transparency and participation of CFUG are also very essential for the success of enterprise. Pro-poor oriented CFUG can have higher extent of social inclusion in decision-making processes and poor's participation.

*Skill and capacity of the poor shareholders:* Enterprises need certain skills and capacity for its management. Studied enterprises have organized and/or participated in skill development events however further more participation of poor would be better. With very limited skills and capacity of management, poor shareholders are out casted from the enterprise management except the in representation in MC helps them to involve in enterprise management. It is evident that in all enterprise, MC's participation is higher in capacity building events than poor shareholders. EGHPL, prioritized poor for training or

capacity building and relatively more poor are involved. Awareness and interest of the poor shareholders, information availability are important for the enhancement of skills and capacity of poor shareholders.

*Awareness level of the poor shareholders:* In all the cases, poor still lack awareness of their rights and responsibility as owner of enterprise. The level of awareness of poor shareholders is very low as they even do not know fundamental issues on how the enterprise is managed and decisions are made, who are shareholders and what does it means. Most of them can say they have share and they will get monetary return out of it (most of them say it is interest for their share). None of the poor shareholder knew “on what basis they received the dividend from DWPNU”, instead they are happy that they received dividend from enterprise. It indicates that they are not aware about the right and ownership they have in the enterprise due to lack of sufficient knowledge and understanding of the mechanism of enterprise, information during enterprise establishment and poor shareholder selection. The consequences reflect on the benefit they receive and their active participation as well as ownership feeling towards the enterprise.

*Participation level of the poor shareholders:* Participation of poor shareholders in enterprise activities including enterprise management and capacity building is very essential which enhances skill and capacity of poor shareholders and vice versa. In all studied enterprises, level of participation of poor shareholders is limited with a low level of voice heard in GA and meetings including capacity-building events. None of enterprises has poor representatives in key positions, which is considered as important and influential in complex and hierarchal society like Nepal.

*Benefits distribution mechanism:* The benefit that poor shareholders receive is influenced by mechanism of benefit distribution. In studied enterprises, MC decides how to allocate particular benefits except DWPNU in which MC is less influential as it is managed by DD. In EGHPL, enterprise had prioritized poor for training on handmade paper manufacture that resulted in a higher number of poor shareholder involved in papermaking.

*Available technological innovation:* Selection of the appropriate technology is the technical requirement for enterprises establishment. Simple can be handled with less skilled people, are locally acceptable, economically feasible and technically sound.

Studied enterprises are using the traditional methods for production with some changes in equipments. So, poor can involve in processing and production with little capacity enhancement. But EGHPL is using new Japanese method which is not so complex and have diversity in product quality than other enterprises which is directly related with higher production and more employment opportunities for the poor shareholders from collection to processing.

*Information availability:* EGHPL has a well managed documentation compare to other enterprises. Availability of information regarding enterprise is also very important which depends upon the documentation system of enterprises, communication methods and interest of poor to access the information.

### **3.6.2. External Factors**

*Support from external Service Providers:* Studied enterprises are newly established and are supported from external SPs. They have high dependency on external SPs for financial capital, technical services and market information which are driving force for the enterprise during the initial stage but can hinder enterprise development in the long run if not considered timely. Without external SPs support existence of all three enterprises is nearly impossible. VNPPL's was able to overcome the extreme crisis through SPs support. SPs have supported for share on behalf of poor shareholders and organized capacity building and awareness raising events for poor.

*Political Situation:* Nepal's unstable political situation has severely affected the current business trend of Nepal including all studied enterprises. It not affected only the market situation but also each entity of the enterprise at local level from collection of raw material, processing and marketing. Instable political condition was one the major factors for VNPPL failure as it was burnt completely and was a victim of the political crisis.

*Policy and regulatory support:* In contrary, excessive formal procedurals for getting permits and approval exist during collection of the raw materials; transportation, process and sale of products discourage people to involve in enterprise. Ex-member of MC from VNPPL mentioned “ *Hamro karkhana lai lokta lina jiri gayeko theye. Lokta kinera farkinee kram ma malai ta samatera po rarchha ba!*” (I went to Jiri to buy lokta. While returning, I was caught by....” He explained that it is not easy to overcome this kind of policy related obstacle and he was really discouraged after that event. These obstacles not

only exist within forestry mentioned coordinator of DWPNU when he had to deal with troop of Nepal police force during transporting the products.

*Existence of strong networks:* The networks/ forum do not exist among the enterprises which would help the enterprises to explore bigger markets, exchange experiences and overcome challenges, share learning and advocate for their welfare.

*Availability of market and related information:* Though local private entrepreneurs are involved in studied enterprises still market information (prospects, price, quality, quantity, timeliness) are insufficient. Kind of monopoly by HBTL exists in district, however, few market places are explored. Limited and uncertain market and product price is one of the factors that influence the enterprise and its aim to be pro-poor.

Table 29 below summarizes the factors and the intensity of their affects on the pro-poorness of each studied enterprises by applying the scoring method. Direction (Dir) in second column indicates if the factor effects pro-poorness positively (+) or negatively (-). The column “Existing condition of factors and level” gives a brief explanation on the condition of the factors in the respective enterprise and numbers in the bracket indicate the level on a scale from high (H), to medium (M) and low (L) comparing the studied enterprises with an assigned value of 5, 3 and 1 respectively. The importance of the factors gives an idea on “how important a factor is in a particular enterprise in terms of pro-poorness” regardless of the existing condition of the factor in that enterprise. The column “Evaluation (Ev.) of Factors” is a total sum for the enterprise across each factor which gives the overall importance of the factors. The factors having a sum of more than 28.9 (Average of the total sum) are considered as important factors in this study. The row “Pro-poorness” is a sum of all factors in each enterprise indicating the pro-poorness of the enterprises.

**Table 28: Factors affecting enterprises pro-poorness and its assessment**

Factors	Dir	Existing condition of factor and level			Level of Effect on enterprise			Total Score			Ev. of Factors
		DWPNU	VNPPL	EGHPL	DWPNU	VNPPL	EGHPL	DWPNU	VNPPL	EGHPL	
<i>Internal factors</i>											
<i>Share allocation to poor</i>	+	High (89%) (5)	Low (15%) (1)	Medium (25%) (3)	H (5)	H (5)	H (5)	25	5	15	45
<i>Level of Internal conflict</i>	-	Low level (5)	High level (1)	Low Level (5)	L (1)	H (5)	L (1)	5	5	5	15
<i>Cash flow Level</i>	+	Medium (3)	Medium (3)	High (5)	M (3)	H (3)	M (3)	9	9	15	33
<i>Scale of enterprise</i>	+	Low (Small sized) (1)	Medium (3)	High (Big sized) (5)	M (3)	M (3)	H (5)	3	9	25	37
<i>Distance from Enterprise</i>	-	Low (1)	Medium (3)	Medium (3)	L (1)	M (3)	H (3)	1	9	15	25
<i>Governance of enterprise</i>	+	Medium (3)	Low (poor) (1)	Medium (3)	H (5)	H (5)	H (5)	15	5	15	35
<i>Pro poor focused ent. policies</i>	+	Medium (3)	Low (1)	High (5)	H (5)	H (5)	H (5)	15	5	25	45
<i>Governance CFUGs</i>	+	Poor level (1)	Poor level (1)	Medium level (3)	H (5)	H (5)	L (1)	5	5	9	19
<i>Skill and capacity of the poor</i>	+	Low (1)	Low (1)	Medium (3)	H (5)	H (5)	H (5)	5	5	15	25
<i>Awareness level of poor</i>	+	Medium (3)	Low (1)	Medium (3)	H (5)	H (5)	H (5)	15	1	15	31
<i>Level of poor participation</i>	+	Medium (3)	Low (1)	High (5)	H (5)	H (5)	H (5)	15	5	25	45
<i>Benefits distribution mechanism (Participatory decision making)</i>	+	Low level of Participation, equity (3)	Low level of Participation, equity (3)	High level of Participation, equity (5)	H (5)	H (5)	H (5)	15	15	25	55
<i>Available technology</i>	+	Low (1)	Low (1)	Medium (3)	L (1)	L (1)	H (5)	1	3	15	19
<i>Level of Information availability</i>	+	Medium level (Available on request , not well documented) (3)	Low level (Not available on request , not well documented) (1)	High level (Available, well documented) (5)	M (3)	M (3)	M (3)	9	3	15	27
<i>External Factors</i>											
<i>Support from external SHs</i>	+	Medium (3)	Medium (3)	High degree (3)	H (5)	H (5)	H (5)	15	15	25	55
<i>level of Political stability</i>	+	Low (1)	Low(1)	Low(1)	M (3)	H (5)	M (3)	3	5	3	11
<i>Policy and regulatory support (level of supportiveness)</i>	+	Medium (3)	Medium (3)	Medium (3)	M (3)	M (3)	M (3)	9	9	9	27
<i>Existence of strong networks</i>	+	No existence (1)	No existence (1)	No existence (1)	M (3)	M (3)	M (3)	3	5	15	23
<i>Level of availability of market and related information</i>	+	Medium (3)	Low (1)	High (5)	M (3)	M (3)	M (3)	9	3	9	21
<i>Pro-poorness of enterprises</i>								177	121	295	

Table 28 summarizes that EGHPL is relatively more pro-poor oriented than the other two enterprises with an overall score of 295. Thus, with the 28.7 as minimum threshold, 9 factors from internal factors including share allocation for poor, constant cash flow, scale of enterprises, governance of enterprise, pro-poor focus enterprise policies, awareness of the poor, poor participation, benefit distribution mechanism and external factor including support from external SPs are most influential factors for pro-poor enterprises.

### 3.6.3. Pro-pooriness of the enterprises

Among the three enterprises, EGHPL is relatively more pro-poor than other two enterprises. Pro-pooriness of the enterprise depends upon the poor people involvement in the different enterprise related activities from overall decision-making level and management to just a seasonal employer. Here, the study assumes that executive bodies are aware about the pro-poor concept and model of their enterprise. Considering different aspect of the involvement of poor shareholders, the executive body respondents from each enterprise rated the pro-pooriness of the enterprise (Table 29).

**Table 29: Perception on pro-pooriness of the enterprises**

	Aggregate	DWPNU	VNPPL	EGHPL
Median	4	3	5	3
Average	3.9	2.86	4.17	2.71

Source: Field survey 2008

N=39

EGHPL is more pro-poor oriented followed by DWPNU where as VNPPL is relatively less pro-poor oriented among the studied enterprises. The aggregate median and average value of pro-pooriness is 4 and 3.9. Here, pro-pooriness of DWPNU and EGHPL are higher than the aggregate values and lower in case of VNPPL. Thus, the median and average values indicate that DWPNU and EGHPL are more pro-poor oriented than the VNPPL. However, according to the average value, EGHPL is more pro-poor oriented than the other two CBFE, which got a score of 2.71.

In conclusion, according to the assessment of the factors through scoring (Table 28) and perception of executive body (Table 29), EGHPL is pro-poor oriented in both cases, followed by DWPNU and VNPPL which have a lower level of pro-pooriness.

## Chapter Four: Discussion

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### 4.1. Shareholder composition of CBFE

The composition of enterprise shareholders varies in term of type of shareholder it comprises; their shareholdings structure (%), number of shareholders in each shareholder category, number of shares each shareholder own. Studied enterprises shareholders composition differs from each other in term of types of shareholders, allocation of the share %, no of shareholders within each shareholder group. DWPNU comprises of two types of shareholders i.e CFUG and poor shareholders only. VNPPL comprises 5 types of shareholders i.e CFUG, Poor shareholders, local private entrepreneurs , local interested individual investors and national company where as EGHPL comprises of 4 types of shareholders i.e CFUG, poor , interested individual investors and national company). Depending on the structure and complexity of the CBFE which are pro-poor focused, single enterprise have several possible types of shareholders (e.g. identified poor HHs, private sector, and CFUGs) and holding relative proportion of share is a feature of these enterprise (Pokharel *et al.* 2005).

Local communities own, manage and govern these studied enterprises, specially modeled for assuring the poor HHs involvement in the enterprise. All studied enterprises have provision to maintain at least 50% of share owned by community including poor shareholders to ensure the enterprise remains under control of community but the % of share ownership varies among the shareholders and enterprise. DWPNU has highest % of poor share. Studied enterprise reserved certain % of share for poor HHs to retain control over and access to the enterprise without struggle and it was institutionalized through enterprise related provisions regarding shareholding. Regardless the type of shareholder, the value of share is equal in all three enterprises i.e. 1 share is equivalent to NRs 100 for all shareholders and certain % of share is allocated for each shareholder. Poor people often lack property rights, they are likely to struggle for a share of business, and have to fight to retain control over and access to, the resources on which they depend and formalizing the property right and strengthen cooperative institution is imperative (Landell-Mills & Porras 2002).

The composition of shareholding depends upon the pro-activeness of CFUGs, no and level of the SPs, message to the local communities from existing enterprise, interest of the local community, resource availability. Role of SPs emerged to be leading for the inception of

pro-poor model and over all development of the enterprises through financial and technical support. Thus, the enterprises have high dependency on these SPs.

Composition of enterprise Shareholders has effect on their role and benefit received. CFUGs are the main enterprise base in term of financial capital and resources. Member CFUGs having less share are less active than the member CFUG having more share. Role of poor shareholders includes investment, labor for raw materials collection and processing but for managerial role their skill and knowledge need to be strengthened and capacitate. Poor shareholders lack skills and knowledge regarding enterprises management (Pandit *et al.* 2009).

#### **4.2. Livelihood benefits**

As PPE, poor shareholders are the major target group of the studied enterprises in term of enterprise ownership and expectation of improving livelihood. Livelihood improvement from the enterprise comprises the capabilities, assets (including both material and social resources) and activities required for a means of living. A livelihood is sustainable when it can cope with and recover from stresses and shocks and maintain or enhance its capabilities and assets both now and in the future, while not undermining the natural resource base (Carney 1998). Since, local communities started managing their local resources, number of issues cropped up due to the inequity and unfairness in the local and national level (Khanal & Kandel, 2004). Thus, impacts of poor HHs are of particular concern. In contrary with Landell-Mills & Porras (2002) conclusion, studied enterprises have supported to gain from increase income, a more diversified asset base and the development of new skills, the livelihoods of poor communities may be have safe guarded through increased inclusion. CBFs are vehicle for forest management that potentially delivers a significant measure of economic and social benefits (Antinori & Bray 2005). The CBFs in 'Pro Poor Development Model' proved an effective approach in bringing tangible benefits to the poor immediately and in a sustainable way (Paudel & Chetry 2009). The more pro-poor oriented the enterprise is, the more its poor shareholder will have the chance increase income and well being by sustainable use of natural resources (DFID 1999).

This study has included economic benefits, human capacity enhancement, social capital and external link enhancement and institutional strengthening aspect of benefits. In studied enterprises employment opportunities, financial incentives (dividend and allowances) and



capacity building as major realized benefits from the enterprises as they aim to increase the livelihood for the local community especially focusing on the poor HHs. The executive body realized network building and social recognition as important benefits from the enterprise additionally. Exact quantification of the economical and social benefits is still yet not done (White & Martin 2002). As Acharya 2005 concluded studied CBFEs have created a positive impact on the socio-economic aspects of rural community.

#### **4.2.1. Economic benefits**

So far, dividend distribution and employment (partial and fulltime) creation are the major income generation strategies of studied enterprises. They are able to generate income only for a limited number of people including poor shareholders who are involved mostly in raw material collection despite of huge scope. CBFE can generate economic benefit through generating employment opportunities as well as dividend distribution (Paudel & Chetty 2009; Pokharel *et al.* 2005). Each enterprise has provision to distribute dividends at the end of each FY based on no of share owned by shareholder. All or part of the profits are distributed on a proportional basis to all legal members, usually retaining a small % for the administrative expenses (Antinori & Bray, 2005). Amounts of profit distribution may range from less than one month's average income to full average annual incomes. Three of the enterprises are in establishing stage, only DWPNU has distributed dividend once. Other CBFEs provided travel allowance to poor shareholders who participate in GA. EGHPL added share to shareholders based on the share they owned, a kind of dividend in term of share than direct money. "*Khai! Hami lai barshai pichhai bayaj dinchha bhanthye, tara mahele ta kyehe payeko chaina*" said a female shareholder of VNPPL. She was informed that she will receive on interest every year but she has not received yet. The poor shareholders are not aware about the dividend distribution and its criteria. They claimed adopting the equity basis criteria.

CBFEs generally offer labor opportunities to the poor shareholders including collection/ harvesting and processing as well as other wage related work (Pandit *et al.* 2008; Pandit *et al.* 2009). The studied enterprises are able to create seasonal as well as fulltime employment opportunities. Collectors can collect raw materials as a side job (extra income) while doing other daily work. "*Ma bastubhau charaudai machine sankalan garchhu*" said one of the woman collector. She collects winter green twigs while herding cattle. 'We are happy because we are getting money out of bedding materials' mentioned

chairperson of Vitteri CFUG. One poor shareholder respondent expressed that a *person who just hold little amount of grains in plastic, are now able to afford a sack of rice. It's because of this enterprise.* Most of poor are benefiting more from collection as rich are not interested. EGHPL seemed to more pro-poor focus regarding employment as poor are involved in paper production. Poor HHs involvement in enterprise activities depends upon the opportunities offered by the enterprise, the general motivation of the poor to involve themselves in the enterprise, geographical distance from enterprise (more poor involved when they are living close to enterprise) and the scale of the enterprise.

As the community governs the enterprise themselves, there are possibilities to allocate and mobilize the enterprise fund in alternative ways to generate income. At HHs level, poor HHs also use the income for IGAs, saving and education/insurance (Sunderlin *et al.* 2005). Income use for further IGA depends upon the personal consciousness, CFUG's and enterprise's provision regarding fund allocation. Economic benefit strategies for the poor depends upon the initial investment and scale of the enterprise, share ownership of the poor, provisions of enterprise, personal interest, enthusiasm and awareness.

#### **4.2.2. Human capital enhancement**

CF has brought changes to forests and to people's lives through building their capacity. "Specifically, capacity building encompasses the country's human, scientific, technological, organizational, institutional and resource capabilities. Capacity building enhance the ability to evaluate and address the crucial questions related to policy choices and modes of implementation among development options, based on an understanding of environment potentials and limits and of needs perceived by the people of the country concerned" *Capacity Building - Agenda 21's definition* (UNCED 1992) . Pokharel *et al.* (2006) has indicated capacity building of the shareholders as one of the key aspects for the successful PPE which ensure that local community develop variable enterprise and operate them independently (Mujuni *et al.* 2003). The studied enterprises and related SPs have organized various capacity building events including harvesting method, recording keeping, processing and handicraft preparation as well as enterprise development is important measure for skill and knowledge development. Among capacity building events, only few are especially focused towards poor and most of the poor shareholders have participated in the enterprise development workshop/discussion. Poor shareholders have not received adequate opportunity for trainings offered in CF intervention, compared with

the better off members of the same CFUG (Gouttierre *et al.* 2005). Prior selection of the participant by organizer, less concerns towards creating more skill manpower and awaring shareholders are the reasons that poor shareholders participation is less. Development of CBFEE can support the awareness raising and empowering communities (FAO 2005). However, most of the poor shareholders are not well informed about their rights and roles in enterprises. It affects the ownership feeling towards the enterprise of the poor shareholders and mostly are subject to opportunities for financial returns from the enterprise. In such case, social problems is keeping community members involved in the enterprise (Salafsky *et al.* 1997). It may overcome by reinvigorating their enthusiasm through building their capacity and knowledge.

The community acts as an entrepreneur when its members, acting as owners, managers, and employees, collaboratively create or identify a market opportunity, and organize themselves in order to respond to it. Enterprise can make investment in training and education (Landell-Mills & Porras 2002). Only EGHPL have started mobilizing enterprise fund for capacity building but it is still not institutionalized. Type of training/workshop and its target participations as well as the type of SP organizing the event (sensitivity towards poor) are affecting the participation. It is important to note that profit making need not only be, and typically will not be, the exclusive purpose of the CBFEEs. Enhancing the capacities of the poor is a very imperative aspect of creating sustainable livelihood.

#### **4.2.3. Social capital and external linkages enhancement**

Social capital reflects the links and connections among people and organizations to make things happen (Portes & Sessenbrenner 1993). After establishment of the enterprises, poor shareholders have opportunities enhance their social capital and contacts to other people. It includes mutual trust, reciprocity, groups and networks, collective identity, sense of a shared future, and working together that can improve the efficiency of society by facilitating coordinated actions (Putnam 1993). With positive remarks of DWPNU for benefiting the poor shareholders, the member CFUGs of VNPPL invested in their enterprises. Surrounding CFUGs were united, the shareholders of the enterprise are working collectively with their specific role in the enterprise, which is the prominent feature of the studied enterprises. Trust among the shareholders is an important parameter; however, degree varies between enterprises. Chairperson of Kansyesetap CFUG

mentioned, as all the surrounding CFUGs are working collectively, they are at ease as there is no more illegal theft of raw material.

The shareholders of the enterprise have realized improvement in the social capital, perceiving network building (good communication and co-ordination as network) as one of the important benefit after establishment of the enterprises. Poor HHs, mostly isolated from the social process, are represented in different decision-making forum and enterprise related activities (Pandit 2006). Social status of poor engaged in enterprise activities can be increased (Paudel 2005). Their representation in different decision-making forum provides opportunity for mainstreaming them in social process and enhances the two-way communication with other members of the enterprise. One of the poor employee from EGHPL said “*pahela pahela kadaka sir sanga bolna dar lagtheyo tara aba malailageko kura sajilai bhana sakchhu*”. He mentioned that during initial days, he was not able to talk to the Khadka sir (chairperson of EGHPL and political leader) but now he can talk to him easily. It indicates that relationship and communication among the shareholders is improving. Thus, active participation of poor, women and disadvantaged groups in decision-making is critical for effective community forest management and equitable benefit distribution among the users (Khanal & Kandel 2004). Enterprise provides an opportunity to them. However, none of enterprise has assigned poor in key position as manager or chairperson, as their voice are always influential.

CBFEs’ governance structures are designed to be participative, not merely representative. Governance of enterprise and CFUG, internal conflict between shareholders and effectiveness of the communication affects the level of trust among the shareholders affect the opportunities of poor shareholders to enhance social capital. Lack of transparency may erode the trust among the shareholders (Macqueen 2007). In VNPPL, shareholders lost their trust towards MC. As a result, it provoked the internal conflict between shareholders and MC. Networks and effective communication helps reducing tensions that arise from external interferences in local resource use (Macqueen 2007). Due to existence of good networks relationship SPs have supported all the enterprise financially and technically including share investment on the behalf of poor.

Enterprises comprise of different types of shareholders and supporting SP have diversity in knowledge and skills but acting jointly to fulfil the requirements for CBFE development. Shareholders and SPs of enterprises are being sensitive towards social issues

especially towards poor (FAO 2005). Pro-poor focused CBFEs aimed for their livelihood improvement of poor HHs (Pandit *et al.* 2009). So, studied enterprise has institutionalised them through developing provisions focusing poor shareholders including certain percent share reservation and representation in decision-making forum and capacity building of poor shareholders. Poor shareholders represented in both tiers of decision-making forum e.g. GA and MC but it is still limited in number. As a result, poor shareholders rarely know about the enterprise related information, which they should know as shareholders. Sharing experiences and learning among the enterprises, enterprises and SPs are very important (Pandit *et al.* 2009). In studied enterprises experience sharing and exchanging learning is very low.

### **4.3. Factor affecting CBFEE to be pro-poor**

Although, studied enterprises are able to generate income to the poor shareholders from employment but do not provide dividend. In practice, there are only limited NTFP enterprises that have been successful in creating income and employment for the poor (Kunwar *et al.* 2009). The success of existing or new CBFEs is not guaranteed (Molnar *et al.* 2007). Development into economically viable businesses requires an enabling environment (Donovan *et al.* 2006) furthermore; development of PPE is more complex and ambitious for implementation (Gurung 2006). There are various internal as well as factors affecting the pro-poorness of the studied enterprises. Internal as well as external factors influence the CBFEE to be pro-poor enterprises (Molnar *et al.* 2007).

#### **4.3.1. Internal factor**

The studied enterprises have followed the same process for its development to gasp the solid firm within the communities and address the socio-economic issues, which have crucial effect on ownership feeling of poor shareholders towards enterprise. The process of enterprise development and shareholder finalization needs to follow different steps (Upadhaya 2007). It takes time and effort (Landell-Mills & Porrás 2002). High inputs are needed for balancing pro-poor concept and the business principle (Paudel & Chetry 2009).

*Share allocation of poor shareholders* is very essential to involve poor shareholder. It ensures the shareholding and secures their right over enterprise. Share allocation involves

poor as owner of the enterprise (Paudel & Chhetry 2009; Pandit *et al.* 2008). Allocation of the share of CBFEE enables poor HHs to purchase share (Kumar 2007).

*Existence of Internal conflicts* influence the growth or success of CBFEEs to improve the livelihood of the poor shareholders. Mismanagement of the resources and income, facilitation and technical skill for group mobilization and enterprise operation, inclusiveness of the enterprise are the causes of internal conflicts (Molnar *et al.* 2007). Internal Conflict of VNPPL reduced the co-operation between the shareholders and communication.

*Constant cash flow* is essential for sustaining the enterprise as enterprise need to machinery maintenance, administrative and marketing costs. Because of constant cash flow EGHPL is able to maintain the enterprise activities as well as improve the infrastructure than other enterprises.

*Scale of enterprise* influences the success of the enterprise. Scale of enterprise varies in term of investment, membership and landscape (Albano *et al.* 2008). With the small scale of enterprise, DWPNU has employed less number of employees than other two enterprises. Macqueen 2007; Pokharel *et al.* 2006 identified scale of enterprises as one of the important factor affecting success of enterprises to contribute poor's livelihood.

*Distance from the enterprise* is also an important factor which influences the pro-poorness of the enterprises. Except for the daily allowance, none of the studied enterprise has any special provision for the distant shareholders. Farther the poor shareholders residence, less benefit they receive.

*Governance of enterprise* is one of the major factors. There is no substitute for good governance (Canby 2006). EGHPL with better governance has inclusiveness in decision making forum representation of poor shareholders, accountability of decision making forum, transparency in information and fund. As many of the CBFEEs do not yet specifically target the poorest; executive committees – the main policy-making body of FUGs - still largely comprises the local elite (Albano *et al.* 2008). Their representation in decision-making forum is essential to harness the potential benefit from enterprise (Macqueen 2007).

*Governance CFUGs* is the important aspect which influences the successfulness of the enterprises (Pokharel *et al.* 2006). Better the governance of the foundation of enterprise, more inclusiveness in enterprises. With the poor CFUG governance, poor from VNPPL are still wondering even on their shareholding which discourages them to participate in enterprise level activities.

*Skill and capacity of the poor shareholders* is a crucial factor for the enterprises development (Mujuni *et al.* 2003). Poor shareholders holding ownership, are still out of the management core in all studied enterprises due to limited management skills. Enhancing certain skill and capacity is important for improving management and entrepreneurial capacity of shareholders to operate enterprise and increase profitability (Albano *et al.* 2008). Lack of management skills and capacity of the poor shareholders is one of the major constraints of the enterprises (Pandit *et al.* 2009).

*Information availability* is one very necessary factor which influences the enterprises to be pro-poor. There is limited available information and effective means on necessary information dissemination among the shareholders for the SRM and its marketing. Private shareholders play the role in information flow in the enterprises (Brennan 2003). Poor people face specific constraints resulting in the lack of access to information and determining their ability to participate and benefit from any development interventions (Rai Paudel *et al.* 2006).

*Awareness level of poor* is essential to harness the benefit from the enterprises but in reality, they are more governed rather governing enterprise as owners. The poor HHs, rather than their self-motivation, is involved in enterprise due to influence of SPs as they highly supported for share investment from their behalf. CFUG executive member who are representatives for enterprise have the major role in motivating and encouraging poor HHs to involve in enterprise activities. Poor shareholders lack the feeling of investing their own money and compromise it as getting extra privilege. The greater sense of ownership can bring to an enterprise towards success (Molnar *et al.* 2007).

*level of poor's participation* should be interactive to harness the benefit from the enterprise. The participation can vary from nominal participation (only holding membership) to interactive participation (Having voice and influence in the group's decisions) (Agrawal 2009). In EGHPL, even though poor's participation is lower than the

executive body's participation but in comparison to other studied enterprises their level of participation is more interactive. Poor who are involved in enterprise activities they are more encouraged and confident and can express themselves. This provides opportunity to poor shareholders of EGHPL to get more benefit than other enterprises.

*Benefits distribution mechanism* is also important factor for affecting the pro-poorness of enterprise. The studied enterprises don't have definite provision on benefit distribution. To promote more equitable distribution of benefits from forests, some CBFs granted privileges to their poorest members (Kumar 2007). The MC discussion mostly decide to allocate employment opportunities, participation in capacity building events and dividend distribution. "How will benefits from the enterprise be distributed and who will be eligible to receive the benefits?" is very important (Salafsky *et al.* 1997).

*Available technological innovation* in the enterprise affects the benefit received by poor shareholders also. All the studied enterprise have simple processing techniques with some improved equipments and need less skills. Simple processing technologies are likely to be the most pro-poor option (Pokharel *et al.* 2005). Begin from the existing resource and technology was important for motivating shareholders (Paudel & Chettry 2009).

#### **4.3.2. External Factors**

*Support from external SPs* is one of the important external factor. Studied enterprises were supported by the SPs financially and technically from its concept development till to date. SPs are making share investments on poor behalf and providing capacity building of shareholders including poor. Support from external SP has become increasingly important to address complex global as well as local issues (Luintel 2006). Inadequate capital to sustain enterprise without external support is the common constraint (Pandit *et al.* 2009; Drigo *et al.* 2009). However, policies of external SPs encourage the practices of promoting equity within the CBFs (Kumar 2007). Nevertheless, most of the development activities induced and managed by external SHs is problematic as it often led to a lack of ownership on the target beneficiaries (Peredo & Chrisman 2005).

*Political stability* is essential of operating the enterprise as well as marketing of the product. One of the cause of almost failure of VNPPL was political imbalance. Political stability is important for establishment and operation of enterprise (FAO 2006).



*Policy and regulatory support* is essential for enterprise flourish and fulfil their goal for livelihood improvement of poor shareholders. All the enterprise are legal (registered through support of DFO) but facing problems with taxation, transportations and so on. Regulatory and policy barriers can be a major constraint to CBFEE success (Pandit *et al.* 2009; Molnar *et al.* 2007; Macqueen 2007). Registration of the enterprise is very important to receive the legal status and make business transactions, as a group especially with formal organizations such as banks and exporters of enterprise is important for its success (Albano *et al.* 2008; Kumar 2007). Beside it, royalty and taxation, restrictive export requirement are the constraints for increasing production and value addition of the enterprises (Albano *et al.* 2008). Even though, having supportive side of policy framework, weak implementation strategies/ structures is also the challenge (CSAG 2008).

*Existence of strong networks* has many advantages, but studied enterprises lack the network among them. Linking forest based enterprises together in associations including a reduction in transaction costs, greater adaptability to new opportunities, more influence on policy-makers (Molnar *et al.* 2007). It will support viable level of production and bargain for higher prices (Kumar 2007). Locally weak institutions lacks sufficient power to influence the market with their political voice and bargaining power (Macqueen 2007). Networks also help to improve the capacity of communities to use technical approaches and market information for sustainable forestry and value-added enterprise development (Brennan *et al.* 2003).

*Availability of market and related information* is very important. Among the studied enterprises, EGHPL has better market availability and information, as it includes skilled peoples (Foresters, National political leaders) in MC that help enterprise to pull the markets and related information. Without it, marketing remains weak especially for CFUG and network based enterprises (Albano *et al.* 2008). The enterprises lack marketing capacities (Pandit *et al.* 2009). The small scale of production means that CBFEEs need to seek high-value markets, but as new comers, they are perceived as very risky for investment in value adding (Molnar *et al.* 2007).

## **Chapter Five: Conclusion and Recommendation**

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### **5.1. Conclusions**

Establishing CBFEE is a strategy for shifting subsistence-oriented CF management towards commercialization. It can be a vehicle for the poverty reduction through contributing to different aspects of livelihood especially for the poor groups. Developing pro-poor oriented CBFEE comprises various shareholder compositions depending upon type of shareholders, % of each type of shareholders and their number. Major shareholders are CFUG, poor, local interested individual investor, local private entrepreneurs and national company. A threshold of share ownership for maintaining pro-poor enterprise doesn't exist but to ensure the ownership and decision making right, CFUG and poor shareholders should hold at least 50% of total share with fixed % allocated for poor shareholders. This provides space to poor to involve in enterprise management and decision-making with legitimate ownership and participate in enterprise level activities. Thus, the pro-poorness of the enterprise increases with poor increased participation. Collective action of the shareholders and SPs is the prominent feature for CBFEE. Different shareholders of enterprise enhance the collective action by playing different roles as poor shareholders mainly contribute in financial investment and human resources. SPs should support technically and financially for development of pro-poor CBFEE. Various SPs such as NSCFP, DFO, ANSAB, Cottage and Small industry office, FECOFUN, ECARDs, HBTL supported for enterprises establishment and operation.

CBFEs can make significant contribution to different assets of poor shareholders livelihood. Major benefits from the enterprises are income from employment and dividend as the economic benefit; capacity building as human capital enhancement and representation, participation, social recognition and improved networks as social capital improvement. CBFEE provides seasonal as well as fulltime employment opportunities and dividend to poor shareholders, which is important and enhanced source of income for them through value addition of forest product. Thus, it has added alternative source of income to poor livelihood but for limited number only and low level of income as Poor are mostly limited in seasonal employment especially raw materials collection. Poor shareholders are involved as owner, employee and collector in enterprise. They are not aware of their rights and roles in enterprises and the ownership feeling is lacking. They represent in both tiers of decision-making .i.e GA and MC but none of enterprise has poor

shareholders in key position. However, their representation provides opportunity for mainstreaming them in social process and enhances the two-way communication and consequently positive improvement in their social status. Besides profit making, capacity building and awareness raising of poor are also crucial benefits from CBFE through trainings and workshops. Enterprise related training includes raw material harvesting, recording keeping, product processing, handicraft preparation, and enterprise development workshops so far. However, participation of poor people has increased but the evidences show that capacity building has not benefited the poor as compared with the better off members. Strengthening the institutional capacity is essential in order to ensure their objective achievement to improve poor livelihood. Regardless of enterprises and SPs existence locally, the experience sharing and exchange among the enterprises and its shareholders is very low but they realize networking as important benefit.

Based on the comparative analysis of three enterprises, there are different internal and external factors that affect the CBFE to be pro-poor. Internal factors includes share allocation for poor; existence of internal conflict; constant cash flow; scale of enterprise; governance of CFUGs and enterprise; skill and capacity of the poor shareholders; information availability; awareness level of poor; level of poor representation and participation in decision-making along with distance of CFUG from enterprise; abundance of raw materials in CFUGs; benefits distribution mechanism and available technological innovation in the enterprise. External factors includes support from external SPs, political situation, policy and regulatory support, existence of strong networks, availability of market and related information. There is no blue print for pro-poor enterprise model or development process and it depends upon the local context. Studied enterprises have created the improvement in poor livelihood but still are unable to harness its full potential benefits to shareholders especially for poor.

## **5.2. Recommendations**

- Foster enterprises related network with proper co-ordination between SPs, enterprise including private sector to promote sharing experiences, exchange learning and to cope with the encountered challenges and translate them to policy-makers. Networks strengthen the CBFE for the policy dialogues by uniting voice and acting together for own right. Furthermore, all the enterprise can act jointly for expand production scale, identify other resources and diversify products.

- Formulation of the favorable policies and provisions addressing issues of poor directly and ensure their implementation. Developing more pro-poor provisions regarding dividend distribution and employment opportunities is essential.
- More capacity building events are necessary to empower poor shareholders and make them aware on enterprise management aspects and to maintain their enthusiasm and spirit towards enterprises.
- Governance coaching is needed to improve governance of the CFUG and enterprise. It will also increase the awareness and sensitivity of executive body of CFUG as well as enterprise towards the poor. Ensure the representation and participation of the poor in decision-making forums.
- All the studied enterprises are seasonal, they have scope for further improvement in the existing technology to produce whole year despite of depending upon seasons and daily weather. Feasible vertical hierarchal improvement (additional technology and equipment) should be done in order to extend additional production through identifying potential NTFPs. It will not only increase the production profit but also have many multiplier effects in employment and income of the poor shareholders.
- Special provision for the distance poor shareholders should be made while purchasing their collected raw material. Either by providing them transportation expenses or allocating some extra incentives for involving in enterprise activities.
- Allocating certain amount of enterprise funds for capacity building and awareness raising of poor as well as exploring new IGAs to support and diversify their income opportunities additionally is important.

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## Annexes

### Annex 1

#### List of proposed CBF E for study

<b>NTFP Based</b>	<b>Timber Based</b>
1. Hawa wintergreen processing unit	1. Kalinchock furniture enterprise
2. Suspa wintergreen processing unit	2. Ubaak furniture enterprise
3. Dolkha briquette enterprise	3. Hastkala furniture enterprise
4. Sindhu-Dolkha Pvt. Ltd.	4. Community timber depot, Viteri
5. Pandit kamala Forest Production processing Pvt. Ltd	5. Community fuel wood and timber depot, Suspa
6. Deudhunga wintergreen processing Napkey Unit	6. Community timber depot, Dhandesinghadevi
7. Vimeshow NTFP production and processing Pvt. Ltd	7. Community timber depot, Botlesetidevi
8. Everest Gateways Herbs Pvt. Ltd.	8. Community fuel wood depot, Jiri
	9. Community timber depot, Charnawoti