



Reflections on the Private Sector Component of MSFP from (2012 to 2016)

THE MULTI STAKEHOLDER FORESTRY PROGRAMME
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Abbreviations

AFEC	Agriculture, Forestry and Environment Committee
ANSAB	Asia Network for Sustainable Agriculture and Bio-resources
CFUG	Community Forestry User Group
CSIDB	Cottage and Small Industries Development Board
DAG	Disadvantaged Group
DCCI	District Chamber of Commerce and Industries
DFID	Department for International Development
DFO	District Forest Office
DFSCC	District Forest Sector Coordination Committee
DoF	Department of Forests
EC	Executive Committee
ERI	Environmental Resource Institute
FAO	Food and Agriculture Organization of United Nations
FBE	Forest Based Enterprise
FECOFUN	Federation of Community Forest Users, Nepal
FED	Forest Enterprise Division (of FNCCI)
FEMD	Forest Enterprise and Management Division (of MoFSC)
FNCCI	Federation of Nepalese Chambers of Commerce and Industries
FSS	Forest Sector Strategy
GDP	Gross Domestic Product
GoF	Government of Finland
GoN	Government of Nepal
ha	hectare
HBTL	Himalayan Bio Trade Pvt. Ltd.
hh/s	household/s
IAs	Implementing Agency/s
JFA	Joint Funding Agreement
LFG	Local Forestry Group
LIPO	Local Implementing Partner Organization
m ³	cubic metres
MAPs	Medicinal and Aromatic Plants

MoCS	Ministry of Commerce and Supplies
M&E	Monitoring and Evaluation
MoFSC	Ministry of Forests and Soil Conservation
MIS	Management Information System
MoU	Memorandum of Understanding
MSFP	Multi Stakeholder Forestry Programme
MSSC	Multi Stakeholder Steering Committee
MTR	Mid-Term Review
NGO	Non-Governmental Organization
NRs	Nepalese Rupee
OP	Operational Plan
R&D	Research and Development
SDC	Swiss Agency for Development and Cooperation
SIAS	South-Asia Institute for Advanced Studies
SSU	Services Support Unit (of MSFP)
ToR	Terms of Reference
VC	Value Chain
VCDF	Value Chain Development Fund
VDC	Village Development Committee

EXECUTIVE SUMMARY

The forestry sector in Nepal is considered as one of the key pillars in the promotion of sustainable development in Nepal, and it is widely recognized that sustainable forest resource management has great potential for creating jobs and improving livelihoods amongst rural forest-dependent households. In addition, many studies have shown that the involvement of, and investment from the private sector is a crucial element in the development of a vibrant forestry sector that contributes to rural development and the Gross Domestic Product (GDP).

Key opportunities for the private investor are the high potential of both the domestic timber trade, and the trade in NTFPs (non-timber forest products) in the international market. However, there are many challenges, in particular those related to governing laws and policy implementation.

The Multi Stakeholder Forestry Programme's (MSFP) theory of change has emphasized private sector involvement and investment in the forestry sector and the creation of jobs. Key interventions of the MSFP private sector component focused on policy contributions, institution building and strengthening, capacity building, and value chain strengthening and development.

In the course of 4 years, MSFP was able to achieve some notable outputs. The key achievements have been:

- the consideration of the importance of the private sector in the Forest Sector Strategy,
- the creation of an additional 17,243 full-time jobs from 592 forest based enterprises (in which more than 40% are for women and 67% for the disadvantaged),
- the establishment and operation of the Forest Enterprise Division (FED) within the Federation of Nepalese Chambers of Commerce and Industries (FNCCI),
- the establishment of a *value chain development fund* in collaboration with a financial institution.

At the same time, there are important lessons to be learned and internalized, which will benefit the design of future forestry projects. A few noteworthy lessons include:-

- focusing the programme on a few appropriate subsectors,
- the establishment of a multi-stakeholder platform is very useful in promoting the value chain,
- visible results are possible providing clear targets and a clear approach are provided, and sufficient time is available to build interest and change business and investment behaviour, and –
- there is as much potential for growth in the timber subsector as there is in the non-timber subsector - both need emphasising.

Based on the learnings of MSFP, a few strategic directions are proposed to promote forest-based income and jobs through engagement of the private sector. These include:

- any long term programme should be designed based on detailed and robust studies which bring all key stakeholders on board;
- a clear results chain for each selected value chain needs to be developed and implemented through a multi stakeholder approach;
- the FNCCI/FED and the Forest Enterprise and Management Division of the Ministry of Forest and Soil Conservation need to be strengthened and capacitated, and, in order to enhance private sector involvement and investment in the forest sector, they need to work in close coordination and in harmony for creating an enabling policy environment.

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1

INTRODUCTION

The Food and Agriculture Organization of the United Nation estimates that the formal forest sector employs about 13.2 million people across the world and at least another 41 million are employed in the informal sector (FAO 2014). It further estimates that forestry contributes about 1% to GDP (a value of nearly US \$468 billion), and 2.4% of global merchandise trade in 2011 from round wood production, wood processing and pulp and paper. The International Trade Commission (2013) estimates an increase in trade of major medicinal plants and extracts in global markets from US \$19.5 billion in 2008, to US \$32.9 billion in 2013, representing an annual growth rate of 11% that is much higher than the GDP growth rates of almost all developing countries. China is the biggest exporting country in the world for medicinal herbs, followed by India and Germany – exports totaling US \$560 million, \$130 million and \$120 million respectively, in 2010.

At national level, the forestry sector in Nepal has huge socio-economic potential and can create a ‘win-win’ situation for the twin objectives of sustainable forest resource management and livelihood improvement amongst rural forest-dependent households through creating jobs and income (Gauli and Hauser 2011). A study conducted by the Multi Stakeholder Forestry Programme (MSFP), entitled “Private Sector Involvement and Investment in Nepal’s Forestry: Status, Prospects and Ways Forward”, estimated that 12,000 forest-based enterprises are involved in the major four forest subsectors – timber, NTFPs, ecosystem services, and bio-energy (Subedi et al. 2014). The report shows that there are 9,869 registered timber-based enterprises, with the number of registered enterprises increasing every year, indicating that the private sector sees enough promise in the timber industry to invest. In the Non-timber Forest Product (NTFP) sector, a total of 1,647 enterprises are involved; these enterprises are mainly involved in processing of medicinal

herbs, spices and food, natural fibers, crafts, rosin and kattha. The total investment in these enterprises (timber and NTFP) is estimated at NRs 24.38 billion.

A study from 2011 estimates that the forest sector provides about 1.658 million full-time jobs (including non-formal – eg. daily waged) per annum in Nepal, which represents 9.23% of the total economically active population of the country (ERI 2011). However, only 8.7% of this is formal employment (about 145,000 full time jobs). Of the total formal employment in the forestry sector, the private sector contributes 68%, which equates to about 98,500 full time jobs per annum. The forestry sector on average generated revenue for the government of about NRs 550 million per year during the period 2004 to 2012 (Subedi et al. 2014). The sales of timber and fuelwood shared an average of 63% of the generated revenue, followed by 26% through issuance of entry permits to protected areas, and 11% from royalties on NTFPs (excluding sand, gravel and stone).

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OPPORTUNITIES AND CHALLENGES FOR THE PRIVATE INVESTOR IN THE FORESTRY SECTOR

Nepal's forests are known for their rich biological diversity, and the involvement of communities in their management, and host a wide diversity of plant and animal species as a result of the nation's climatic and topographic variation. The major forest resources include timber, fuel wood, fodder, wild food, medicines, fibers and a variety of other NTFPs – all of which are renewable and can significantly improve employment, income and food security opportunities. Although the forestry sector has many opportunities for the private investors, there are challenges as well.

The high potential of the timber trade in the domestic and international market:

the demand for forest products has been increasing, and there is a huge gap between demand and supply which is expected to further widen in the future. In 2011, the domestic timber demand for household construction and repair, as well as for furniture was about 3.37 million m³, and demand is projected to increase to 4.8 million m³ by 2030, considering the increasing number of households and likely population growth (Kanel et al. 2012). However, the formal supply volume was 1.1 million m³ in the same year, 2011, and the average for the past 5 years is 1.6 million m³ (Subedi et al. 2014). As there is a significant gap between demand and supply, there is great scope for the private sector to grow tree crops on private land.

In addition, the demand for Nepal's veneer sheets and plywood is increasing, especially in India. As Nepal lies between two of the fastest growing economies in the world, both with a great appetite for veneer, ply and processed wood, there are excellent prospects of increasing international markets.

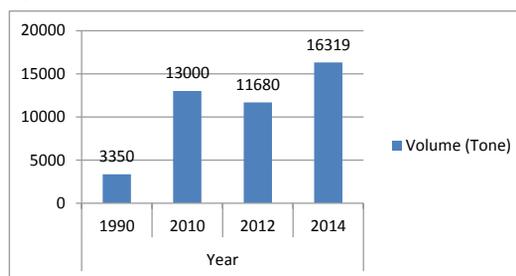
The high potential for NTFP trade in the global market: Nepal's share in the world market for medicinal herbs is around 0.2% (MoCS 2010). According to the Forest Sector Strategy 2015, the annual export value of NTFPs/MAPs is about NRs 6 billion

and the sector generates approximately 0.2 million full-time jobs annually.

Although variations exist in estimation of quantity and value of NTFP trade, the overall trend is clear, demonstrating the scope for Nepali NTFP products in the

international niche market (Fig 1). The Nepal Trade Integration Strategy data records essential oils as commodities with high export potential for markets in the Middle East and Gulf regions as well as the south, southeast and east Asian regions (MoCS 2010).

Figure 1: Trade Volume of NTFPs in Nepal



Source: DoF 1990, 2010, 2012, 2014

Challenges in forestry business: despite ample opportunities for private sector involvement and investment in commercialization of the forestry sector in Nepal, many challenges remain. These challenges are listed in Box 1.

Box 1 Some of the challenges facing private sector involvement and investment in forestry enterprises

- an insecure or risky capital investment and business climate;
- a long gestation period coupled with unpredictable regulatory decisions;
- procedural hurdles and unnecessary paper work and red tape (eg. complexity in enterprise registration);
- ad-hoc decision making;
- arbitrary royalty rates;
- multiple taxation;
- lack of trust among value chain actors;
- unfair benefit sharing;
- product adulteration;
- lack of skilled human resources; and –
- old technologies.

This paper has been developed to reflect what MSFP did, and how it did it, between 2012 and 2016 in order to seize the opportunities for the private sector and mitigate the challenges. The paper is based on document reviews, programme results and experiences, and consultation with national and district level stakeholders. The paper briefly explains the MSFP theory of change, key interventions, key achievements, lessons learned and the way forward.

3

MSFP'S THEORY OF CHANGE

The MSFP is a programme led by the Government of Nepal (GoN) in collaboration with the Governments of Finland, Switzerland and the UK. The programme was implemented in 43 districts of Nepal through Government agencies and national NGO implementing agencies (see Figure 2). The multi stakeholder approach is the foundation of MSFP, through which various stakeholders, including the government, civil society and private sector actors, work together for the common goal.

Considering the ample opportunities in the forestry sector for job creation, MSFP set two key milestones for private sector engagement. **Firstly**, to increase private investment in the forestry sector by 200%, and **secondly**, to create an additional 32,000 jobs for poor and disadvantaged people through increased private investment in the forestry sector. About 15% of the total Programme budget was allocated for the private sector component in the initial phase, 2012 to 2106. To achieve the expected results, the Programme identified two crucial starting points: a) identifying the opportunities and constraints, capitalizing opportunities, and minimizing and removing the constraints to private investment in the sector; and b) establishing lasting business forest-based enterprise partnerships between the private sector, the local forestry groups, and farmers. The active involvement of the private sector was perceived as a very important basis for sound utilization of the forest resource, for enhancing economic growth, and for stimulating job creation.

MSFP therefore aimed to identify the main constraints to private sector involvement, to disseminate potential good practices, to enhance private sector investment in the forestry sector, and to conduct value chain studies of selected products. Underlying these main aims, it provided support to network formation, training and coaching, concept development and business planning, resource inventory, partner and investor identification, enterprise establishment and piloting of initiatives. Through an approach based on community-private partnerships for establishing forest based enterprises, MSFP supported activities related to green enterprises, employment generation, forest product development, processing and marketing on the basis of appropriateness to different geographic and ecological regions and management modalities, linking businesses to banks, and building the capacities of farmers, groups, entrepreneurs and the GoN.

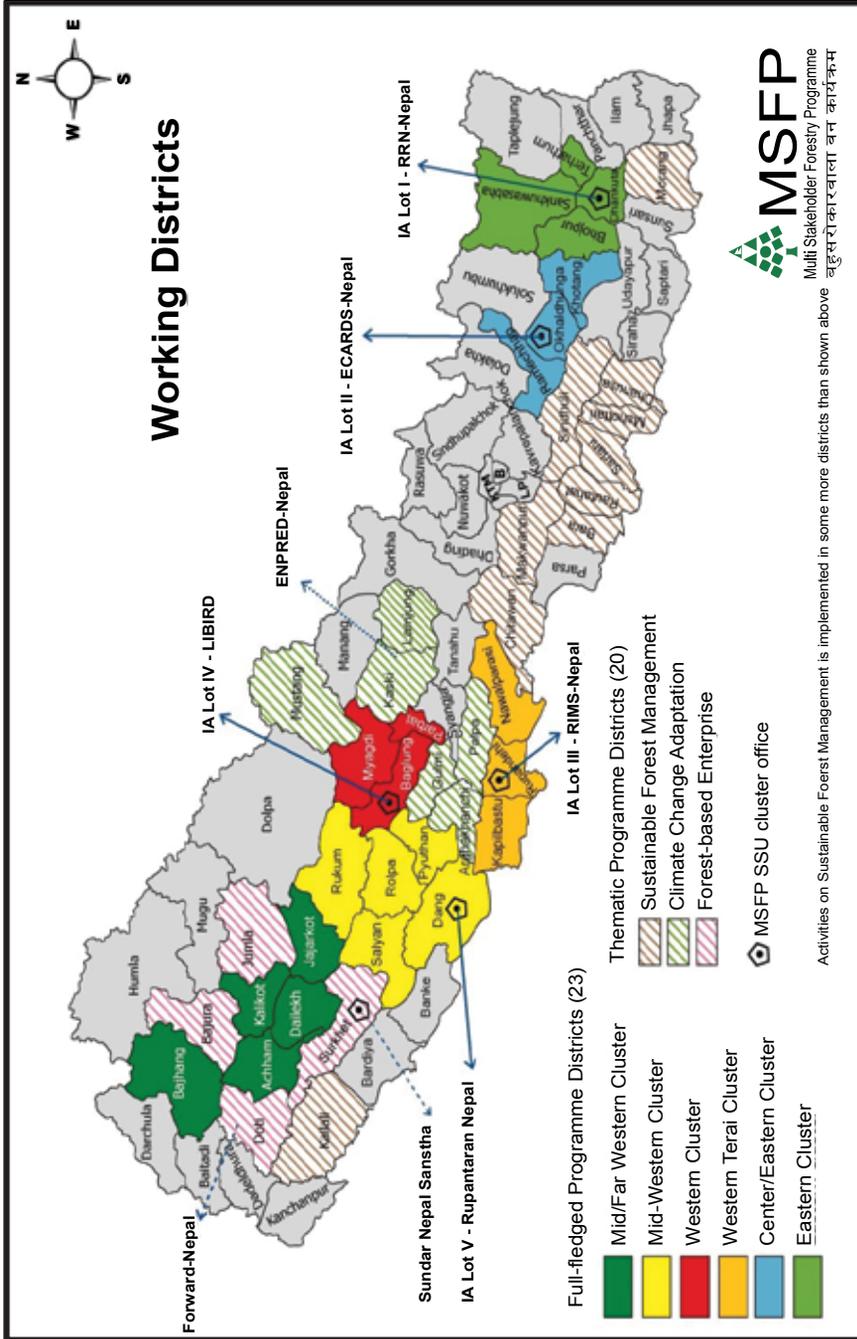


Figure 2: MSFP Working Districts

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KEY INTERVENTIONS

MSFP interventions to enhance private sector engagement were carried out at three levels - national, regional and local - through both the GoN institutions and NGO Implementing Agencies (IAs) in 27 districts of six clusters¹ (or lots); these included four thematic districts particularly focused on forest based enterprise development (see Figure 2). Following the development of a “road map for private sector engagement”, MSFP adopted a twin value chain approach: a) micro-enterprise development, and b) identification of flagship products for value chain development. The interventions fell under 3 domains, namely policy contribution, institutional development and strengthening, and field implementation.

a) Policy contribution

Knowledge management: MSFP commissioned studies and research which identified constraints to, and opportunities for building a business enabling environment in the forestry sector. A national study on ‘Private Sector Involvement and Investment’ presented the current status and future potential of private sector involvement and investment in the forestry sector of Nepal

Box 2 Key findings from the study on ‘Private Sector Involvement and Investment in Nepal’s Forestry’

- i) Nepal contains some subsectors that have a comparative advantage and can be turned into competitive industries;
- ii) community forestry in Nepal has created a very good base, institutionally and ecologically, for enterprise oriented sustainable forest management;
- iii) the private sector is interested and serious but finds itself at a crossroads of whether or not to continue involvement in forestry businesses;
- iv) the main motivating factors for private sector are high returns on investment, low risk and transaction costs, and the stability of a business with a good social image;
- v) in spite of large, lucrative markets for forest products, the producers are not receiving enough incentives to increase production.

¹ Cluster 1 : Bhojpur, Sankhuwasava, Terathum and Dhankuta; 2: Ramechhap, Okhaldhunga and Khotang; 3: Rupendehi; Nawalparashi and Kapilbastu; 4: Baglung, Parbat and Myagdi; 5: Rukum, Salyan, Rolpa, Dang and Pyuthan; 6: Bajhang, Achham, Kalikot, Dailekhi, Jajarkot, Bajura, Jumla, Doti and Surkhet

(Subedi et al. 2014). The key findings of the study are listed in Box 2.

MSFP supported the IAs in conducting value chain analysis of 21 products; 12 of these studies are published. These analyzed products include the following:

Edible: Sisnoo powder (*Urtica dioica*) and Bael (*Aegle marmelos*)

Fiber: Allo (*Girardinia diversifolia*) and Lokta (*Daphne spp.*)

Medicinal: Chiraito (*Swertia Chiraita*), Satuwa (*Paris polyphylla*)

Essential oils: mentha, lemongrass, citronella and wintergreen oil Timber and others

Analysis of the value chains involved in the above products served as the basis for the design and implementation of suitable interventions to promote production and trade in these products.

Policy dialogue: MSFP also supported various policy dialogues, specifically on:

- forestry sector strategy from the private sector perspective for raising awareness and engaging the private sector in forestry business opportunities;
- enhancing the space for the private sector in the forestry sector;
- the policy process;
- how to support the smooth establishment of forest businesses;
- how to simplify investment in forest-based businesses.

MSFP provided support to the Federation of Nepalese Chamber Commerce and Industries (FNCCI) to organize a national workshop on Economic Sustainability of Forest Resources in Nepal in 2015. The workshop brought together many different stakeholders, including the Minister and Secretary of the MoFSC, and parliamentarians (members of the Legislature Parliament Environment Conservation Committee), into a forum for discussion on the opportunities of the private sector in forestry business, and the challenges facing investors.

Participation of the private sector in key decision making fora: for the first time in the history of forestry projects and programmes in Nepal, MSFP has involved private sector representatives in programme steering – in the Multi Stakeholder Steering Committee, as well as the Executive Committee. This provided an

important opportunity to bridge the gap between the development sector and the private sector. This initiation was taken based on many years of experience of forestry sector projects and programme where the intended and expected economic benefit for the targeted groups was not reached due to the absence of private sector involvement. Although the above Committees will not be in existence after MSFP closure, this has set a benchmark for involvement of the private sector in decision making for future programmes.

b) Institutional building and strengthening

Institution building: MSFP strongly supported the inclusion and representation of private entrepreneurs and farmers engaged in a forestry business on different committees and associations. The programme supported the establishment of the Forest Enterprise Division (FED) and its secretariat in the FNCCI under the leadership of the Vice President of the FNCCI. Other institutional strengthening initiatives included functional coordination with the Forest Entrepreneur Section of the Department of Forests and the Forest Enterprise and Management Division of MoFSC, the provision of training in business plan development, and the inclusion of representatives from the District Chamber of Commerce and Industries (DCCI) and the private sector in the District Forest Sector Coordination Committees (DFSCC).

Network formation: MSFP supported the formation of the Association of Family Forest Owners, Nepal, which is a common platform of private and family forest owners, established to ensure owners' rights, and to enhance their active involvement in the policy process.

c) Capacity building

MSFP organized as well as supported different capacity building events for SSU, IA staff and front line facilitators. Value chain development training, organized in two modules, was the key capacity building event that trained 20 SSU and IA staff. Field facilitators were then trained and coached by SSU and IA experts, and contracted service providers. The need for capacity building was identified for private sector representatives, entrepreneurs and farmers. Key trainings included financial literacy, entrepreneurship development, and business plan development training. In support of MSFP, FNCCI conducted business plan development training to 129 forest based entrepreneurs and service providers from five development regions. In addition, training in different subsectors for each value chain actor was provided according to the need and demand.

d) Enterprise development and strengthening

MSFP supported the establishment of new enterprises and strengthened existing businesses through community-private partnership. MSFP supported the establishment of 344 new enterprises and strengthened 248 enterprises. Support areas included facilitation for registration, machinery support for increased production and productivity, infrastructure support to reduce loss on storage, and technology transfer to introduce new products. For example, MSFP supported the import of improved technologies from India to produce densified bio-briquettes, and from China, appropriate rural technology to extract oil from Dhatelo (*Prinsepia utilis*).

Altogether, MSFP supported 38 different subsectors in its six clusters; each cluster had a minimum of 8 subsectors to a maximum of 21. The most common subsectors were furniture, essential oil, handmade paper, bamboo craft and allo, followed by honey, sisnoo and leaf plates. At later stages of the initial phase, MSFP developed a road map for engaging the private sector, and asked the IAs to select only a few flagship products for development and implementation in a value chain approach – see Box 3. Although the value chain concept is not new in the forestry sector, its implementation has been weak at field level. Most of the required interventions are similar to those needed for micro-

enterprise development where there are weak backward and forward linkages. Interventions in the past have mostly adopted the welfare-based approach with heavy subsidies, and projects themselves performing as value chain actors.

Box 3 Flagship products in the MSFP clusters

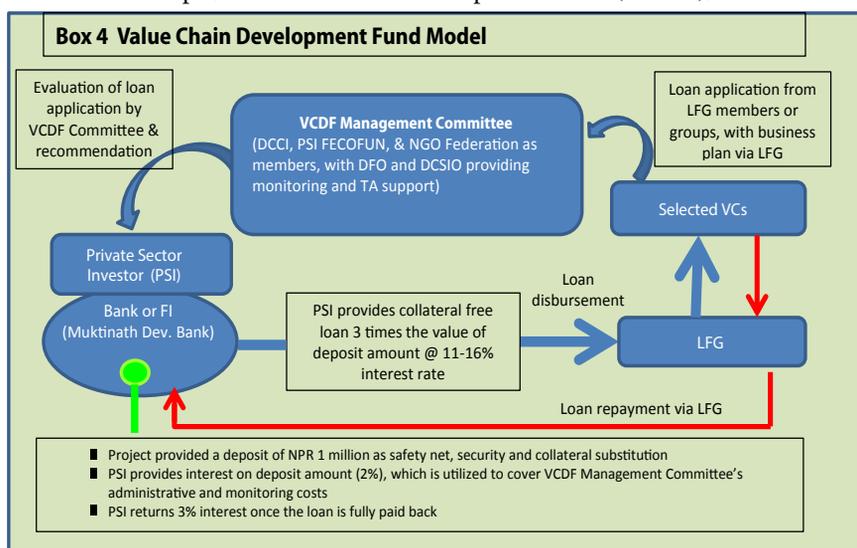
Lot I	Lot II & III	Lot IV	Lot V	Lot VI
Bamboo crafts	Essential Oil	Sisnoo, Sitake mushroom	Chiuri	Chiuri, Dhatelo, Leaf plates

e) Backward linkage

MSFP has facilitated the preparation and revision of 3,721 CFUGs operational plans; a key feature of these plans is the incorporation of details on the available resources for private forestry businesses. The extraction of sustainable quantities of raw material from the community forests is quantified, and the CFUG is seen as a resource and facilitation base for local enterprises and collective community

actions. Training and material support was provided to the collectors and processors of raw materials amongst the CFUG membership.

In most cases of intervention, the CFUG was considered as an entry point while establishing or strengthening enterprises, capitalizing on the existing institutional base for promoting business. There have also been a few innovations in this field – for example, the value chain development fund (VCDF), established in



f) Forward linkage

MSFP facilitated and supported entrepreneurs and other value chain actors in the forward linkage of their products. They participated in different regional, district, national and international level trade fairs and study tours, which proved useful platforms to not only sell their products, but to provide opportunities for business expansion through establishing linkages with other value chain actors, and to learn about more advanced technology and how to import it. For example, a total of 36 entrepreneurs participated in three international trade fairs in Kathmandu where they promoted products, such as bamboo handicrafts, allo garments, honey, handmade paper, and other handicrafts. A study tour to India helped to import more advanced technology for making densified bio-briquettes in Surkhet.

MSFP also supported the establishment of multi stakeholder platforms on flagship products which stimulated dialogue, collective learning, synergies and innovation between and among stakeholders and value chain actors. In a few cases, MSFP felt it necessary to expand the participation of value chain actors to increase access to markets – see Case Study 1

CASE STUDY 1

Expanding the Value Chain

MSFP/RIMS in the Western Terai Cluster has supported the promotion of various forest based enterprises; however, most producer groups were facing difficulties in accessing the markets. The underlying reason, particularly for Tharu women producing dhakiya (bowls and baskets woven from grass), is the language barrier - they found it hard to communicate with individual buyers, especially in the bigger towns and cities.

Making dhakiya is their traditional work, and it is undertaken at household level; as there was no one to market the products, they were mostly selling from their homes to whoever come there as a visitor – as a consequence, sales were very low. MSFP facilitated women's groups to identify bottlenecks and possible solutions. One group felt the need for an additional actor in a bridging role between producers and consumers.

In coordination with the Butwal Chamber of Commerce and Industry, MSFP supported this group, the Magar Mahila Sangh Butwal, to establish an outlet, Sankalpa Kosheli Ghar, at Butwal. Now, not only the Tharu women but other forest based entrepreneurs from the cluster and beyond are approaching the Kosheli Ghar to sell their products, and members of the Kosheli Ghar themselves go to the enterprise or households when they need products urgently. The group is now selling a wide range of products (eg. garments from allo, dhakiya and other handicrafts, bel juice, leaf plates, bamboo products) from the Koshali Ghar, as well as through other outlets and trade fairs, and through personal contacts, to the Army, Police and other government offices. The Kosheli Ghar has become a means to uplift the livelihood of women, the poor and the marginalized, and the Tharu women groups are encouraged to continue their businesses from home, as there is no more language barrier and a market for their products is assured through various outlets.

In many cases, MSFP facilitated the signing of an MoU between the private sector and the CFUGs through which the CFUG agreed to supply the raw material. For example, four CFUGs in Surkhet signed an MoU with Himalya Bio Trade Product Pvt. Ltd (HBLT). to sell their biomass for producing densified bio-briquettes. In other cases, MSFP facilitated the preparation of MoUs to cover buyback guarantees between entrepreneurs and national and regional level buyers involved in trading forest products – for example:-

- a) an MoU signed between three Chiuri entrepreneurs in Dang Cluster, and Basana Herbal Products Kathmandu for trading of Chiuri Butter – with a buyback guarantee – see Case Study 2.

CASE STUDY 2

Turning Waste Chiuri Seed into Cash and Jobs

Mr Shalikram Bhattarai from Kalimati Kalche VDC in Salyan District had for many years envisioned utilizing the locally available chiuri seed for ghee extraction. After many years of trial and error, MSFP and Rupantaran Nepal came to the rescue in 2014, provided training in chiuri processing, quality assurance, entrepreneurship and business management, and supported the construction of a shed, a store, a drying house and in the purchasing of a modern expeller machine and other necessary equipment. The Sharada Chiuri Parsodhan Mill (SCPM) was established and registered in 2015. More than 290 poor hhs were soon engaged in collecting and selling the seed to the mill which purchases chiuri seed at NRs 25 to 30/kg. The mill now employs 10 full time individuals from poor backgrounds for grading, processing, and management.

In the first year, the enterprise sold 6.3 tons ghee and 8.5 tons of cake products (used as a manure); in total this was worth NRs. 1.4 million, providing a profit of NRs. 0.2 million. Recently, SCPM has signed an agreement with the Basana Herbal Products Kathmandu, which has guaranteed to purchase at least 3,500 kg of chiuri ghee each year. Excess will be sold to the local markets in Dang, Surkhet and Nepalgunj, the current markets.

Mr. Bhattarai: "...if we had not received good technical and financial support from RN-MSFP, our dream and my life would be muddy forever".

The Treasurer of SCPM, Ms. Jibika Gautam: "...the enterprise is for women; and we hope to increase the employment of women in the years to come and double our output of ghee!"

See Annex 1 for further details

- b) an MoU signed between Deauti Herbal Cooperative in Surkhet, and the HBTL in Kathmandu for the trading of Chiuri Butter and Dhatelo produced by entrepreneurs in Jumla. HBTL has recently exported 2,750 kg of Dhatelo oil to Europe and Japan – see Case Study 3.

CASE STUDY 3

Dhatelo - a New Export Product for Jumla

Dhatelo is an agro-forestry product generally growing in wasteland, nearby riversides and on range land within forest areas. The seeds have a high oil content, and the extracted oil is used for cooking, in cosmetics, and in traditional rituals. However, both collection of the seed and the traditional oil extraction method are difficult.

Inspired by what he saw while working in India, Mr Nanda Prasad Neupane, after a long struggle over many years, established the New Karnali Jadi Buti and Dhatelo Processing Kendra, with assistance from MSFP through Sundar Nepal, especially in the registration process and linking him with the Himalayan Bio Trade Pvt. Ltd (HBTL) in Kathmandu. MSFP/Sundar Nepal also provided training in enterprise development, financial and technical assistance, support for infrastructure and a new expeller plant from China, and promoted dhatelo plantation and nursery management. Nanda then arranged for the collection of 25 quintal of dhatelo seed. After many problems during the earthquake and its aftermath, and the blockades delaying the import of the necessary tools and machinery, Nanda has now generated more than NRs 550,000/- from his dhatelo business, and has an agreement with HBTL.

HBTL has over the past few years, bought 23 ton of dhatelo seed from the communities of Jumla, for which they have paid more than NRs 5 million. MSFP's assistance and the agreement with HBTL have solved two long standing problems - the physical labour for expelling oil, and the lack of market opportunity – which are now no more a problem for the people of Jumla.

Mr. Nanda Prasad Neupane: *“Nothing is as easy as you think, but dhatelo will be a major source of income for this area in the coming years. I have faith that we can increase production and profit. And it's not only me who will improve my income and livelihood – the collectors will, and all those who work in the local dhatelo industry – and we must also think about better using and marketing the seed cake, which is a good organic manure!”*

See Annex 2 for further details

5

KEY ACHIEVEMENTS

Some significant achievements have been made during MSFP’s initial phase, though many of the expected impacts are yet to be visible. Key achievements are briefly described in the table below.

Outcome	Key achievements
An enabling environment created	<ul style="list-style-type: none"> ■ The Forest sector strategy (2016-25) has considered private sector engagement and economic development as one of the eight strategic pillars which provide the foundation of the strategy. ■ Forest Policy 2015 has considered the important potential role of the private sector in forestry development, value addition and green jobs creation. ■ The environment of collaboration between the private sector and the GoN has improved, as has private sector engagement in the policy development process. ■ The 5th Amendment of the forest regulations facilitates easier transportation of certain timber and NTFP species, which will promote increased trade, as will the relaxation of the distance provision from forest areas.
Jobs created and incomes increased	<ul style="list-style-type: none"> ■ An additional 17,243 full time jobs were created from forest based enterprises; more than 40% of these jobs were occupied by women, and around 67% by individuals from disadvantaged groups. ■ A significantly larger number of part time jobs have also been created, but are not accounted for in overall MSFP results, as most of these do not meet the MSFP operational definition of a job (US\$ 1.25 per day for 90 days) due to the seasonal nature of the employment.

Outcome	Key achievements
Value chain development approach promoted	<ul style="list-style-type: none"> ■ MSFP has been able to shift the mindset of some actors and enablers in the value chain, so that the market is the most important factor, and the private sector personnel are the key actors to tap the market. ■ A multi stakeholder platform helped to bring all the value chain actors of a particular flagship product together to discuss a market-based solution, and collaborate in implementing all interventions. ■ The establishment of a value chain development fund in 3 districts in partnership with a private bank; entrepreneurs have already begun obtaining a collateral free loan.
Institutional building and networking	<ul style="list-style-type: none"> ■ The Forest Enterprise Division (FED) within the FNCCI was established to tap the business opportunities in the forestry sector. ■ The Forest Enterprise and Management Division of the MoFSC and FNCCI FED are working in close coordination for creating an enabling policy environment for promoting forestry businesses. ■ At field level, households are organized into groups or cooperatives, and the formation of networks. These networks, groups and cooperatives have supported increasing production, aggregation of the products, and reduced transaction cost; in addition, the networks have increased access to markets, and improved the position for negotiation. ■ Formalized buyback guarantees and MoUs have provided assured markets for the producer, while an assured supply of raw materials provides stability to processing units and business managers. In most cases, the identified flagship products (eg. churi, essential oil, and handmade paper) now have better linkages with the business houses and the processing units.
Economic empowerment of poor, women and the disadvantaged	<ul style="list-style-type: none"> ■ Income and confidence among the poor, women and the disadvantaged has increased. ■ Their affiliation in enterprises as shareholders or employees has provided them increased opportunities as well as status within the communities. ■ In addition, movement beyond their villages has provided the opportunity to interact with different stakeholders and exchange learnings and experiences, which in turn provides them better insights to improve their skills and business knowledge.

6

LESSONS LEARNED

In addition to the achievements documented above, a number of lessons have also been learnt from 4 years of programme implementation – these are important for designing and implementing future forestry projects and programmes with private sector engagement. The key lessons learned are described briefly below.

a) Subsector prioritization is key and selection of the most appropriate subsectors foremost

MSFP began enterprise-based interventions without prioritizing the sub-sector. Some of these early enterprises had good results, but only at a limited scale. As a result, the programme ended up working in 38 different subsectors, and integration with other outcomes of MSFP was weak. Each sub-sector is unique in terms of, for example, resource base, product volume and value, diversity of value chain actors, opportunities and constraints, and potential market-based solutions. A blanket approach with common market-based solutions to address the constraints of all subsectors is not feasible. In addition, a dispersed resource base, as in the Nepal context, adds further difficulties for interventions. In the early years, IAs put their efforts simultaneously into various subsectors; as a consequence their efforts were diluted, and adequate support could not be provided to all elements in the value chain of every subsector – this resulted in limited generation of jobs and income. Thus, identifying and prioritizing the subsector for each area or district is very important in order to focus efforts and generate impacts.

The road map for private sector engagement, developed by MSFP in the later part of the initial phase, has guided the IAs in selecting flagship products in each cluster, and identifying interventions which will strengthen the value chain of the flagship products. However, as this road map was developed only in early

2015, it had little impact before the programme closed, and interventions during the phase were not as were initially expected. Nevertheless, the positive outcomes of the road map thus far suggest that the prioritization of the subsectors, and the sound design and implementation of activities in a value chain approach is both very necessary and workable.

b) The Multi Stakeholder Platform is a useful tool in promoting value chain approach

The establishment of such a multi stakeholder platform was found to be an effective tool for stimulating dialogue and collective learning, prioritizing the interventions, and sharing roles between and among stakeholders of similar interests and common goals. This platform also resulted in decision making for collective action and innovations for collective growth and prosperity. The multi stakeholder approach has been especially effective in the MSFP's private sector component as it has helped the entrepreneurs to develop linkages, reach the market, and access inputs and related services from service providers and enablers.

c) Clear targets and approaches with sufficient timeframe needed for visible results

MSFP's target in relation to job creation was to achieve 32,000 additional jobs in the initial phase. A complex programme like MSFP, embedded within the forestry sector, needs significant preparatory time to develop practical approaches in order to meet such a target. The timeframe for the IAs to meet this target was only 3½ years, including the cost extension of 18 months; this was clearly not long enough to ensure impacts or even design long term interventions. As developing a forest-based enterprise through the value chain approach is not merely a technical matter, but must be accompanied by behavioral change among all value chain actors and a systemic change in the subsector, the time frame was too short. As a result, the activities under this outcome were mostly focused on production, with some emphasis on forward linkages, rather than a whole value chain approach.

d) Multiple-tier implementation modality dilutes efforts

MSFP implemented its programme through a three tier organizational arrangement: the MSFP Service Support Unit (SSU) at the centre and cluster

levels was basically for a) coordination between the GoN, the development partners, and the IAs; b) technical backstopping to IAs; and c) monitoring of programmes. Implementation in the field was undertaken by the IAs, stationed at the cluster level, through their Local Implementation Partner Organizations (LIPOs) at district and local level. The IAs provided technical backstopping to the LIPOs, whereas the LIPOs were basically responsible for social mobilization. Since there was no direct linkage between the SSU and the LIPOs, the efforts by the SSU to provide technical backstopping for better field level implementation were not sufficiently effective. It is now realized that a two tier organizational arrangement - SSU and IAs, or SSU and LIPOs - would have been more appropriate for effective programme implementation. There are no doubt both pros and cons to any implementation system selected, but prior analysis of the ground situation is required before selecting the system for the best and most appropriate result.

e) Strong programme management unit needed at central level

MSFP allocated specific districts to each IA for programme implementation, and the IAs were mostly confined to their working areas and surroundings, even, in most cases, in the marketing of forest products, which is not appropriate. In terms of functional coordination, there was a form of vacuum at central level - although SSU had a technical person at the centre for focusing on the private sector programme, it was not possible for a single person, to a) focus on functional coordination of the private sector component; b) field monitoring and backstopping to all the clusters; and c) provide focal manager services to three IAs – as was the remit. As a result, the IAs were implementing private sector activities somewhat in isolation, and despite great opportunities for exporting different forest products – eg. essential oil, handmade paper and chiuri - to international markets, achievements were not as expected. The programme would have brought more significant changes across a wider spectrum if the concerned person at the SSU had not been so clearly overloaded.

f) Financial institutions need to be encouraged to invest in community-private partnerships

Financial institutions need secured collateral to safeguard their investment. As communities are not able to provide strong collateral, financial institutions

are understandably reluctant to provide funds for such community-private enterprises. To encourage private investment in the forestry sector, a strong policy is required to ensure that sufficient investment (private, government or project) and risk sharing is available. The results of the innovation like the VCDF (see section 4e) are yet to be visible but this may well be a good example for ensuring entrepreneurs access to finance. Good results for the VCDF can of course be scaled up, but regular interactions with financial institutions, the government and development agencies are clearly required for creating an improved environment for private sector investment.

g) The high priority for NTFP based enterprises overlooked the potential of the timber sector

In order to reach target groups such as women and DAG, the programme has given priority to small scale and low investment NTFP-based enterprises with relatively simple technology. As a result, little attention was paid to timber based enterprises; although MSFP promoted a few furniture enterprises in all clusters, they are generally of small scale and localized. Given more time, much could have been done to advance the technology and product quality, to create an enabling environment for attracting private investment in the timber trade, and to scale-up the enterprises, with links to different cities; this may have had an impact on import substitution. Veneer is one of the timber-based products on which little work has been done by MSFP, but which has great potential both in the internal and export markets.

h) Development and strengthening of service providers are needed to attract the private sector

Research and development works in the Nepalese forest sector is very limited. As a result, getting quality inputs, for example seedlings for plantation, is always challenging. As forestry crops have long gestation periods, there is a need for significantly large amount of investment, which is locked up for some time. Failure of crops over time would be a serious setback for the investors and would discourage other investors. Investment in research and development is required to ensure quality inputs and lower the investment risk. Likewise, in the absence of reliable certification laboratories, the private sector, particularly exporters, are facing great challenges. Currently, the Department of Plant Resources is providing the services but it is neither efficient nor sufficient. It is vital that private service providers in this field are developed with accreditation of the government.

7

THE WAY FORWARD

Based on the experiences and learnings from the 4 year MSFP, a few strategic directions are proposed to promote forest-based enterprises, jobs and incomes through engagement of the private sector. The way forward is presented under 3 broad headings - programme design, implementation, and sustainability.

Programme design

- Any long term programme on private sector promotion in forestry sector should be designed based on detailed and robust studies. Such studies should identify promising subsectors that are feasible in terms of production and marketing at local, regional, national and international levels. Opportunities and challenges, including policy constraints, technology gaps, and other risk factors need to be identified at different levels prior to developing interventions for each feasible subsector.
- The studies should bring on board all key stakeholders - government, private sector, communities and development agencies - to make any subsequent support programme acceptable for all. A high level of acceptance from a wide stakeholder base ensures better future implementation. Institutional frameworks need to be designed for each subsector separately, or jointly if feasible, with clear elaboration of where and how different actors and enablers are engaged in the process, and well-defined definition of their capacities and roles.
- The multi stakeholder process should be adopted at all levels for more efficient implementation. This process will bring the interest, concerns, expertise and capacity of all the stakeholders in one forum, and build synergies and collective actions.
- Any programme aiming for economic development and poverty reduction should be designed based on the priority forest products of that particular area, taking into account the skills, traditions and experiences of the local communities.

Programme implementation

- After selection of a forest product value chain, a clear results chain for each product needs to be developed – this will be the guiding framework for the intervention. After forest products are identified and a results chain drafted, all value chain actors of the identified forest product need to be involved in designing the market-based solution for the prioritized forest products. This multi stakeholder process should be regular and open to review, re-adjustment and adoption of new ideas.
- Interventions should be designed through a market-led approach, with a functional management unit (and working groups) to include both GoN and private sector actors - such as the FNCCI and commodity associations at national or regional level, with the DCCI at district level to implement the national level policy issues.
- A large programme like MSFP needed a strong, capacitated and adequately staffed programme management unit that works in a holistic manner for coordinating interventions, developing capacities, and backstopping the many implementing partners involved, and facilitating market linkages at the international level through trading organizations. Such coordination functions would have enhanced the consolidation of the outputs and outcomes of each implementing agency involved, resulting in improved achievements toward the overall goal of the programme.
- With so many implementing partners, a strong monitoring and information system (MIS) has always been challenging to MSFP. As a result, although there have been significant investments from, and achievements by the private sector, there is little evidence for this recorded in the established MIS. The introduction of the road map in 2015 for the promotion of a more limited number of flagship products much improved the impact of field efforts, and simplified the data collection process. However, in retrospect, a sound MIS system needed to be developed at the outset, and improved with time as a result of constant learning.

Sustainability of the initiated activities

- Strengthening and capacitating the GoN/FEMD and FNCCI-FED: there is a clear need to strengthen the MoFSC FEMD, the government unit promoting forest based enterprises; in addition, it requires a strong and clear, well

defined role in promoting forest based economic growth. The FNCCI-FED is a platform for the private sector working in the forestry business for discussing their challenges and constraints, and for joint advocacy and lobbying to ensure a pro-private sector policy environment amongst the policy makers. Likewise, the FNCCI-FED should come up with service packages - such as business plan development, various trainings, linkages to financial institutions - which can be sold to its members. Furthermore, the FNCCI should promote the potential of the value chain development fund model through close collaboration with national and local funding agencies.

- Linking entrepreneurs to the service providers: many enterprises that were strengthened and established through MSFP support are linked with the service provider and business houses. Better linkages ensures improved technical support from the service provider, and safeguards the sustainability of their business, but there are many more enterprises that are struggling to develop these linkages – this group needs further support, particularly on developing entrepreneurship skills, branding and packaging techniques, product diversification, as well as market linkages. In the absence of MSFP, such enterprises should be linked with the local service providers, such as the District Forest Office, the District Cottage and Small Industries Offices, and the DCCI.

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ANNEX 1

A Case Study from Salyan District

Turning Wasted Chiuri Seed into Cash and Jobs

Background

This is a story of Shalikram Bhattarai, a very active 46 year old, who is a permanent resident of Kalimati Kalche VDC-7 of Salyan district, Chairperson of Bagkhor CFUG and a co-operative, the Rapti Chiuri network leader and a social entrepreneur. He has been a volunteer with the CFUG network since 1998, and the Chairperson of the community savings and credit co-operative from 2004.



▲ *Shalikram Bhattarai at the Chiuri Store*

One option Shalikram saw since in his younger days was the untapped opportunity to extract ghee from chiuri seed and export it to the city area.

Process of Change

Mr. Bhattarai started his chiuri business in 2009 with support of Cottage and Small Industries Development Board (CSIDB) and the CFUG, using a traditional oil expeller, a 'koal' (manual, made of wood), and then a 'ghatta' (water driven) on public land. Despite his strong determination, creativity and commitment he soon found that



▲ *SCPM colleagues working on the extraction of the ghee*

his traditional technology, individual effort and knowledge were not sufficient for producing higher quality products. Furthermore, he realized that his marketing skill and outreach to the markets was weak – he realized that his community’s dream would not succeed without some assistance. He made a decision that if he did not succeed in establishing a viable chiuri business, he would have to migrate overseas in search of well-paid employment.

In 2071 BS (2014), he was able to make contract with Rupantaran Nepal (RN)/MSFP; the programme team visited the site and observed the communities’ interest, as well as his determination, and realized the potential for establishing a chiuri business. After a careful selection process, RN/MSFP selected 5 members, including Mr. Bhattarai, as participants for a chiuri processing, quality assurance and entrepreneurship training. The training brought together like-minded participants from 7 different groups of Rapti zone, who dreamt of establishing a network of chiuri businesses.

Ultimately Shalikram’s dream became reality, and the Sharada Chiuri Parsodhan Mill (SCPM) was established and registered at the District Cottage and Small Industries Office, in Salyan in 2072 BS (2015), through the Partnership Act. Based on an MoU between RN/MSFP, the CSIDB, CFUGs, the co-operative and SCPM, RN/MSFP supported the construction of a shed, a store, a drying house and in the purchasing of a modern expeller machine and equipment. After much research, including trials, the Universal Equipment Engineering company in Butwal and the SCPM were able to manufacture and handover an efficient expeller machine.

In a short period, the SCPM grew with capital assets of 1 ropani of land, which was gifted by Mr. Bhattarai, along with 2 sheds and other basic equipment. As a result of this rapid growth over just two years, more than 290 poor hhs were soon engaged in collecting and selling the seed. The mill purchases chiuri seed at NRs 25 to 30/kg.

Soon after SCPM initiation, Mr. Bhattarai became the Chairperson of the district level Chiuri Network. During the initial stages of chiuri ghee production, the biggest issue was finding a market - but recently, SCPM has signed an agreement with the Basana Herbal Products Kathmandu, which

has guaranteed to purchase 3,500 kg of chiuri ghee each year. As a result of the contract with the BHPC, everybody involved is excited to be a part of the enterprise. Production of chiuri ghee above what is supplied to BHPC, is sold to the local markets in Dang, Surkhet and Nepalgunj.

Impacts

Presently, 100 poor people are employed by the enterprise (10 directly and 75 indirectly employed on a temporary basis) for seed collection, transportation and grading. Each employed person is earning between NRs 14,000/- and 60,000/- per year.

Mr. Bhattarai and SCPM are now known as the home of chiuri seed collection, and Shalikram has confirmed his position as a social entrepreneur of the region. In the first year, the enterprise sold 6.3 tons ghee and 8.5 tons of cake products (used as a manure); in total this was worth NRs. 1.4 million, providing a profit of NRs. 0.2 million.

Mr. Bhattarai said: "...if we had not received good technical and financial support from RN-MSFP, our dream and my life would be muddy forever". The Treasurer of the enterprise, Ms. Jibika Gautam, said with confidence: "...the enterprise is for women; and we hope to increase the employment of women in the years to come and double our output of ghee!" Recently, SCPM was awarded with the title of best stall/product of Salyan District by the Ministry of Agriculture, and first position in a mid-western exhibition in Dang District.

Future Dream

"Continuous effort, transparency, hard labour and your own attitude of social service can achieve any dream", Mr. Bhattarai stated; "...for the near future, we are planning to make this enterprise better managed and take it to a bigger scale".

ANNEX 2

A Case Study from Jumla District

Dhatelo - a New Export Product for Jumla

Background

Dhatelo is an agro-forestry product which requires zero or little investment; generally it grows in wasteland, nearby riversides and on range land within forest areas. The seeds have a high oil content, and for many years, it has been commonly collected by rural communities for extracting oil which is used for cooking, in cosmetics, and in traditional rituals. It is also used for bartering – eg. dhatelo oil for mustard oil. However, there are only a few studies on dhatelo. Both collection of the seed and the traditional oil extraction method are difficult - the dhatelo plant has dense, long thorns thus collection was difficult, as was the peeling off of the seed cover, and the manual labour for oil extraction. Another problem deterring expansion, was the lack of a good market. As a result, collection of seed and extraction of dhatelo oil seemed to be declining.



▲ *Nanda Prasad Neupane in his Dhatelo seed store house*

This is a case study about of Mr Nanda Prasad Neupane, the proprietor of the New Karnali Jadi Buti and Dhatelo Processing Kendra, based in Khalalwada, Garjiyangkot-5, Jumla; the Dhatelo Kendra was established on 13 September 2015, and the enterprise received support from Sundar Nepal-MSFP.

Mr Neupane is now 55 years, with 7 members in his family, but grew up in a poor family in Garjiyangkot, Jumla. He has passed SLC in 2034 B.S from a local school in Jumla, but due to his family's poor financial condition he was

not able to continue his education. However, Mr Neupane started teaching in a primary school in Jumla for a living, but the low income and growing family expenses hit home, and Mr Neupane went to India seeking a higher paid job. He went with his friend to Bangalore, India and found a job in the Mittal Herbal Company. While working with this company, he saw many herbs and NTFP's being purchased for good money and he thought to go back to Jumla “maybe I could start a business through harvesting and production of NTFPs and medicinal and aromatic plants!” And in in 2063 BS, using his savings from India as capital, that is what he did.

The political situation and the confusing law on the trading of NTFPs and MAPs distressed and confused him, but he never lost hope - Mr Neupane believes that success only comes after a while. He has now built good relations with other NTFP traders and suppliers, and usually participates in every programme related to NTFP and MAP. He is now the advisory coordinator of Simara Malika CFUG, and encourages others to get involved in NTFP and MAP cultivation and business.

Process of Change

Nanda Neupane participated in a meeting organized by Sundar Nepal where he met Mr Khilendra Gurung, Marketing Manager of the Himalayan Bio Trade Pvt. Ltd (HBTL) in Kathmandu. He was amazed at what he heard; the poor dhatelo seed can also be a major source of income. He

then seriously considered dhatelo as a potential new business venture as there would not be many people involved in it. After the meeting, Mr Neupane began the enterprise registration process for dhatelo oil extraction, but it was not easy, and neither was the establishment of the business – so many papers and forms to fill in, obtaining a recommendation from the DFO – it was very stressful. After a while, Mr Neupane decided he had to contact Sundar Nepal for assisting him in the registration, and to link him with HBTL. Recognizing



▲ *Dhana Kala expelling Dhatelo oil in a traditional way, Jumla*

its potential, Sundar-HBTL selected dhatelo as one of the flagship products in the area for MSFP.

Sundar Nepal has provided 20 CFUG's with NTFP, MAP and enterprise development training, and has promoted dhatelo plantation and nursery keeping. Mr Neupane received financial technical assistance from Sundar Nepal, and finally registered the New Karnali Jadibuti Uthpadan Tatha Dhatelo Prasodhan Kendra.



▲ *Dhatelo plants grown in the waste land-nearby roadsides, Garjiyangkot, Jumla*

He then collected 25 quintal of dhatelo seed, and requested financial assistance for purchasing an expeller plant from Sundar Nepal-MSFP, who requested the assistance of HBTL – which had collected the dhatelo seed samples from Jumla and then helped to search for a proper expelling plant around the globe. HBTL selected a suitable expelling machine for dhatelo seed from China.

At this point, mother nature and politics intervened - the earthquakes of April and May 2015 occurred bringing everything to a halt – then later in the year, the long blockades on the India-Nepal border hindered the transportation of the dhatelo expelling machine. Again his patience was tested - he had invested more than NRs 300,000/- for buying the dhatelo seeds. In January 2016, HBTL, also impatient for the start of delivery of oil from Jumla, suggested to Mr Neupane to supply dhaletto either by expelling from a nearby local oil expeller or by sending the seeds to Nepalgunj for oil extraction. Mr Neupane selected the second option, and was finally able to supply the oil to HBTL, and was paid NRs.1,100/- per litre of oil.

Nanda has now generated more than NRs 550,000/- from his dhatelo business. He still has 3 quintal of dhatelo seed, and is looking forward to the arrival of the new expeller machine, which was stuck on the border for so long. Sundar Nepal-MSFP have provided further support through the construction of a solar drying house at Nanda's enterprise for drying dhatelo seeds.

Impacts

Sustaining a new enterprise and developing sound market opportunities is a challenge, especially for an enterprise in Jumla. The purchase guarantee for dhatelo oil, the enthusiasm of Nanda and the awareness by Sundar Nepal, have increased the involvement of people in Dhatelo collection.



▲ *Dhatelo oil ready for shipment to Europe and Japan*

Most of the dhatelo collectors are poor but with the contract signed with HBTL, they are looking forward to more work. HBTL has over the past few years, bought 23 ton of dhatelo oil from the communities of Jumla, for which they have paid more than NRs 5 million. Two problems - the physical labour for expelling the oil, and the lack of market opportunity - are no more a problem for the people of Jumla, and even the selling of raw seeds can be a source of income generation.

Future Dreams

After all the delays, Nanda thought that 2016 would not be very profitable, but he feels hopeful for the future, for an increased income, and to become a successful entrepreneur. The long blockade was a major constraint to timely installation of the dhatelo oil expelling machine, and the cost of raw seed transportation, and the expelling charge in Nepalgunj will definitely put a dent in this year's profits.

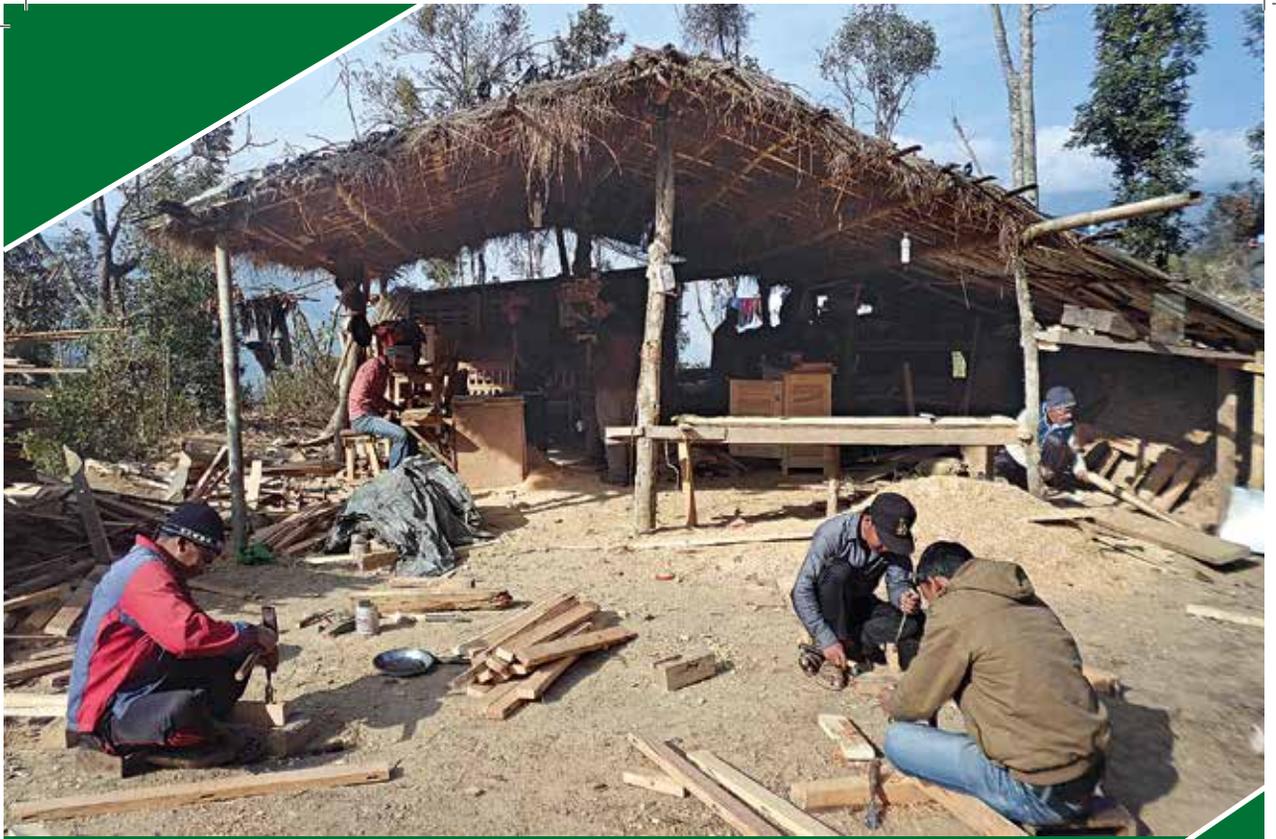
“Nothing is as easy as you think, but dhatelo will be a major source of income for this area in the coming years. I will continue the business and have faith that in coming years, we can increase production and profit. And it's not only me who will improve my income and livelihood – the collectors will, and all those who work in the local dhatelo industry – and we must also think about better using and marketing the seed cake, which is a good organic manure!”

Mr Nanda Prasad Neupane









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