



Democratising forest business: a compendium of successful locally controlled forest business organisations

Duncan Macqueen, Anna Bolin and Martin Greijmans
(Editors)



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Edited by Duncan Macqueen, Anna Bolin and Martin Greijmans

Contributing authors

Dárlison Andrade, Irfan Bakhtiar, Juan José Ochaeta Castellanos, Ruth Canlas, Alyssa Cheung, Ludovic Conditamde, Abdoulie A. Danso, Azaharel García, Puspá L. Ghimire, Cristina Guerrero, Shoana Humphries, Husien Idris, Barthélémy Kaboret, Sudarshan C. Khanal, Mulugeta Lemenih, Bui Thi Linh, William Lozano, David McGrath, Exwan Novianto, Buakhai Phimmavong, Femy Pinto, Víctor Hugo Gutiérrez Rojas, Hery Santoso, Rohni Sanyoto, Lykheang Seat, Bishma P. Subedi, Sudarwan, Wibowo Sulistio, Nguyen Quang Tan, Hoang Huy Tuan, Sophay Uch, Silverius Oscar Unggul, Bernadus Sad Windratmo, Khusnul Zaini and Aulia Zaki.

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About the editors

Duncan Macqueen, principal researcher, Forest Team, Natural Resources Group, IIED.
See www.iied.org/users/duncan-macqueen

Anna Bolin, researcher, Forest Team, Natural Resources Group, IIED.
See www.iied.org/users/anna-bolin

Martin Greijmans, senior programme officer, Livelihoods and Markets, Center for People and Forests (RECOFTC).

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Copyediting by: Holly Ashley, email: hollyashley@gmx.com

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International Institute for Environment and Development (IIED)

80-86 Gray's Inn Road, London WC1X 8NH

Tel: +44 (0)20 3463 7399

Fax: +44 (0)20 3514 9055

Email: info@iied.org

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Nepal: Himalayan Bio Trade Pvt Ltd

Community-based handmade paper: a socially and environmentally responsible international business

by Bhisma P. Subedi, Sudarshan C. Khanal and Puspa L. Ghimire

Himalayan Bio Trade Pvt Ltd (HBTL) is helping to put handmade Nepalese paper on the international map. According to its main client Aveda, a USA-based company which purchases the paper for its Holiday Gift product lines, 'Improving lives is a gift... our purchase of lokta bark paper is helping fight poverty in Nepal.' HBTL's quality paper-based products come with strong social and environmental credentials. It works in collaboration with community-based forest enterprises and community forest user groups to generate income and sustainably manage forest resources.

14.1 Context in which Himalayan Bio Trade operates

14.1.1 The enabling environment

Nepal embraces very unique geographical regions that contain the tropical plains (the Tarai) on the Indian border in the south, an extensive section of mid-mountains, and the trans-Himalayan sections bordering Tibet in the north. As a result of this topographic and climatic variation, Nepal is rich in biological diversity and hosts a wide range of unique and valuable natural products, upon which rural communities rely for food, medicines and other products, such as handmade paper. Nepal has documented over 7,000 species of flowering plants, many of which are important for both subsistence and commercial purposes (GoN, 1988).

Handmade paper has been produced traditionally since at least the 12th century AD in several locations in the hill regions of the country (Biggs and Messerschmidt, 2005). The production of handmade paper is done by using local resources, techniques and human resources and almost 100 per cent of total value addition takes place within the country both in rural and urban areas. This industry has an opportunity with targeted interventions to generate significant employment opportunities at the rural level where people lack basic services such as health and education facilities, and there is a high rate of migration for employment abroad because of very limited income-generating opportunities.

The raw material for handmade paper, lokta (*Daphne bholua* and *D. papyracea*) and other natural fibres such as argeli (*Edgeworthia gardneri*) grow abundantly on the southern slopes of Himalayan forests between 1,600 and 4,000m. Lokta is available in about 3 million hectares of forests in 55 districts of Nepal, of which 25 districts have an abundant supply (Subedi et al., 2002; Subedi et al., 2014). The Department of Forest Research and Survey under the Ministry of Forests and Soil Conservation has estimated the total stock of lokta bark in the country is 110,481 tonnes, which can support the sustainable production of over 950 tonnes of paper every year (Subedi et al. 2006). It is more than six times the volume of around 150 tonnes of handmade paper produced in the country in 2014 (Gurung, 2015).

Table 14.1 Nepal country profile

Area	147,181 sq. km
Population	26.5 million ¹
GDP per capita	US\$694.1 ²
Population below poverty line	25.16% ³
Literacy	57.4% ⁴
Unemployment rate	46% ⁴
Percentage of people relying on agriculture	66% ⁴

Over the past three decades, government policies and plans have recognised and taken into account the potential of sustainable management and use of forests and their products for the betterment of the poor and poorest. In the late 1970s, the government of Nepal devolved management responsibility of some national forests to local communities, and allowed the forest-dependent communities to harvest, use or sell forest products from these forests. The Forestry Act of 1993 and Forest Regulations of 1995 promoted the transfer of legal rights from the central government to local communities to manage and use specific forest areas. Presently 18,133 community forest user groups (CFUGs) across the country, representing about 35 per cent of the total population, manage about 1.7 million hectares, which is about 29 per cent of total national forests (DoF, undated).

The overall government policies of community-based natural resources management and addressing rural poverty have been complemented by some organisations which promote sustainable management and use of natural resources to improve people's livelihoods. One such organisation is the Asia Network for Sustainable Agriculture and Bioresources (ANSAB) which since the mid-1990s has been facilitating bringing forests and meadows under improved community management and establishing natural resource-based enterprises at community level. Its outcomes are noteworthy in the meaningful improvement in the quality of life for tens of thousands of poor people and the environmental conservation of thousands of hectares of forest and meadows. For example, in 2014 in Nepal alone, a total of 84,553 economic entities generated NRs730 million (about US\$7.3 million) in additional monetary benefits through 1,181 economic entities producing and marketing natural products.

In this context, considering the availability of resources, traditional skills and knowledge, inexpensive technology and huge untapped potential, the handmade paper industry can benefit significantly from the targeted interventions to strengthen its competitiveness and contribute to poverty alleviation.

1 CBS (2012)

2 World Bank (2014)

3 CBS (2011)

4 CIA (2014)

14.1.2 The operating environment

Handmade paper made from lokta and other natural fibres is known for its strength, durability and resistance to insects. Until imports of paper crafts from Tibet and mass-produced modern paper from India began in the 1930s (Biggs and Messerschmidt 2005), handmade paper was used for government records, religious texts and literature in Nepal for many years. With the introduction of modern paper and the proliferation of industries producing paper on a mass scale, handmade paper has become a niche product with increasing demand from socially and environmentally conscious international consumers and some domestic consumers. According to handmade paper entrepreneurs, typical customers are people with a taste for handmade products who are also environmentally conscious and inclined towards purchasing products made by poor people in developing countries.

The major international markets for Nepalese handmade paper and paper products are the United States, France, Germany, the United Kingdom and Japan with an export value of nearly NRs550 million (about US\$5.5 million) in 2012/13 (Subedi *et al.*, 2014). According to the Nepal Trade Integration Strategy 2010, the European Union contributes to about 60 per cent of the total export of Nepalese handmade paper (MoCS, 2010). The top export items to the EU are office paper, writing pads, files, folders, binders and envelopes.

There are no reliable data on domestic consumption, however conversations with Nepalese paper entrepreneurs show that the domestic market is less than 10 per cent of the total global market and this volume has not grown over the past decade. Organisations in Nepal valuing environmental and social aspects have been using certified paper for business cards, notepaper and folders. On an individual level, although not on a large scale, some people use Nepalese paper for wedding invitations.

On the global level, handmade paper is a large international industry with supplies worth over US\$1.2 billion (MoCS, 2010). The major competitors in handmade paper at the global level are China, India, Thailand and the Philippines; China accounts for more than one fourth of the world's total exports and is the largest exporter. According to the Nepal Trade Integration Strategy 2010, Nepal's export value is less than 0.5 per cent of total worldwide annual exports of handmade paper. Among these big international players, Nepal's handmade paper and paper products are in continuous demand. It is because of the country's unique story of lokta paper and its production by community-owned enterprises – along with the durability and quality of the paper. It differentiates the value proposition of Nepal's paper products from others in the market.

On the domestic level, the number of registered handmade paper-production enterprises is increasing, and the latest government record shows that there are 487 enterprises in the country (DoCSI, 2013). While the number of enterprises is increasing, there are issues of overharvesting and limited or lack of replantation activities by these enterprises, often decreasing the total stock of lokta and other natural-fibre plants. Hence, it has remained important to maintain or increase the total stock of raw materials for the sustainability of the handmade paper industries in the country.

Over time, there has been increasing interest shown by big companies that value community development and biodiversity conservation. They are procuring community-produced goods as part of their corporate social responsibility policies. By demonstrating that both social and environmental factors are valued in their businesses, Nepal's handmade paper enterprises could make a compelling sales pitch to these larger companies. In this regard, Himalayan Bio Trade Pvt. Ltd (HBTL), a handmade paper enterprise in Nepal, has emerged as a unique pioneering endeavour of community–private partnership with the facilitation and support of ANSAB. It sought Forest Stewardship Council (FSC) certification⁵ to provide its customers with independent assurance that the forest products have been made from raw materials harvested in a well-managed and responsible manner.

The FSC-certified handmade paper business emerged as a hybrid model that incorporates sustainability of the raw materials to the handmade paper industry. It has considered the triple bottom line of ecology, economy and equity in order to develop a socially and environmentally responsible handmade paper business in the country.

14.2 About Himalayan Bio Trade as a business

14.2.1 The vision

The FSC-certified handmade paper business in Nepal involves four community-based paper production enterprises and a national-level processing and marketing enterprise – Himalayan Bio Trade Pvt Ltd (HBTL) – that were established through ANSAB's programme in 2000 (see Annex 14.1). Since its establishment, HBTL has been providing a marketing platform to community-based natural products enterprises and has remained as a committed lead firm in FSC-certified handmade paper and essential oils. It has a goal to link communities with high-value markets to create benefits for the indigenous, smallholder farmers of the remote Himalayan forests. HBTL's mission is to support the creation of quality products from sustainable forest resources in Nepal (see Box 14.1) and to provide income and employment benefits to forest communities.

Box 14.1 HBTL's paper product lines

- Sheets of Lokta handmade paper (natural and dyed)
- File/folders
- Journals/notebooks
- Wrapping paper
- Stationery
- Lampshades
- Shopping bags
- Boxes
- Paper flowers
- Visiting/business cards

5. Forest Stewardship Council (FSC) certification is an international gold standard for responsible forest management.

HBTL embraces socially and environmentally responsible approaches to its business practices and markets its natural products sustainably harvested from community-managed forests and processed by community-owned enterprises in domestic and international markets. During its establishment, the company provided marketing assistance to a consortium of community-owned enterprises collecting and processing non-timber forest products (NTFPs), especially handmade lokta paper and a few essential oils, to sell on the domestic market. HBTL's paper product line is presented in Box 14.1.

HBTL's operations are in profit. The company's revenue was about US\$600,000 in 2014, of which FSC-certified handmade paper covered about US\$250,000. An increase in revenue was reported after HBTL was granted FSC certification in 2005 and its handmade paper acquisition by Aveda, a major US-based natural beauty products company. FSC-certified product sales have risen from 2007 due to the acquisition of Aveda as a client. The company has sold 2.1 million sheets of FSC-certified paper over eight years.

HBTL's operations have been run by a managing director, a technical and export manager, and an operations manager since its establishment, and presently it involves 27 full-time staff. Depending on the size of orders they receive from buyers, the company employs additional part-time staff and staffing levels can reach up to about 50 staff members in the peak season.

14.2.2 Business inputs

The four community-based forest enterprises (CBFEs) source lokta bark from the 35 FSC-certified CFUGs in two districts. Out of the four CBFEs, the Kalika Handmade Paper Enterprise was added to the certification pool in 2013 (see Annex 14.1 for a list of CBFEs and CFUGs). HBTL has a guaranteed buy-back arrangement with the enterprises, which have agreements with the CFUGs to supply them with lokta. During the initial years of the handmade paper business, the CFUGs providing lokta resources to the CBFEs, with technical support from ANSAB and district offices, incorporated the provision of use and management of lokta for the enterprise activities in their CFUG management plans. According to these management plans, the CFUG members are involved in harvesting raw materials for handmade paper. The other CFUGs providing raw materials to the new Kalika enterprise have also incorporated enterprise activities in their management plans.

The community members and CFUGs have made financial investments in the CBFEs. The lead firm has arranged finance through equity investment from the individual investors and the communities, and bank loans.

14.2.3 Main activities

The main activities of the FSC handmade paper business are harvesting and primary processing of lokta, and paper making at community level in two districts – Dolakha and Bajhang. Secondary processing, product development and trading of the final products in Kathmandu provide employment to a total of 5,545 people, mostly from rural communities.



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Lokta collection

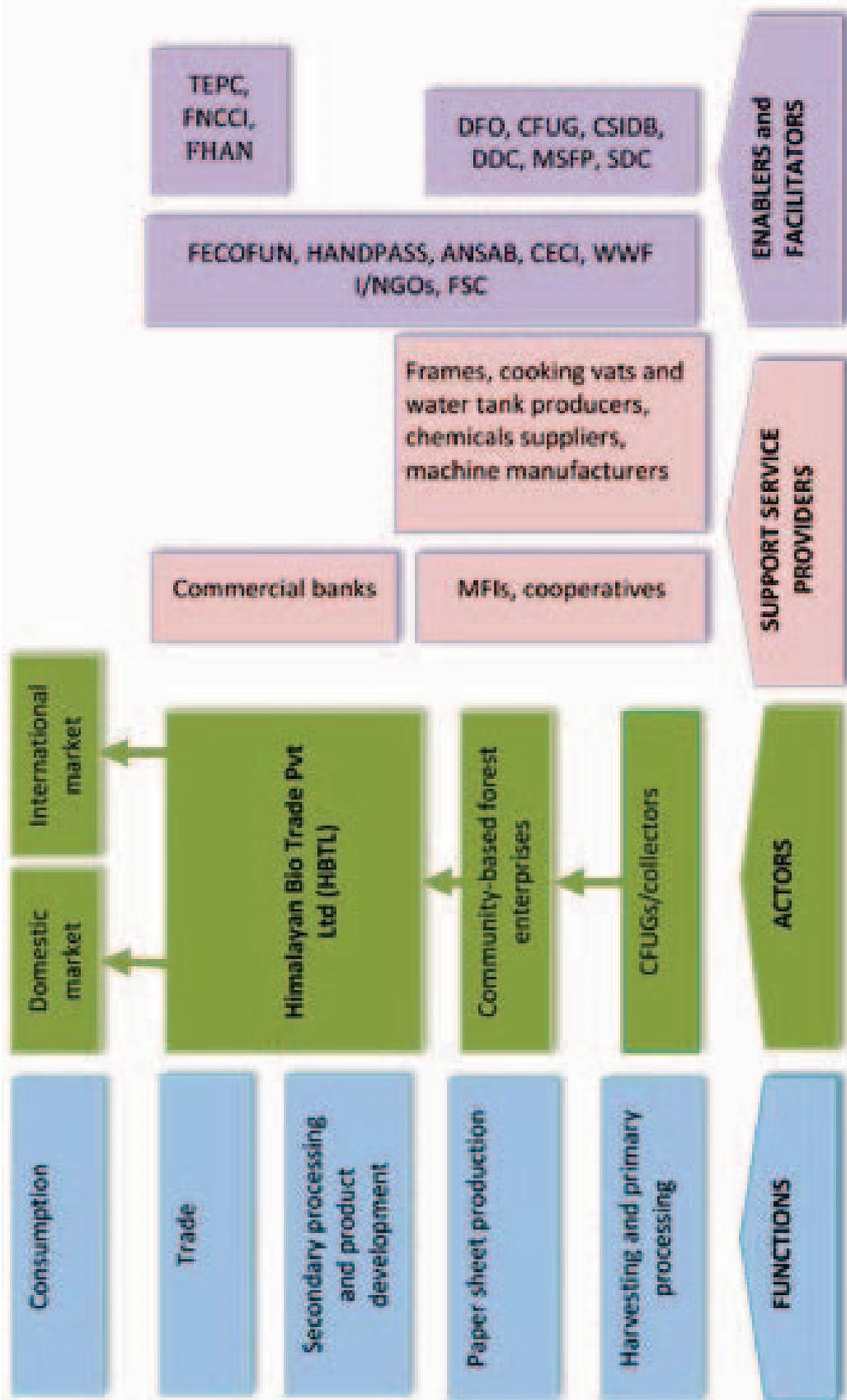


© ANSAB

Women cleaning the lokta bark

Figure 14.1 presents the value-chain map of FSC-certified handmade paper in Nepal. Among the four enterprises providing handmade paper to HBTL, the major business volume is concentrated in two enterprises – Everest Gateway Herbs in Dolakha and Malika in Bajhang.

Figure 14.1 Value chain map of FSC-certified handmade paper in Nepal



14.2.4 Technology and skills

HBTL organises the FSC-certified handmade paper business in Nepal. It starts at community level with the harvesting and primary processing of lokta plants and ends with the final consumers. Some are at the domestic level but most are international, mainly through Aveda. CFUGs manage the forests from where lokta plants are harvested by their members as per the CFUG operational plan and FSC-certification principles and criteria. The community members harvest and debark the lokta plants manually by using sickles and *khukuri* (a Nepalese knife similar to a machete), after which they dry the lokta inner bark (*bast*) in the sunlight. The community members also transport the dried lokta bark to their nearest paper-production enterprises.



© ANSAB

Women carrying raw lokta

At the four enterprises in Dolakha and Bajhang districts, paper production involves traditional paper-making process. The lokta is soaked in a water tank to soften and is cleaned to remove any black spots and impurities. The cleaned lokta is cooked in a 100 litre drum in a mixture of water and caustic soda. The cooked lokta is then washed with clean water to remove the caustic soda and other unwanted materials. The clean lokta is then beaten with a wooden mallet or beater machine to make a smooth and homogeneous pulp. The softened pulp is then moulded in 20 x 30-inch wooden frames by spreading the thin pulp to make flat sheets of paper. The frames are dried in the sun, after which the paper is taken out of the frame. The paper is then graded by manual inspection and stored at the enterprises before being transported in bulk to HBTL.



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Man handling baked lokta for cleaning



© ANSAB

Handmade paper made from lokta pulp. The paper sheets are dried in the sun on wooden frames



Staff at a community enterprise manually inspect the handmade paper for quality control

At the HBTL central facility in Kathmandu, further value-addition processes take place to prepare the product for trade in domestic markets and to export to international markets. The paper is graded by manual inspection into different groups according to quality, which are in turn used to make products for different consumer groups. On its premises in Kathmandu, the company has small-scale drying, printing and paper-cutting facilities to make products such as stationery, greetings cards and office items. For processes such as paper dyeing, calendaring (flattening) and die cutting that involve cutting a high volume of paper into the same custom shape or form, and other treatments such as adhering the paper onto cardboard or performing large volumes of silk screening, the company outsources to other companies in Kathmandu which are equipped to handle these more technical processes, and which have facilities for processing in volume.

14.2.5 Business partners

HBTL has developed an annual purchase agreement with the four community enterprises for the acquisition of FSC-certified handmade paper sheets, and these enterprises deliver the paper to HBTL using vehicles hired by them. These enterprises are members of the Sustainable Bio Trade Group which has been awarded FSC chain of custody (CoC) certification, in which HBTL is a group manager. For the final marketing of the paper on the international market, Aveda has remained the main user of the paper from HBTL, mainly for packaging their products. HBTL sells paper sheets to two other paper companies, Howard Packaging and Johnson Printing and Packaging, both located in the United States and which use the paper to produce packaging gift boxes for Aveda. The association with Aveda has proved to be a major turning point in HBTL's development as a commercial enterprise.

HBTL's relationship with Aveda goes back to 2002 when ANSAB developed a partnership with Aveda following the design and implementation of the Certification and Sustainable Marketing of Non-timber Forest Products Private Public Alliance (PPA) project funded by USAID. Section 14.3.1 provides details of the PPA project and its alliance members. During the project, Aveda provided much-needed private-sector guidance on the demands and requirements of the international natural products market, and expressed its willingness to support sustainable livelihood generation for rural communities, while purchasing high-quality products from Nepal. ANSAB and Aveda worked closely for the next five years with HBTL on FSC-certified handmade lokta paper, covering issues such as product quality, design, price, packaging and shipping; and in 2007 Aveda began purchasing FSC-certified paper to package their Aveda Holiday Gift line of products.



© ANSAB

FSC-certified handmade paper is used to produce gift packaging for Aveda, a major US-based natural beauty products company

14.2.6 Customer groups and product types

FSC-certified paper products include sheet paper, notebooks, stationery sets and folders (mostly purchased by offices at the national level); photo albums, greeting cards and shopping bags (mostly purchased by international tourists visiting Nepal); and interior design products in a vast array of colours, textures, patterns and prints (mostly purchased at the national level). At the international level, Aveda has remained the only and most important purchaser of paper from HBTL.

As HBTL does not have retail outlets besides its outlet at the office, consumers at national level deal directly with their office in Kathmandu for paper and paper products, from where consumers either collect their order themselves or the company delivers the products to its consumers as per demand. For Aveda, the company works on a demand basis and delivers the product through couriers.

14.2.7 Differentiation in the market place

Since its establishment, CBFs and HBTL have integrated a socially and environmentally responsible approach to their business practices while bringing high-quality products to consumers. While the CBFs produce papers of standard sizes for selling to the lead firm, HBTL's paper products are available in a range of sizes, colours and designs that can be customised with printed logos and graphics as specified by different users.

14.3 Who controls Himalayan Bio Trade?

14.3.1 Origin of the value proposition

Since its establishment in 1992, ANSAB has been generating and implementing community-based, enterprise-oriented solutions that conserve biodiversity and improve livelihoods for the poorest of the poor. To integrate different farm and forest products from rural communities, bring them to market and make these businesses commercially viable, ANSAB designed and tried out several options. Two major options involved:

- Participation of community members themselves in marketing their products, and
- Involvement of private traders to collect and market the products.

However, neither of these two options was the best for marketing the products so as to provide fair benefits to the local community. In the first option, the marketing costs were high and the community members were unable to secure reasonable prices because they lacked marketing knowledge and skills, and there were several dynamics in the market influencing price. In the second option, the major challenge was trust between the community members and the private traders. Communities are not always assured a fair price as private traders are motivated by profit and are not necessarily responsible to the community.

ANSAB realised the necessity of another option, that of involving a responsible marketing entity, and so it established HBTL as a lead firm with shareholdings in community enterprises and private investors, which could overcome the deficiencies of the former two options. HBTL would become the marketing platform to promote certification and sustainable marketing of Nepalese NTFPs, including lokta, while contributing to responsible forest management in Nepal. ANSAB itself managed HBTL for the initial two years and then handed over management to a member from Dolakha district, someone who was both trusted and selected by the community-based enterprises from both districts. In the two years of his association with HBTL, he showed both leadership and entrepreneurial skills, while ANSAB remained as an advisor to the company.

After HBTL was established, ANSAB designed and coordinated the Certification and Sustainable Marketing of Non-timber Forest Products Private Public Alliance (PPA) project with funding from USAID in 2002. This project brought together the domestic NTFP producers, domestic and foreign NTFP buyers, certifying bodies, government programmes and donor agencies assisting the NTFP sector. This pilot PPA project carried out much-needed initiatives for FSC certification such as the development of interim standards within the framework of FSC standards, a group certification model, and awareness-raising and capacity-building efforts. Based on evidence of social, environmental and economic sustainability from field assessments, the Rainforest Alliance/SmartWood certified 11 community forests in a group in 2005. The certification now covers 35 CFUGs in a certified pool comprising about 17,000ha of forests in Bajhang and Dolakha districts. Most of the certified CFUGs manage lokta in their respective community forests, and five handmade paper manufacturing companies including HBTL promoting responsible business practices have obtained the FSC CoC certification.

14.3.2 Control over forest resource access

The long history of community control and access over forest resources in Nepal has been an enabling environment for community-based forest enterprises development. The Forest Act 1993 and Forest Regulations 1995 have given CFUGs rights of making key management decisions over their forest resources, thus empowering communities to access and manage their forest resources and create viable enterprises. To access lokta in the forest for the enterprises at local level, ANSAB has provided technical support in forest-resource inventories, boundary surveys, sustainable harvesting and preparation of forest management plans in order to handover the community forest to the users. This has led to improved forest management and conservation with improved sustainability of supply of lokta.

However, due to extreme poverty, parts of the community were not included in the organisation of the CFUG (even if membership fees are low, for those living in extreme poverty the fees are still too high) and for that reason could potentially act as a threat to the sustainable management of the forest resources. To address this issue, ANSAB organised marginalised members of the community into sub-groups within the CFUG who were allocated patches of degraded land to plant natural fibres and NTFPs for handmade paper as part of their livelihood and income-generating activities. Specific management plans were developed together with these groups to ensure the sustainability of harvesting and management of the resource.

Adherence to the FSC principles and criteria is another important factor controlling use and extraction of the resources of the FSC-certified enterprise. Certification evaluates the harvesting plans and overall natural resource management of the areas, including social factors and impact and biodiversity conditions. FSC audits the groups and enterprises annually to verify that sustainable harvest protocols and responsible business operations are being followed and to assess forest conditions. FSC has 10 principles and 70 criteria for forest stewardship. Box 14.2 lists the 10 FSC principles. The FSC certification has helped these entities to ensure that they follow internationally recognised guidelines for sustainable forest management and socially responsible businesses.

Box 14.2 FSC principles for forest stewardship

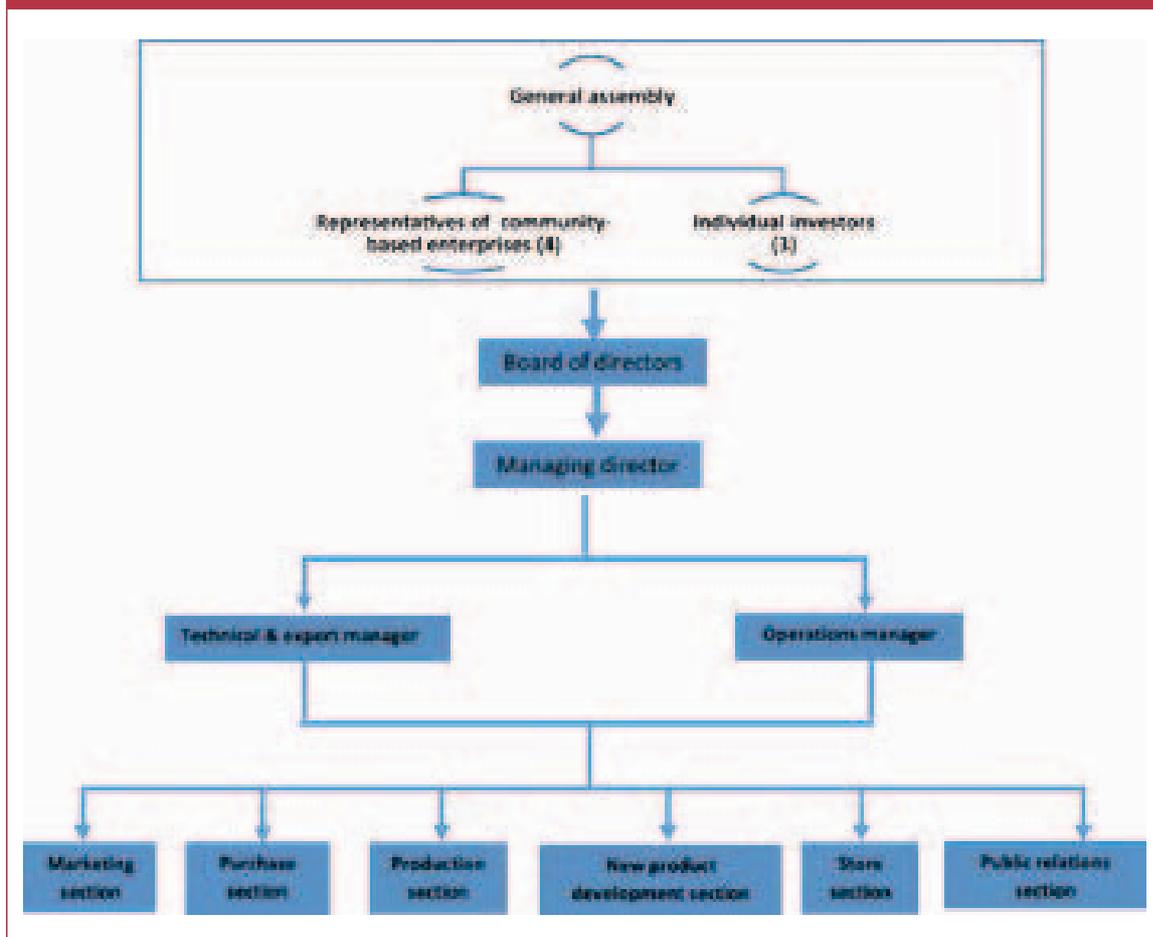
1. Compliance with laws
2. Workers' rights and employment conditions
3. Indigenous peoples' rights
4. Community relations
5. Benefits from the forest
6. Environmental values and impacts
7. Management planning
8. Monitoring and assessment
9. High conservation values
10. Implementation of management activities

Source: FSC (2014)

14.3.3 Control of the business

HBTL has a key role in controlling and managing the business. It serves as a lead firm for both FSC-certified handmade paper and FSC-certified essential oils. A general assembly (constituted of representatives from four handmade-paper and two essential-oil industries and four individual investors) is the apex body that decides the company's overall plan and critical organisational level issues. The managing director is authorised to take day-to-day decisions and ensure the smooth operation of the company for generating profits. He receives regular support from the management committee comprised of the technical and export manager and operations manager to discuss issues and make overall decisions. These two managers supervise, motivate and mobilise the staff in six different sections, marketing the products to domestic and international markets (see Figure 14.2). The technical and export manager oversees international trade while the operations manager oversees domestic trade. The company involves 19 women (including the operations manager) out of its 27 full-time staff. In the governance of CFUGs and local community enterprises there is a good representation of women. While women members do not participate directly in the general assembly, its representatives come from the CBFs which are also members of the CFUGs which do have women members on their executive committees.

Figure 14.2 Organisational structure of HBTL



Regarding financial investment, four individual investors and the community enterprises have provided equity investments, where major investment is provided by the individual investors. With this investment, community enterprises receive a dividend. In addition, HBTL staff and the enterprises at community level receive a fixed or waged salary. This investment, the ownership structure and benefits were discussed in a series of meetings with the executive members of the CFUGs, members of the community enterprises and individual investors, and was finally decided by the general assembly.

14.3.4 Staff selection and roles

While the general assembly decides the overall plan and critical organisational level issues, the managing director makes the final decisions in consultation with the managers who are more familiar with the daily needs of the enterprise. He is also involved in negotiations and partnership development. Additionally, he is involved in communications for development support from donors and development organisations in line with the company's mission of promoting rural community livelihoods while managing their natural resources sustainably.

The company has developed a standard recruitment procedure for hiring qualified staff. Only on a few occasions has recruitment be done through a headhunting process, for example, when HBTL requires experts and people familiar with the business and sector. For all staff, the company has provided training to enhance their skills and competences on different aspects of the supply chain, production and marketing. At community level, staff for the handmade paper enterprises are recruited by the enterprises themselves and most of the recruitment is informal. This is especially because all employees are also members of the CFUGs. HBTL has been providing training to these staff for specific tasks such as harvesting raw materials, primary processing and paper making.

14.3.5 Delivery options

As the company's handmade paper is a niche market, HBTL itself delivers products to its clients based on orders received. As the business transaction volume at national and international levels is not large, with only a few client companies, the company has no need for a wholesaler/dealer.

Customers can buy products directly from HBTL's office in Kathmandu or they can contact HBTL for delivery. HBTL uses its own employees for transportation to domestic consumers and works with shipping companies for speedy and safe delivery to its international consumers.

The managers – technical and export, and operations – are responsible for choosing the delivery options, which are decided in consultation with the managing director. Delivery to international markets is managed by the technical and export manager, while for the domestic markets delivery is managed by the operations manager.

14.3.6 Customer research

The two managers are responsible for finding out what customers in their market segment want. At the domestic level, HBTL has started to make paper products customised according to the needs of individual buyers, offices and tourists. For international markets, there are only a few buyers purchasing HBTL products, and HBTL is mostly focussing on meeting the specifications required by these companies.

The managing director and the managers, although mainly the technical and export manager, are the main players responsible for promoting the products to potential customers. The managing director focuses on reaching out to existing business connections and meeting with potential customers to negotiate and finalise contracts. The technical and export manager plays a more active role in reaching out to others and promoting the company's value proposition. While the managing director and the two managers participate in strategic meetings, company staff members attend trade fairs and expositions to showcase their products. The technical and export manager participates in relevant trade fairs, sometimes at international level, which has been useful for enriching his knowledge in technology and services for an expanding consumer base. Participation in trade fairs has also helped in finding new customers, and HBTL has established connections with some buyers in Europe for FSC-certified essential oils. The managers have also been responding to consumers' feedback.

14.4 How has Himalayan Bio Trade overcome key challenges?

14.4.1 Challenges to do with the value proposition

There are several challenges the handmade paper business in Nepal has faced. There are several general challenges, such as political instability and weak enforcement of laws and policies resulting in weak governance and an increase in transaction costs, thus affecting the overall business climate. However, HBTL also faces challenges specific to the subsector, such as having only a limited area of FSC-certified forest (which effectively caps its FSC-certified paper production), transportation hurdles, inadequate access to finance and a dependency on the weather for drying its paper. At the lead-firm level, at the beginning of the business, there was poor understanding of western preferences for paper products. The handmade paper business has addressed some specific challenges such as ensuring a supply of raw material sourced from community forests, the regular supply of paper from CBFs to HBTL, product development as per demands from domestic and international markets, and optimal financial access.

The partnerships developed with the CFUGs for the establishment of enterprises at the community level to source raw materials has resolved the challenge of raw material scarcity. However, as the FSC-certified paper production is effectively capped, HBTL has been working closely with the Federation of Community Forestry Users Nepal (FECOFUN), which is the FSC group manager of the CFUGs, to increase the area of FSC-certified forests in the country. In 2013, 13 CFUGs were added to the certification pool managing over 2,800ha of forests. The enterprises at community level have a storage facility where they can maintain stock before transporting the paper to HBTL in bulk.



© ANSAB

Workers cleaning baked Lokta

The business has faced a major challenge related to access to finance, as there are no or very limited financial products from banks or financial institutions in this subsector or for enterprises like them. Because the enterprise owners are community groups, it has been difficult to get enough collateral for larger loans. In addition, the individual members in the group entity are not capable of making large investments. Although it is not possible to bring in enough investment at the community level, the good relationship that HBTL has with its community members and the production enterprises with clear ownership and benefit-sharing mechanisms has been helpful in generating finance for the establishment of production enterprises. Furthermore, developing partnerships with ANSAB and other development partners/programmes such as the German Agency for International Cooperation (GIZ) has been helpful in accessing development money for building the capacity of the communities. These partnerships and programmes have also helped HBTL to participate in international trade fairs and expositions, which has been helpful for understanding buyer preferences at the international level.

14.4.2 Overcoming legal challenges to do with resource access

Legal access to the forest resources has been secured through effective partnerships with CFUGs who enjoy full legal ownership and management rights in these community forest areas. HBTL has been closely working with the CBFEs at community level with an agreement to source paper from them. The agreements provide a guaranteed buyback of paper from these enterprises with fair prices. In some cases, HBTL has also provided financial support to the enterprises in advance, which has helped them to produce paper in large quantities. The community-based paper production enterprises in turn have

agreements with the CFUGs to supply lokta bark to them. The CFUGs are facilitated to revise their operational plans to include lokta harvesting and form monitoring committees involving CFUG and CBEF representatives to ensure the sustainable sourcing of raw materials. In partnership with development organisations and programmes, HBTL has also sought grants for the community for planting lokta in their forests.

In order to maintain the FSC-certification status of CFUGs, HBTL has been providing FECOFUN with some financial assistance during the FSC annual audit.

14.4.3 Overcoming ownership and benefit-sharing challenges

The paper business in Nepal involves clear ownership and benefit-sharing mechanisms between the communities and private sector involved in the chain. With the benefit-sharing deal, the community-based enterprises are producing paper sheets and selling to HBTL, which is selling the paper and paper products at domestic and international market generating revenue. The enterprises receive money on the basis of the total quantity of paper they supply to HBTL and the unit price for the paper is fixed at the beginning. This structure has helped increased participation of the actors and helped avoid any issues relating to ownership and benefit sharing.

14.4.4 Overcoming labour challenges

Using a community–private partnership model, the business includes community members involved in production activities with a structured shareholding and benefit-sharing mechanism. This has helped to increase motivation among the community members to become involved in lokta harvesting, primary processing and paper making at the local level. Furthermore, the community members who are organised into subgroups in Dolakha district are involved in planting lokta and argeli on the land allotted to them. They perceive a clear link between their benefits and responsibilities, which are detailed in the subgroups' management plans.

To improve labour capacity in terms of product quality and consistency and enterprise operations, HBTL has provided training and technical assistance to all staff involved in the chain, and on-the-job training at the company premises in Kathmandu. These trainings and technical assistance have been developed by HBTL, building on the skills and managerial capacity-building training provided by ANSAB.

Regarding infrastructure, the community enterprises have access to roads and means of transport. Major suppliers at the community level such as Everest Gateway Herbs in Dolakha district also have storage facilities where the paper can be stored before being transported to Kathmandu in bulk. However, a major challenge to these enterprises at the community level is the dependency on weather for drying the paper. HBTL has been in communication with some development partners for the development of solar-powered driers that can be used indoors.

14.4.5 Overcoming marketing challenges

One of the major delivery challenges for FSC-certified handmade paper is the total volume available for transportation, which is usually small as per buyer demand. It also needs to be segregated during transportation to maintain its certification status, and so volumes for export cannot be combined with other non-certified products to reduce transportation costs. At the national level, the company has established a mechanism with the community enterprises, whereby they transport paper themselves to HBTL. At the international level, HBTL makes its own arrangements for transportation. Besides delivering to Aveda, there are cases when HBTL has been paying more for shipping than for the paper itself. HBTL is now coordinating with its buyers to buy the products in bulk to reduce transportation costs.

One of the major success factors in finding and keeping customers at international level is Aveda's involvement in the chain. Nepal is the signature country for the Aveda Holiday Gift line in its 1,800 stores worldwide, featuring moss-green lokta-bark paper with red Rhododendron-flower paper (the national flower of Nepal). Aveda has also been travelling to Nepal to photograph for the Aveda Holiday Gift campaign, capturing the social and environmental aspects of lokta management in the country. Aveda's association has also featured the FSC-certified paper and essential oils in major fashion magazines in Europe, United States and Japan and on FSC's website, where it has been promoting the products to international consumers.

HBTL has found some successes in finding customers through showcasing their products at expositions and trade fairs, mainly FSC-certified essential oils for the European market. With the current handmade paper enterprise model of community development and natural resource conservation, some development organisations have been using FSC-certified paper for business stationary. HBTL's relationship with development organisations has also been fruitful because of the professional networking undertaken by them. For example, besides Aveda's association with HBTL, ANSAB has also been arranging visits to HBTL for delegates interested in community enterprises and community-based products, where they can purchase products and also build a basis for new business partnerships in future.

To distinguish its projects in the market, HBTL has been promoting the social and environmental values of its business and the benefits it brings to local communities. It has upgraded its website (www.himalayanbiotrade.com) with the help of international volunteers from the Centre for International Studies and Cooperation (CECI) Nepal. The website now includes product information for every product made by the company. HBTL's association with Aveda has been helpful in developing its capacity to understand the demands and requirements of an international natural-products market, which has helped the business to meet international marketing practices such as product quality, design, price, packaging and shipping.

14.5 Key lessons

14.5.1 Keeping down costs

Currently, financial returns go towards running costs including salaries of the company staff. HBTL uses the remaining revenue to reinvest in business expansion. The business uses different strategies and activities to reduce the costs of developing and managing the handmade-paper business in Nepal. Major strategies include the process of upgrading within the value chain along with the effective mobilisation of resources for different activities in partnership with communities and development partners.

The group certification model has remained an important process for upgrading the business and has proven to be an efficient strategy for the incorporation of many smallholder forest managers and businesses to be certified under a single FSC certificate. In group certification, all the costs involved in certification – such as report writing, travel costs of auditors, consulting with the public about the forest management – are shared amongst the members. So the cost per member is much less than if the individual groups applied to have one certificate each. In Nepal, group certification of CFUGs with FECOFUN and group CoC certification with HBTL have remained the most cost effective tools for the smallholders and small businesses to become FSC certified.

Another process upgrade at the industry level is the development of HBTL as the lead firm that has consolidated the production enterprises and the marketing of their products. This has also helped the community enterprises to reduce their marketing costs. Furthermore, HBTL also has another FSC-certified product line in essential oils, which are produced from the same certified forests. This has helped HBTL to diversify their products.

Partnerships with communities, government and development partners, and resource mobilisation for different activities have helped to improve facilities at CBF level and participation in trade fairs and expositions. These activities have been helpful for HBTL to improve the efficiency of its operations and marketing of its products. Furthermore, the two group managers – FECOFUN and HBTL – have been seeking help from organisations including ANSAB that are promoting FSC certification in Nepal to develop and increase the number of national auditors – which brings the certification cost down as the current audit is performed by international auditors, whose travel costs have to be borne by the prospective forest user groups and enterprises themselves.

14.5.2 Retaining customers and willingness to pay

The Aveda Holiday Gift campaign has captured the social and environmental values of the business and this has been a major factor for building HBTL's customer base and their willingness to pay at the international level. In addition, some individuals and development organisations, who value the social and environmental motivation of the business, are using the product because the business involves communities with a clear benefit-distribution mechanism and sustainable forest management.

14.5.3 Success factors

The design of the entire value chain development activities with a clear vision has been the main factor for the success of the handmade paper business in Nepal. The lead firm, HBTL, along with other appropriate actors and stakeholders, the unique community-private partnership with support from public and NGO partners, and FSC certification have also been helpful for commercial success.

Developing a committed responsible lead firm with a clear role and partnership

structure: since its establishment, HBTL has remained a committed lead firm. It has a clearly stated vision, goal and practices. It has consolidated community-based handmade enterprises by purchasing their paper and selling to domestic and international markets with some value addition. It has also built producers' capacities by providing training and introducing improved technologies in order to obtain quality produce and decrease production cost. Furthermore, using a community–private partnership model with a clear ownership and benefit-sharing mechanism has helped increase participation of actors in the chain at producer level while benefitting the poor, women and marginalised groups with significant income increases.

Using socially and environmentally responsible approaches to business practices while bringing high-quality products to the consumers:

the approaches used by CBFs and HBTL have helped the business gain recognition from different organisations and create multiple social and environmental benefits with a one-time investment supplemented by a development partner. The company has established its reputation by managing to maintain consistent quality of its products while promoting sustainable forest management and providing income and employment benefits to forest communities. There are now several development organisations through which HBTL can access funds for capacity building and participate in international trade fairs and expos.

Developing an international market through FSC certification:

FSC certification provides an assurance to responsible domestic and international buyers that the handmade paper products from Nepal are legally sourced from responsibly managed forests. This was the main reason Aveda became a client. In addition, the Body Shop, another leading global personal-care product-manufacturing company as well as major fashion magazines in Europe, US and Japan have featured Nepal's forest-based products which have FSC certification and other certification such as organic certification, Cradle to Cradle certification (an ecolabel that assesses a product's safety to humans and the environment and its design for future life cycles), and wildlife-friendly certification. In this way, certification has provided the Nepalese handmade paper business with a powerful marketing tool to communicate with consumers about the environmental and social practices adopted by the business. It remains an important milestone towards establishing an international market presence.

Mobilising resources from programmes and agencies for ensuring a sustainable raw material supply, commercialisation and creating a favourable policy

environment: external support has transformed these producers into enterprises through organising them and building their capacity to sustainably harvest raw materials, develop enterprises and participate in the value chain. The PPA initiative that brought FSC certification into practice in Nepal provided the handmade paper business with an opportunity to enter the international market. Similarly, Aveda's continuous involvement with the PPA project and HBTL has provided much-needed private-sector guidance on the demands and requirements of the international natural products market. Different civil society organisations, NGOs, government programmes and business membership organisations including FECOFUN and Nepal Handmade Paper Association (HANDPASS) have played positive roles in facilitating access to critical services including business development services, and improving the policy and regulatory environment in the sector.

Annex 14.1 FSC-certified lokta handmade paper enterprises

National-level processing and marketing enterprises	Community-based forest enterprises (CBFEs)	Community forest user groups (CFUGs)
Himalayan Bio Trade Pvt Ltd	Malika Handmade Paper Enterprise	<ul style="list-style-type: none"> ■ Shri Binayak Pimidanda ■ Ranada ■ Lataun ■ Hemantabada ■ Binayak ■ Lahare ■ Sallipatan Trisakti ■ Martinaula ■ Pariban ■ Daya ■ Mastamandu
	Everest Gateway Herbs	<ul style="list-style-type: none"> ■ Kalobhir ■ Thulonagi ■ Balemdamji ■ Kyanse Setep ■ Hanumanteswhor
	Bhimeshwor NTFP Production and Processing Deudhunga Multipurpose Cooperative, Ltd.	<ul style="list-style-type: none"> ■ Bhitteeri Pakha ■ Charnawoti ■ Suspa ■ Bolde Setidevi ■ Dhande Singhadevi ■ Jharani ■ Majhkharka Lisepani ■ Simpani
	Kalika Handmade Paper Enterprise	<ul style="list-style-type: none"> ■ Jutte Bhadmaya ■ Liche ■ Naulipata ■ Gaunapatal ■ Chaukidanda ■ Khatkhate Janaurda