



## **Investment in Community-Managed Forestry in Nepal: Scoping Opportunities for Poverty Reduction and Environmental Sustainability**



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## Summary

In Nepal, local communities have come a long way in conserving forest ecosystems and nurturing local institutions for democracy and social justice in Nepal. Local communities have re-emerged to assert self-governance in response to the failures of three alternative approaches to development – failure of the state, failure of markets and failure of post War model of development industry. Most notably, Nepal's community forestry is considered a global innovation in participatory environmental governance that encompasses well-defined policies and institutions and a wide variety of practices. Going beyond the stipulated objectives of state policy, Community Forest User Groups (CFUGs) have mobilized tremendous amount of institutional capacity and resources to enhance livelihood opportunities of some of the World's poorest groups. Most notably, CFUGs and other formal and informal community organizations have revived once degraded slopes of Nepal Himalaya that drew serious international attention in the late seventies. By August 2009, about one-third of Nepal's population have been organized as CFUGs, directly managing over one-fourth of the country's forest area. CFUGs and their networks have together demonstrated an innovative model of direct democracy in forest governance.

However, despite such achievements, the potential of local communities is not being fully achieved and recognized by state and development agencies. Only 25% of the national forest is transferred to communities, and most community forests are under protectionist regime, with only limited utilization of forest products for livelihoods. Although over 100 medicinal plants are traded from community forests and around 600 other species are commercially potential, few attempts have been made to explore and enhance the market benefits of forest to local communities. The processes of policy development are also not fully effective in support of community institutions and oftentimes community voice and aspirations are not incorporated in national and sub-national planning. Policy makers still consider community forestry as a subsistence level activity and many institutional and regulatory constraints hinder community groups to engage effectively in community based forestry enterprises. In the context of climate change, there will be added challenges to local forestry institutions and livelihoods. There is still limited room and incentives for non-governmental service providers, which could have strengthened communities' institutional and technical capacity for forest management. As a result of these challenges, the actual livelihood benefits of forestry have remained limited in Nepal.

Amidst such situation, Nepal's local communities have been struggling to seek self-governance on several substantive issues of forest governance: management of Terai and high altitude forest areas (where government is somewhat reluctant to community management), addressing climate change impact at local level, exploring carbon financing possibilities, reconciling forest and agricultural land use conflicts, marketing of forest products and enhancing livelihoods benefits, biodiversity conservation and participatory protected areas management. Over the past three years, community federations representing diverse sectors of natural resources have come together to work as a confederation to augment community voice at constitutional, policy, legal and institutional reform debates. Looking at the way communities have projected their stakes in the governance processes on the one hand, and the opportunities and challenges emerging from the wider contexts, we identify the following five community action agendas for at least the next five years:

1. **Forest based entrepreneurship and marketing:** this includes multiple models of business development in forestry and natural resource sector, including the involvement of private sector.
2. **Ecosystem management and environmental services:** this includes management of forest for targeted raw material supply, biodiversity conservation and marketing of forest carbon in the voluntary markets or the emerging Reducing Emissions from Deforestation and Degradation (REDD) regime.
3. **Community based adaptation to climate change:** this includes undertaking an assessment of climate change impact and developing community based adaptation planning and implementation, including the channeling of international adaptation financing.
4. **Democratic and inclusive community institutions:** this includes activities to address key aspects of social exclusion and to promote transparent and accountable leadership and institutional processes within the community groups.
5. **Networking and policy influence** (with a focus on tenurial security and enterprise development): this comprises of strengthening networking and federation among diverse forest user groups and on various specific policy and governance issues.

Unlike conventional Development Assistance, we urge that government and donors allow local communities to take leadership of the processes of change in relation to livelihoods, poverty reduction and environmental conservation. Community forestry federations in Nepal can now act as most efficient channels to address the livelihoods challenges of the poor and marginalized groups. This report recommends donors and government to consider supporting local communities and their networks to act as the active agents of change in transforming governance and expanding economic opportunities, rather than the passive recipient of services of government and donor program. The report outlines the needs for USD 63m dollar public investment over the next five years to generate the following outcomes:

- a) Creating secure regulatory environment for private sector investment in promoting collaborative forestry enterprises;
- b) Creation of over 200,000 green jobs in the forest sector – by community as well as community-private sector partnership businesses in the forest and renewable resource sector;
- c) Strengthening CFUGs as democratic, inclusive institutions, with a net increase of pro-poor CFUG fund investment from the current average of 5% to 40%;
- d) Enabling communities to cope with climate change induced risk through carefully developed community based adaptation strategies;
- e) Enabling communities to invest more in biodiversity conservation and institute mechanisms through which they can receive legitimate rewards for carbon sequestration and biodiversity conservation;
- f) Increasing community federation actions in policy influence so that an enabling, transparent, flexible regulatory environment exists in support of community managed forestry.

## Contents

1. Introduction	1
a) Context and Rationale	1
b) Objectives, questions and report outline	1
c) Perspectives and definitions	2
2. Community Renaissance in Nepal's Forestry	3
a) Evolution of community institutions	3
b) Forest and communities in Nepal: local governance innovations	7
c) Continued challenges	9
3. Emerging Agendas and the Expanding Space for Community Action	10
4. Investment Opportunities	13
a) Areas of investment	13
b) Strategies for investment	14
c) Investment Needs	16

# 1. Introduction

## *a) Context and Rationale*

In Nepal, local communities have come a long way in conserving forest ecosystems and nurturing local institutions for democracy and social justice in Nepal. Although they date back to pre-modern social institutions before the emergence of the nation-state, community institutions have reinvented themselves as the most dynamic and resilient actors articulating both modern and traditional wisdom in advancing the cause of human development and environmental sustainability.

Nepal's forest sector has come to the forefront of community actions and innovations. Amidst global challenges of climate change and national historic political changes<sup>1</sup>, community forestry groups and other community organizations have come to the centre stage of development innovation in Nepal. Most notably, Nepal's community forestry is considered a global innovation in participatory environmental governance that encompasses well-defined policies and institutions and a wide variety of practices. Going beyond the stipulated objectives of state policy<sup>2</sup>, Community Forest User Groups (CFUGs) have mobilized tremendous amount of institutional capacity and resources to enhance livelihood opportunities of some of the World's poorest groups. Most notably, CFUGs and other formal and informal community organizations have revived once degraded slopes of Nepal Himalaya that drew serious international attention in the late seventies<sup>3</sup>.

However, despite such achievements, the potential of local communities is not being fully achieved and recognized by state and development agencies. Local communities are still considered as the passive recipient of development industry, which has performed very poorly in the past 50 years of existence in Nepal<sup>4</sup>. Likewise, wider policy environment is still not enabling for community action, and rather continues to create techno-bureaucratic hurdles to communities as they manage and market forest products and services. Local communities and their networks have also faced severe challenges in their organizational development and collective action. They tend to act within subsistence livelihoods mindsets, with limited capability to emerge as forest products entrepreneurs. Despite widespread federation building, community groups are still poorly networked to influence specific policy issues affecting their rights. Likewise, while community institutions have been successful to create wider societal benefits through forest conservation and management, disadvantaged groups within communities have often been deprived of getting fair share of community incomes and benefits.

## *b) Objectives, questions and report outline*

In this context, a scoping study was undertaken to review and understand the potential of community organizations and networks in poverty reduction and sustainable natural resource management. Global Alliance of Community Forestry (GACF) and Federation of Community Forestry

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<sup>1</sup> Nepal is currently in the process of making new constitution through the historic, popularly elected Constituent Assembly, following the signing of peace accord with Maoists who launched armed struggle during 1996-2006. The armed struggle mobilized masses local youths from the rural areas of the country.

<sup>2</sup> For example, Master Plan for the Forestry Sector (1988) emphasized the fulfillment of basic needs of people through community forestry and other supportive forestry programmes.

<sup>3</sup> Eckholm, E.P. (1976). *Losing Ground: Environmental Stress and World Food Prospects*. New York, W W Norton.

<sup>4</sup> Devendra Pandey (1999), Nanda R Shrestha (1995), Blaikie et al 2002.

Users, Nepal (FECOFUN<sup>5</sup>) worked with ForestAction<sup>6</sup> Nepal to synthesize existing knowledge, evidence and insights that could inform future directions and strategies for supporting community led initiatives for change. The review team drew mainly from many years of experience working as activists and researchers in support of community initiatives in the forestry sector in Nepal, as well as the insights gained through working with a number of forestry stakeholders in Nepal as well as internationally. In order to gain fresh insights and test our assumptions, we also made site visits to conduct focus group discussions with the local community representatives and other stakeholders.

This report summarizes the findings of this review. The main objective is to present the scope of public investment in support of community action in forest management, poverty reduction and environmental conservation. This is assessed through a consideration of the following three interrelated questions:

1. Are local communities (more specifically CFUGs) institutionally capable and innovative in mobilising resources for poverty reduction and environmental sustainability at local level? If yes, how, to what extent and under what conditions?
2. What are the key challenges and opportunities faced by community institutions in relation to emerging key environment and development agendas, such as climate change, market and democratization?
3. What are the potential investment opportunities to further expand community-led poverty reduction and environmental outcomes?

The report is organized as follows. Section Two presents evolution of community institutions in forestry sector in Nepal. This section demonstrates a pattern of community innovations in institutional, environmental, and socio-economic dimensions, including the emergence of community networks to influence wider policy development processes. As such, this will provide a foundational understanding of community organizations in forest governance, as well as an exploration of the potential for expanding community involvement in poverty reduction and sustainable ecosystem management.

Section three presents at least five key agendas of development and environmental conservation that are relevant to Nepal as well as internationally, and several associated issues and challenges.

In Section Four, by interlinking the assessment of community institutional potential in section two and the challenges and opportunities identified in section three, an assessment of public investment opportunity is made that could expand community action in poverty reduction and environmental sustainability in Nepal.

### ***c) Perspectives and definitions***

Our central perspective is to locate and conceptualise 'community' as the locally based and spatially organized collective action situation. Although community itself is not a homogeneous entity, the experience of Nepal suggests that there exists a relatively stable and autonomous sphere of community that organizes social life at local level. This provides first schooling to people to get socialized as citizens and social agents. As a relatively stable institution, it stores traditional

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<sup>5</sup> Website – [www.fecofun.org](http://www.fecofun.org)

<sup>6</sup> Web site – [www.forestation.org](http://www.forestation.org)

knowledge and ensures its intergenerational transfer. As such, the community nurtures institutions and innovations in economic, political and social spheres.

The analysis and scoping of opportunities is done not from national perspective nor from that of a donor but from the perspectives of local communities.

By community groups, we do not only mean community forestry user groups, but the whole range of community institutions around natural resource management – such as leasehold forestry, collaborative forestry, buffer zone community forestry groups, and several others. We see that lessons from community action forestry can be extrapolated to arrive at more generalized understanding of community action in Nepal. For this reason, we deliberately widen the scope of analysis from forest to natural resources and then to environment, as we move from community forestry (one form of forest management in the context of Nepal) to community managed forestry (which can take various forms, of which community forestry is one) to community action in environment.

Our conception of investment includes diverse forms and sources of financial, technological and human capitals from government, donor and philanthropic, and includes private investment that has positive externalities in poverty reduction and environmental conservation. The focus of scoping is public investment because if appropriate public infrastructure and legal environments are created, private capital could be mobilized following the logic of market, along with growing social responsibility and environmental sensitivity.

## 2. Community Renaissance in Nepal's Forestry

### *a) Evolution of community institutions*

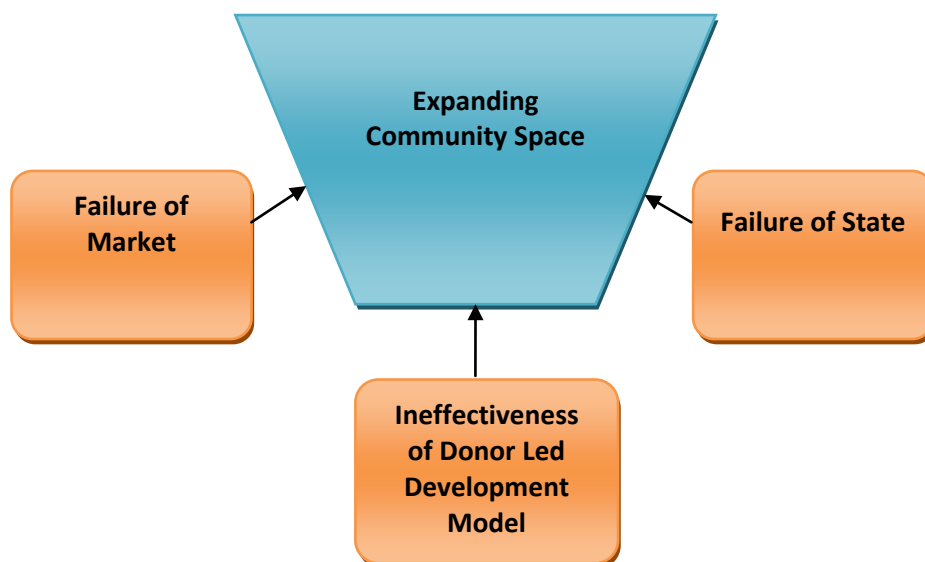
Local communities have re-emerged to assert self-governance in response to the failures of three alternative approaches to development – failure of the state, failure of markets and failure of post War model of development industry (Figure 1). Since its formation, the state continued to be controlled by a few ruling elites, with local communities being alienated and disadvantaged in the statutory governance processes<sup>7</sup>. Neo-liberal economic expansion, which is reflected in the accumulation of capital and skilled labor in the urban areas, has failed to create any substantive opportunities to the rural poor dependent on forest and natural resources. Foreign aid is also perceived as contributing to widen the socio-economic disparity<sup>8</sup>.

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<sup>7</sup> Throughout Nepal's modern history of the past 240 years,<sup>7</sup> the Nepali state has been largely controlled by the Shaha and/or Rana families, except three brief periods of democracy – 1950s, 1990s and after 2006. Under their control, the state polity retained a strong feudal character, involving the flow of power from either Shaha or Rana families and flow of economic surplus from the peasant farmers to the ruling elites through networks of locally based feudal lords (Regmi 1978), though there was gradual decline in that control apparatus after 1951. Until the Private Forest Nationalisation Act was enforced in 1957 all forests were controlled by state-sponsored local functionaries. As the state became moved further into the era of planned development after the World War II, national bureaucracies assumed the role of political-economic control of the society as per the interests of the ruling elites (Blaikie et al. 2001). Since then a series of legislations were enacted to enforce effective national control over forests by the expanding forest bureaucracy through excluding local people. Although it was assumed that taking forest from private groups to the state would enhance people's access to resources, the state created a strong techno-bureaucratic field by instituting stringent regulations to exclude people from controlling forest resources.

<sup>8</sup> Metz, J. J. (1995). "Development in Nepal: Investment in the Status Quo." *GeoJournal* 35(2): 175-84.

**Figure 1. Expanding Community Space**



In the forestry sector, the bilateral model of donor forestry project that were designed in the late seventies to urgently address the issues of forest degradation continued without substantive reformulation, often undermining the attempts of community networks and nationally grounded civil society organizations. Foreign aid equivalent to more than 140 million USD has been scheduled to be spent in the forestry sector during the first decade in the new Millennium (Table 1), which is mostly governed by traditional Project Coordination Committee (PCC) model led by government bureaucracy ignoring other stakeholders, such as community forestry networks. Amidst this situation, community renaissance has been seen as new window of hope and transformation.

**Table 1: Donor support in the forestry sector of Nepal in the new Millenium**

*Amount in Million USD*

Donor Agency/Country	Period	Amount	Yearly Aid Amount
UK	2001-2011	26.80	2.68
Denmark	1998-2004	24.30	Closed
European Union	1997-2003	22.50	Closed
Switzerland	1996-2008	12.10	1.50
Australia	2003-2009	10.60	1.76
IFAD (Loan)	1996-2003	9.00	1.45
	2005-2013	11.60	
Netherlands	2002-2008	7.30	1.21
WWF	2001-2006	6.40	1.06
Care Nepal	2001-2006	3.90	0.65
Germany	2002-2004	3.00	Closed
U.S.A.	2001-2006	2.40	0.40
UNDP	2002-2010	0.80	0.26
Japan	1999-2004	0.70	Technical support
<b>Total</b>		<b>141.40</b>	

Source: NSCFP (2008:17)<sup>9</sup>

Local communities began to be recognized through the state initiated Community Forestry program in the late 70s<sup>10</sup>. The programme is aimed at meeting the twin goals of forest conservation and poverty reduction. Through a series of operational innovations and legislative developments over the past three decades (Table 1), the program evolved from an initial protection-oriented, conservation-focused agenda to a much more broad-based strategy for forest use, enterprise development, and livelihoods improvement. The most significant regulatory development in support of CF was the enactment of the Forest Act in 1993 by the first elected parliament after the 1990 people’s movement, which guaranteed the rights of local people in forest management.<sup>11</sup> Nepal became the world’s first country to enact such a radical forest legislation allowing local communities to take full control of government forest patches under a community forestry program. As over 70% of Nepal’s population depends on agricultural livelihoods, decentralized governance of forestry contributed to livelihood security (Figure 2). By August 2009, about one-third of Nepal’s population have been organized as CFUGs, directly managing over one-fourth of the country’s forest area. Unlike popular projections of heavy donor support to CFUGs, an analysis shows that only 17% of CFUGs cost is covered by donors and another 13% by government expenditure, while the overwhelming 71% is borne on by communities themselves.<sup>12</sup>

**Table 2. Political Systems and Community Participation in Forest Governance in Nepal**

Forms/ Degree of Citizen Participatio n in Forest Governanc e	Policy decisions to enter partnership with local governmen t	Formation of Panchayat Forest and Panchayat Protected forest	Interim policy decisions to enable CFUGs to directly participate in Community forestry governance, emergence of federation of CFUGs	Formation and rapid expansion of CFUGs; Second generation issues of elite control in CFUG and CF	Political transition and democratisation
Time	70s	80s	90s	2000	2006 onwards
Political Contexts	Panchayat System	Panchayat System	Multiparty Democracy; Armed Conflicts started in mid-90s	Armed conflict at peak, political regression when the King took the executive power, second national	Expansion of community spaces, peaceful transition strengthening

<sup>9</sup> NSCFP 2008. Project Document for Phase VI (July 16, 2008-July 15, 2011), Nepal Swiss Community Forestry Project, Nepal

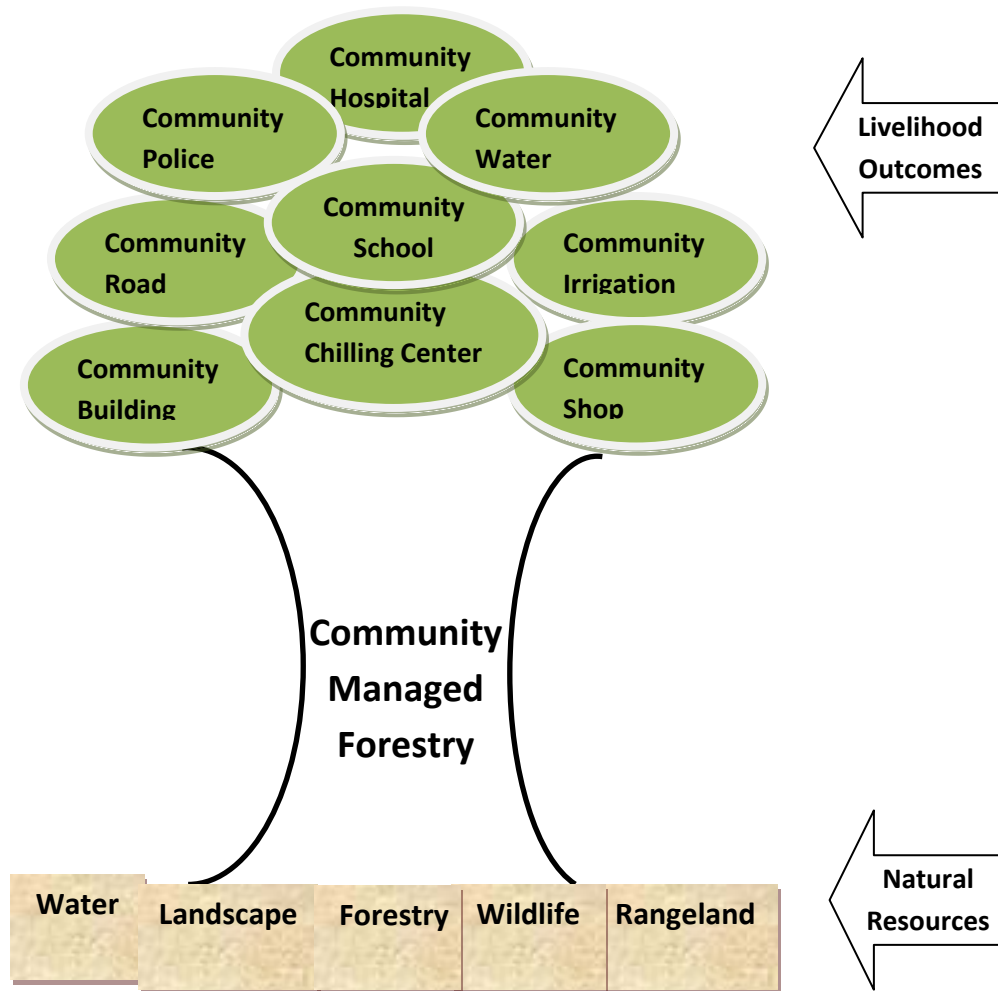
<sup>10</sup> Efforts to share power with local people started in 1978 (Table 1 summarizes evolution of CFP in Nepal), when *Panchayat*<sup>10</sup> forest regulations were instituted. This was done at a time when there was a realisation within the government that forest bureaucracy was unable to protect forest without engaging local people. This was echoed by Monarchical Panchayat system’s strategy to thwart growing anti-*Panchayat* resistance by offering some economic and symbolic spaces in the local *Panchayat*. In the meantime, pressure from donors on decentralisation was also growing for explicit government commitment towards a shift away from centralised practices of development. During the seventies, projection of Himalayan degradation as a serious environmental crisis (Eckholm 1976) created increased moral pressures on international development and environmental institutions and Western governments to contribute to conservation of the degrading Himalayas. This led to an environmental turn of development discourse away from an emphasis on infrastructure and technology transfer (Cameron 1998). At a time when MPFS was finalised and formally adopted by the government (1989), the people’s on-going movement against Panchayat system culminated in the reinstatement of multi-party democracy in the country. The decisions of subsequent governments further strengthened the regulatory framework of community based forest management in line with MPFS.

<sup>11</sup> Article 26 says that local people, once organised as Community Forest User Group, will have unalienable rights over forest. They can use 100% of the benefits generated. The group remains perpetually self-governed and autonomous.

<sup>12</sup> Source - Pokharel et al, p 71-72, in Ojha et al 2008, Communities, Forests and Governance.

				people's movement, peace process, constituent assembly, identity based social movements.	community actions at all levels
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Figure 2. Community Managed Forestry and Livelihood Outcomes



***b) Forest and communities in Nepal: local governance innovations***

CFUGs and their networks have together demonstrated an innovative model of direct democracy in forest governance<sup>13</sup>. The CFUG comprises of households ranging from a few dozens to over a thousand households sharing a common forest as per agreed rules and management plans (Box 1). With over 15 thousands CFUGs (covering one third of 26 million people) formed and mutually interlinked, Federation of Community Forestry Users, Nepal (FECOFUN) is probably the largest civil society institution in Nepal, surpassing even the largest political party.

Beyond civic engagement, CFUGs have proved themselves as more efficient in the management of forests compared to government management. An analysis shows that in the Western Terai district of Rupandehi, CFUGs managed about 8000 hectares of forest and generated about NRs 25 million in 2007, whereas in the same year government managed about 18000 hectares and generated only NRs 3 million<sup>14</sup>. Moreover, it is to be noted that this revenue outcome is generated through a public investment of about NRs 20 million (spent by local forest office), of which only 10% is invested in community forestry. This analysis clearly indicates that with little public investment, communities

<sup>13</sup> Ojha et al. 2008, Yale paper.

<sup>14</sup> Monitoring report of District Forest Office, Rupandehi 2007 (2064/65).

are several times more efficient in forest management. Another analysis<sup>15</sup> corroborates this finding. It showed that in a recent year, Department of Forest which controls around 66% of the forest generated only NRs 550 million, whereas CFUGs which controlled around 25% of the forest generated over NRs 893 million, of which over 84% is from the sale of forest products, and rest from grants and other incomes. The income of CFUGs would amount to NRs 1.8 billion if the market prices are used to calculate revenues.

Probably the most recent and by far the most comprehensive study on Forestry Sector Contribution to Gross Domestic Product (GDP) in Nepal<sup>16</sup> has found substantial role of CF in accelerating value addition of forestry to country's GDP. Value added of timber production from community forest is NRs 35,000 per hectare, whereas that from government-managed forest is only NRs 29,600 per hectare. The value added of carbon sequestration from community forest is NRs 235,300 per hectare, while that from government-managed forest is only NRs 80,900 per hectare. Although the study *per se* does not examine why CF has higher rate of contribution, the increasing cases of more active forest management, active silvicultural practices in community managed forests, can be attributed<sup>17</sup>. This proves that communities are more effective in managing forests and generate financial resources, along with putting measures to control deforestation and degradation.

#### **Box 1. Institutional Characteristics of CFUGs**

The Forest Act 1993 provides significant level of rights to Nepalese citizens who depend on forest and who are willing to be the members of a CFUG: a) right to get organized with perpetual succession, b) entitlement over forest growing stock, c) right to use 100% benefits resulting from the sustainable yields, c) unalienable citizen rights even if a community forest is withdrawn by the government in case a particular CFUG executive committee does not meet sustainability standards in forest management. These rights have significant incentives and motivated local forest dependent citizens to participate in forest governance.

A CFUG consists of the people who use particular forest(s). The group could include everyone in the village, or just some people, or even some people from another village. The institution is inclusive rather than exclusive of households in the village, and in practice all households of one or more villages become member of a CFUG. As King *et al* (1990:6) describe, "The term users group is really descriptive of a category of people rather than a group." A CFUG comprises households with diverse interests on forest, and often interest-based sub-groups are formed to articulate diverse interests in the CFUG decision making processes. Other modes of citizen participation within CFUG include a wide array of institutional mechanisms such as *Tole* (hamlet) based decision making, elected executive committee, development of group constitution, annual assemblies, development of forest management plans. Sometimes there are women-only groups, specific interest based sub-groups and the like.

The CFUG governance is defined by their Constitution and community forest management Operational Plan (OP). The constitution is registered in the District Forest Office (DFO). While there are certain standards, guidelines and norms for the group constitutions, each CFUG prepares its own constitution defining the social arrangement and the responsibilities and rights of the group (which may vary from group to group to adapt the local tradition, culture and practices) as well as an OP specifying how the forest is managed and utilized. OP also serves as an agreement between the DOF and the CFUG. To take care of the daily activities and coordinate with the users, the group elects some members in its committee assigning certain responsibilities in accordance to their Constitution, the time period of the elected members ranges from 1-3 years. On need basis, the group can form many sub-committees to deal with specific issues.

<sup>15</sup> K Kanel, 2008, p 380-382, In: Promise, Trust and Evolution.

<sup>16</sup> DFRS, 2008. Contribution of Forestry Sector to Gross Domestic Product (GDP) in Nepal, Department of Forests Research and Survey, the Ministry of Forests and Soil Conservation Nepal.

<sup>17</sup> Yadav et al (2009). Facilitating the Trans...Journal of Forest Livelihood 8(1): 51-66

In response to the unfolding issues of social exclusion and marginalization of the poor, *dalits*<sup>18</sup>, women and other disadvantaged groups in Nepal (following the popular movement of 2006), CFUGs have begun to develop mechanisms for more equitable decision-making processes. These include – formation of women-only groups, Tole based committees, free membership to the poorest households, differential rates of forest products sale according to wealth classes. Some CFUGs have started to offer parts of community forest lands to the landless, or near-landless members, so that they can cultivate medicinal herbs, wild edibles or even staple crops to earn their livelihoods. Communities are gradually institutionalizing such practices through a contract made between the group and the individual households within the community forestry group constitution. Through these innovations, local communities have demonstrated their capacity to address issues of social justice and equity.

Over the past 30 years of formal history, community forestry institutions have proliferated both horizontally and vertically. On the one hand, CFUGs experience led to other diverse forms of community institutions in forest and natural resource management in various contexts – such as Leasehold forestry for the poor, and Collaborative Forest Management in the Terai<sup>19</sup>. On the other hand, there has been strong vertical networking CFUGs from below to influence policy debates at higher spheres of governance. Federation of Community Forestry Users, Nepal (FECOFUN), which is the nationwide network of CFUGs, has been a key player in forest sector, bringing the voice of local communities in national policy debates<sup>20</sup>. FECOFUN has further consolidated and democratized the practice of forestry and in many respects provided an interactive liaison between people and the state. Along with NGO alliances, it has brought civil perspectives into the policy-making process that used to be solely dominated by the techno-bureaucratic power<sup>21</sup>. In its historic events, FECOFUN has also been able to make Parliament abort an amendment bill (to Forest Act, 1993,) which would have curtailed some of the community rights over forest resources, such as restricting community forestry in the high value forest areas of Terai. It is through FECOFUN that the legal provisions relating to community forestry were spread to areas where there were no donor projects or where state forestry officials were not so enthusiastic about informing people (e.g. in the Terai). All such FECOFUN's awareness raising activities have helped to enhance the political capital of CFUGs beyond the traditional patron-client relationship with the government.

### ***c) Continued challenges***

Despite impressive achievements in community-led livelihoods and environmental initiatives, there are still major stumbling blocks on the way, especially when the progress is compared with the potential. Only 25% of the national forest is transferred to communities, and most community forests are under protectionist regime, with only limited utilization of forest products for livelihoods. Although over 100 medicinal plants are traded from community forests and around 600 other species are commercially potential, few attempts have been made to explore and enhance the market benefits of forest to local communities. The processes of policy development are also not

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<sup>18</sup> Culturally disadvantaged and so called untouchable groups in Hindu society.

<sup>19</sup> Ojha et al 2008 documents at least six different forms of community based forest management Nepal that are being implemented in different contexts.

<sup>20</sup> Ojha 2002; Ojha and Timsina 2006, Ojha et al 2007 RECOFTC.

<sup>21</sup> The most important policy issue in which FECOFUN has made significant contributions in the past few years concerns the perpetuation of CFUG rights over forest resources in the hills as well as in the Terai (FECOFUN considers that the first amendment and second (proposed) amendment to the Forest Act 1993 has curtailed CFUG rights on forests).

fully effective in support of community institutions and oftentimes community voice and aspirations are not incorporated in national and sub-national planning. Policy makers still consider community forestry as a subsistence level activity and many institutional and regulatory constraints hinder community groups to engage effectively in community based forestry enterprises. In the context of climate change, there will be added challenges to local forestry institutions and livelihoods. There is still limited room and incentives for non-governmental service providers, which could have strengthened communities' institutional and technical capacity for forest management. As a result of these challenges, the actual livelihood benefits of forestry have remained limited in Nepal.

Part of the problem is quite fundamental – there is still a lack of consensus on the role of local community vis-a-vis local government, central government line agencies and other development organizations. Multiple legislations define community rights in different ways (Forest Act 1993, Wildlife conservation Act 1973, Land Reform Act 1964, Local Governance Act 1999), and there is no coherent legal framework to enable community action to the fullest potential. The debate and discourse of decentralisation have at times blurred political rights of local communities by creating confusions between “stakeholders” and “right holders”. We argue that communities as rights holders cannot be equated with stakeholders, like donors and NGOs.

The other key challenge is the lack of clear strategy on mobilising private capital. Generally, business in environmental sector is considered second grade profession, partly because of the prevailing feudal rent-seeking legacies within which business entities have to operate, and partly because of the lack of credible records of socially responsible environmental business. With growing consumer awareness on environmental sustainability and also fair trade, business opportunities in the green sector are growing. Some enterprises are emerging with high potential to grow (especially in community forestry), such as those processing and selling resin, essential oil and bio-briquette followed by timber<sup>22</sup>. Communities have yet to develop workable strategies through which they can synergise their actions with the private sector to invite much needed technology, entrepreneurial efficiency to capture emerging global markets for natural products, including non-timber and medicinal plants.

### **3. Emerging Agendas and the Expanding Space for Community Action**

Over the past one decade, a variety of external and internal ‘drivers’ have surfaced new agendas, which can potentially expand the space for community action in poverty reduction and inclusive economic growth through effective natural resource management. Global warming and climate change is creating local effects, giving a wakeup call to communities for locally initiated adaptation to climate change induced vulnerabilities. On the one hand, the global financial recession that began in 2008 has reinforced the need for greater public and community actions, away from neoliberal doctrine of total ‘marketization’ of social affairs that gained momentum through ‘Washington Consensus’ (which emphasized state deregulation and privatization). On the other hand, expanding resource rights movements throughout the world have brought communities at the centre of forest and natural resource governance. In Nepal, moreover, the ongoing political transition, changing livelihood strategies and inclusion-seeking civil society movements have further strengthened the scope of local community level actions as the roots of democratization. There is even a demand for

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<sup>22</sup> NSCFP (2008) and Department of Forests 2008. Hamro Ban (2064/65)

recognizing the community as the further tier of governance, in addition to national, provincial and local governments being considered by Nepal's Constituent Assembly<sup>23</sup>.

The global and local drivers favoring community action are at times in contention with other opposite forces. These forces are often not visible at the surface and yet tend to resist change in the forest sector – such as continued techno-bureaucratic dominance in policy processes, heavy influence of international and donor agencies in the development strategies and processes, subtle colonization of local change agents and critical social activists through various formal and informal incentives, and lack of deliberative linkages between elected politicians and civil society in policy development. Amidst such situation, Nepal's local communities have been struggling to seek self-governance on several substantive issues of forest governance: management of Terai and high altitude forest areas (where government is somewhat reluctant to community management), addressing climate change impact at local level, exploring carbon financing possibilities, reconciling forest and agricultural land use conflicts, marketing of forest products and enhancing livelihoods benefits, biodiversity conservation and protected areas management. Over the past three years, community federations representing diverse sectors of natural resources have come together to work as a confederation to augment community voice at constitutional, policy, legal and institutional reform debates. Looking at the way communities have projected their stakes in the governance processes on the one hand, and the opportunities and challenges emerging from the wider contexts, we identify the following five community action agendas for at least the next five years:

6. **Forest based entrepreneurship and marketing:** this includes multiple models of business development in forestry and natural resource sector, including the involvement of private sector.
7. **Ecosystem management and environmental services:** this includes management of forest for targeted raw material supply, biodiversity conservation and marketing of forest carbon in the voluntary markets or the emerging Reducing Emissions from Deforestation and Degradation (REDD) regime.
8. **Community based adaptation to climate change:** this includes undertaking an assessment of climate change impact and developing community based adaptation planning and implementation, including the channeling of international adaptation financing.
9. **Democratic and inclusive community institutions:** this includes activities to address key aspects of social exclusion and to promote transparent and accountable leadership and institutional processes within the community groups.
10. **Networking and policy influence** (with a focus on tenurial security and enterprise development): this comprises of strengthening networking and federation among diverse forest user groups and on various specific policy and governance issues.

Key issues under each of these agendas are outlined in Table 2.

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<sup>23</sup> Confederation of eight different natural resource federations including FECOFUN have provided a suggestion to the Constituent Assembly that community be recognized as a separate sphere of governance. Here the idea is not an expansion of state but providing a legitimacy of community actions in statutory framework.

**Table 3. Community Action Agendas and Key Issues**

Community Agenda	Key Issues
Enterprise and marketing	<ul style="list-style-type: none"> <li>• A number of policy and regulatory hurdles constrain communities and their business partners to market forest products.</li> <li>• Communities have limited entrepreneurial capacity to promote forest products and services in the market.</li> <li>• Communities and their small scale private business allies have limited access to necessary capitals, knowledge and technologies.</li> <li>• Community groups are weak in business organizational management and they need capacity building services.</li> </ul>
Policy Influence	<ul style="list-style-type: none"> <li>• Continued tenurial insecurity over forest and natural resources affect motivation and engagement in effective forest management.</li> <li>• Absence of enabling local governance hinders communities to build stronger support in technical and institutional development community groups.</li> <li>• Lack of independent and quality technical and institutional development services that local communities can choose and access outside of the government system.</li> <li>• Communities are still poorly networked to create stronger policy influence on specific policies issues.</li> <li>• Limited partnership and linkages with policy researchers and hence weak argumentative influence over policy related deliberative processes.</li> </ul>
Democratic and inclusive community institutions	<ul style="list-style-type: none"> <li>• Leadership and decision-making processes in community forestry groups are yet to be fully democratic, participatory and inclusive.</li> <li>• Community groups face challenges in addressing deep structural processes of exclusion in terms of gender, ethnicity and caste.</li> <li>• Community groups are still short of critical mass of locally based change agents who can make decisive influence on equity and distributive justice in the management and utilization of forest resources.</li> <li>• Communities have developed a wide array of innovative models on resource management, enterprise development and institutional development practices but there is weak community to community dissemination (scaling out) of such innovations.</li> <li>• Community institutions have yet to devise deliberative and adaptive governance strategies that can incorporate diverse interests, views, ideologies and perspectives in forest governance and management.</li> <li>• meso institutions</li> </ul>
Ecosystem management and environmental services	<ul style="list-style-type: none"> <li>• Communities are not aware of and less informed on diverse forms of environmental services which are generate as externalities from the management and conservation of forest ecosystems.</li> <li>• Communities are not pro-active in demanding accounting of environmental services, due to lack of awareness and scientific evidence.</li> <li>• Communities still lack sufficient institutional capacity to undertake resource assessment and monitoring that underlie sustainable management of forest ecosystems.</li> <li>• Communities lack services to move from passive management to active management effective utilization of forests.</li> <li>• Communities lack resources and capacity to forge landscape level management of forest landscapes and watershed beyond community-focused management (leading to fragmented management of bio-physical system)</li> <li>• Lack of rewards on biodiversity conservation has at times prompted communities to provide selective preference to certain species at the expense of ecosystem approach to forest management, sometimes leading to biodiversity degradation (e.g. Sal, Sissoo, Champ etc.)</li> <li>• Lack of arrangement for forest carbon trade under CDM or voluntary markets and limited participation of communities in REDD.</li> </ul>

Community-based adaption to climate change	<ul style="list-style-type: none"> <li>• Communities lack awareness on the basics of climate change and how it affects their local socio-ecological systems and livelihoods.</li> <li>• Communities have not yet been able to work effectively as a network at different scales to influence adaptation processes and strategies.</li> <li>• Communities are not aware and equipped to develop community-based adaptation strategies and demand support as per the identified needs.</li> <li>• Communities lack idea and capacity in setting up locally based climate change monitoring systems by combining scientific and local knowledge.</li> <li>• Forest management strategies and plans do not explicitly consider adaptive strategies for climate change.</li> </ul>
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## 4. Investment Opportunities

Given the robust and diverse patterns of community-led institutional innovations to address environmental, economic and social issues on the one hand, and the emerging opportunities and challenges linked to wider contextual drivers, communities in Nepal have tremendous potential to harness livelihoods and environmental outcomes. This requires fundamental rethinking in constitutional and legal reform, sectoral governance of natural resources, service delivery strategies, local governance, and the aid delivery strategy. On the five key community action agendas mentioned above, we identify various specific sets of actions which communities and their networks can advance in Nepal. These are outlined below.

### a) Areas of investment

Table 3 summarises specific sets of community actions under each of the five agendas identified in the previous section.

**Table 4. Community Action Agenda and Possible Actions**

Community Action Agenda	Possible Community Actions
Enterprise and marketing	<ul style="list-style-type: none"> <li>• Development of entrepreneurial capacity of communities and their networks</li> <li>• Development of business partnerships with private sector</li> <li>• Hiring expert services in undertaking analysis of constraints and opportunities in various product lines.</li> <li>• Establishing market information centers including electronic networking of community and joint venture (with private sector) enterprises</li> <li>• Creation of revolving seed capital fund.</li> <li>• Inventory of raw materials and assessment of supply potential.</li> </ul>
Policy	<ul style="list-style-type: none"> <li>• Awareness campaigns and empowerment of community networks in policy influence.</li> <li>• Community responsive expert analysis of policy issues and options (including policy intelligence)</li> <li>• Undertaking issue based lobbying and networking among community groups and other allies.</li> <li>• Organizing issue based policy dialogues and public hearings.</li> <li>• Influencing multi-stakeholders policy and institutional processes.</li> </ul>
Democratic and inclusive community institutions	<ul style="list-style-type: none"> <li>• Nurturing, training, and coaching local change agents (LCA) with commitment to work towards transforming and innovating local level institutions and practices.</li> <li>• Developing mechanisms for wider recognition and rewards to change leaders and activists at local level.</li> <li>• Promoting cross-site visits/study tours among community groups.</li> <li>• Technical support services to community groups and networks to engage media in the policy and practical issues.</li> </ul>

	<ul style="list-style-type: none"> <li>• Technical and institutional development services in innovations development around economic institutions and entrepreneurial management of forests.</li> <li>• Technical and capacity development services in community networking for landscape level management of forest landscapes and watershed.</li> </ul>
Ecosystem management and environmental services	<ul style="list-style-type: none"> <li>• Awareness raising activities on the environmental services and possible strategies for accounting of such services as Payment for Environmental Services (PES)</li> <li>• Landscape level institutional model development through action learning (zoning biodiversity corridor across CFs).</li> <li>• Community-based eco-tourism initiatives.</li> <li>• Upstream-downstream dialogues and negotiation on sharing the costs and benefits of ecosystem management.</li> <li>• Developing locally applicable standards of certification and verification of forest products and environmental services.</li> <li>• Influencing markets and standards agencies for 'environmental services with poverty reduction co-benefits'.</li> <li>• Lobbying for compensation/rewards to local communities from protected area systems of global significance.</li> <li>• Rewarding silvicultural innovations leading to improved forest management and biodiversity conservation.</li> <li>• Influencing process of developing mechanism to channelize benefits from REDD to community level.</li> <li>• Community-responsive feasibility studies on volunteer markets of forest carbon.</li> </ul>
Community-based adaption to climate change	<ul style="list-style-type: none"> <li>• Basic climate change awareness campaigns and information market place.</li> <li>• Community-led vulnerability assessment.</li> <li>• Community-based adaptation planning and model development.</li> <li>• Participation and influencing policy debate around National Adaptation Programme of Action (NAPA).</li> <li>• Revise/develop forest management Operational Plans incorporating specific adaption strategies.</li> <li>• Installing meteorological equipments/devices at community level</li> <li>• Developing models of climate resilient integrated farming (organic farming, IPM, agro-forestry models etc.)</li> </ul>

## ***b) Strategies for investment***

The above mentioned community actions first require public investment, which can later attract private investment that could promote the value of forest products in the markets. There is already a significant amount of public investment made every year by donors and government, but this requires fundamental change in approach, focus and intended outcomes. Judiciously planned public investments would provide security to private capital, enhance community capacity to engage with the private sector, and undertake effective management of natural resources.

This report calls for channeling public investment directly to and through the local communities. In the current practice, there are various strategies for investment (see Table 4). Regarding the question of appropriate strategy for managing the investment, we recommend that multi-stakeholder committee (including government) led by community networks and civil society organizations would work best in the interests of communities, in transparent, accountable and efficient manners.

Under the committee, one or a few professional civil society organizations will work out technical procedures for planning and implementing investment activities that will support initiatives at least at five levels: community, cluster of communities, district level, regional level and the national level. The programme implementing organizations should recruit a number of investment planning

facilitators to support annual planning, review and re-planning and budgeting for activities. This will ensure realistic targets and priorities as well as transparent budgeting and financing.

**Table 5. Strengths and Weaknesses of Various Investment Options in Community-Managed Forestry**

Strategies	Strengths	Weaknesses
a) Government programme (Ministries of Forest, Local Governance and Environment)	Public accounting system and wider transparency	Communities priorities may not recognized, especially when community action seeks to demand accountability of public institutions. High chances of leakage Ineffective mobilization due to too much of formalities and procedural complexities.
b) Bilateral donor programme	Implementation not constrained by public financial regulations	Parallel structures of bilateral programme takes over the space of local communities, their networks and nationally grounded government and civil society organizations. High overhead costs of programme implementation.
c) INGO led project	Implementation not constrained by public financial regulations Sometimes INGOs may bring international experience to enrich local implementation.	Community ownership is limited. Competes with and takes over the space of nationally based organizations. High overhead costs of programme implementation.
d) Multi-stakeholder committee led by the ministry of forestry or local government	Greater transparency. Greater responsiveness to local needs. Possibility of government investment along with donor funding.	Insufficient degree of community ownership. Ineffective mobilization due to too much of formalities and procedural complexities.
e) Multi-stakeholder committee (including government) lead by community networks and civil society	Greater transparency. Greater responsiveness to local needs. Greater ownership by communities.	Likelihood of limited institutional ownership by state. Limited possibilities of state investment.
f) Civil society programme led by community networks.	Fully owned by civil society and community networks. Effective management of programme.	Limited government ownership and confidence.

The investment stipulated above can potentially generate the following outcomes:

- g) Increased private investment in forestry and natural resource sector due to secure regulatory environment (around USD 10 million per additional investment by the private sector in the forestry related businesses): this is possible through formulation of community-private sector joint investment agreement in the promotion of forest products, private sector investment in eco-tourism businesses around community forestry areas, establishment of distillation and processing units by private sector around a cluster of community forests that supply needed raw materials, private capital in support of establishing plantations in barren and degraded areas, and so on.
- h) Creation of over 200,000 green jobs in the forest sector – by community as well as community-private sector partnership businesses in the forest and renewable resource sector.
- i) CFUGs become democratic, inclusive institutions, with a net increase of pro-poor CFUG fund investment from the current average of 5% to 40%

- j) Climate change induced risk will be significantly minimized through carefully development community adaptation strategies
- k) Communities will invest more in biodiversity conservation and receives significant amount of rewards for carbon sequestration and biodiversity conservation.
- l) Increased community action in policy influence leads to enabling, transparent, simplified regulatory environment

### ***C) Investment Needs***

Projected investment need is USD 63m for the next five years (2010 – 2014)

**Table 6. Project Public Investment Needs in Support of Community Action for Poverty and Environment in Nepal (USD million)**

<b>Thematic area</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>	<b>Total</b>
Market and enterprise	2	3	4	5	4	18
Ecosystem management and services	1	2	3	3	3	13
Democratic institutions	2	3	4	5	5	19
Policy influence	2	2	2	3	2	11
Climate change adaptation	2	3	3	2	2	12