



# POLICY Brief

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## Do Community Forestry Funds Target the Poor ? A Study from Nepal

**Funds generated through community forestry offer crucial and significant resources for rural development. A new SANDEE study examines forestry funds in 100 communities in three districts in Nepal to assess how large they are, how they are utilized, and whether they target the poor.**

The study finds that the average community forestry user group (CFUG) has an annual income of NPR 63000 or approximately USD 1000 per year. This income is rather significant because it increases local development resources by about 25%. These funds are invested in schools, temples, roads, and water reservoirs, which bodes well for rural development. However, some critical problems remain. The study finds that timber is heavily subsidised and the benefits from these subsidies accrue mainly to the non-poor. Furthermore, loans made through community funds also tend to favour the non-poor. Overall some 74% of the benefits of community forestry funds accrue to the non-poor while 26% accrue to the poor. Given the population distribution in the study districts (approximately 40% poor and 60% non-poor), the poor are clearly getting less than their share.

The study, carried out by Ridish K. Pokharel from the Institute of Forestry, Tribhuvan University, recommends three actions to help increase the benefits to the poor: a) piloting alternate timber harvest and sale strategies to capture the real value of timber; b) allowing all households to have an equal share in timber that is harvested; and c) increasing the participation of less advantaged members in the executive committees that manage forestry funds.

### COMMUNITY FORESTRY FUNDS IN NEPAL

Nepal's well-established community forestry programme is now over 25 years old -- over a million hectares of forestlands are managed by 14,000 Community Forest User Groups (CFUGs) involving some 1.6 million households. One of the most important roles played by community forestry is income-generation. CFUGs generate income mainly through the sale of timber and other forest products and from membership fees. This income is used for forest management and for local public projects. According to one estimate, the annual income of Nepalese CFUGs is over USD10 million. With such significant amounts of money at stake, it is not surprising that CFUG income is currently under scrutiny.

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### GETTING TO THE GRASS ROOTS

Pokharel assesses the impact of community forestry funds in three mid-hill districts, Lamjung, Tanahu, and Kaski, in the western development region of Nepal. Community forestry was pioneered here in the early 1980s; however,

This policy brief is based on SANDEE working paper No. 31-08, 'Nepal's Community Forestry Funds -- Do They Benefit the Poor?', by Ridish K. Pokharel from the Institute of Forestry Tribhuvan University. The full report is available at [www.sandeeonline.org](http://www.sandeeonline.org)



### CFUG average revenue (2005) with and without timber subsidies (n = 100)

	Source	Income in 2005 (NPR)		Removing Subsidy would increase Income by (%)
		With subsidy	Without subsidy	
1	Timber	30,437	139,156-176,382	457-579
2	Fuel wood	2,388	4,537	90
3	Fodder/ground grass	828	828	0
4	Other	11,005	11,005	0
5	Total	44,658	155,526-192,752	348-432

these districts are now generally representative of other community forest areas in the region. For this study, information was gathered on CFUGs' main sources of income and how this income is allocated. Representatives from 100 CFUGs were interviewed and 29 CFUGs were re-visited to obtain additional information on timber subsidies and loans.

### HOW MUCH ARE CFUGS EARNING?

In 2005, the average CFUG in the study area earned an income of approximately NPR 45000, while average annual income over the previous five years was NPR 63,202. Timber contributes to 68% of this income, while membership fees account for about 14%. Only some 5% of CFUGs get financial support from 'outside' NGOs. Income earned by CFUGs increases resources available for local development (through block grants from the central government) by some 25% every year.

Interestingly, Pokharel's estimate of CFUG incomes is significantly higher than forest-department estimates. In fact, in the study

area, government statistics under-estimate CFUG income by approximately 300%.

### WHAT HAPPENS TO CFUG INCOME?

Income from CFUGs is used in a number of ways. CFUGs must invest 25% of their income in forest management. Income is also invested in local public infrastructure. The government also encourages CFUGs to invest part of their income in poverty reduction through a special 'pro-poor' program.

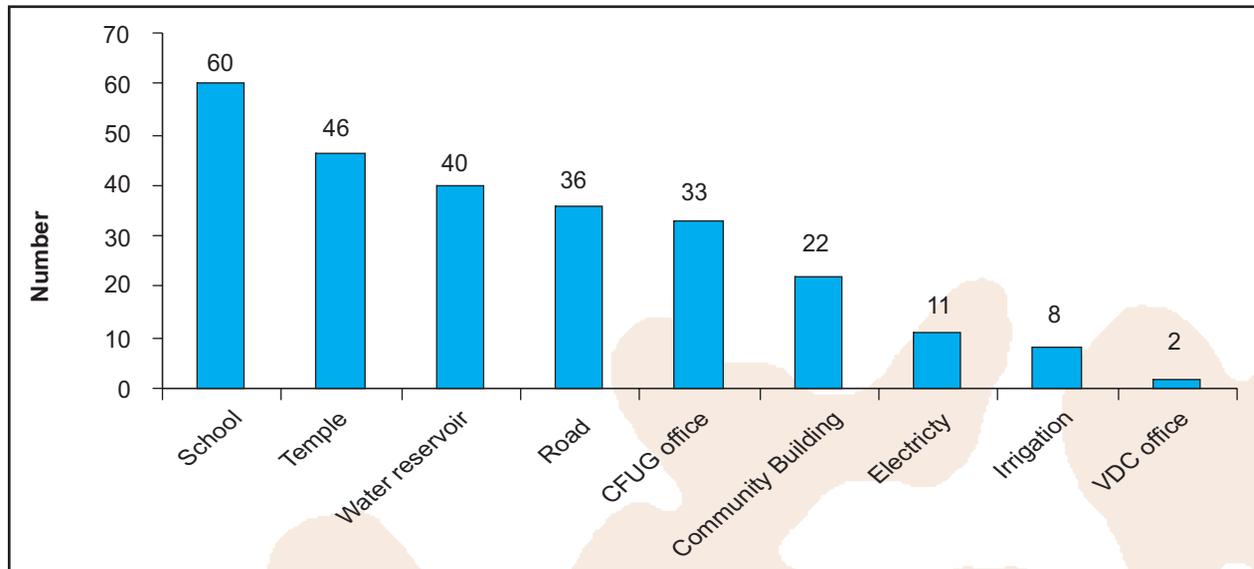
In the five years prior to 2005, an average of 55% of community forest income was invested in local infrastructure projects. During this time, CFUG income contributed approximately NPR 6 million (USD 93,750) towards building schools, reservoirs and roads. This bodes well for local economic development.

### Investments from CFUG Funds (2005)

SN	Activity	Amount	Percentage
1	Public infrastructure development	28,142	55
2	Supporting pro-poor programme	11,604	22
3	Activities related to forest development and maintenance	8,819	17
4	Running the CFUG institution	3,009	6
	Total	51,574	100

### DO CFUG LOANS HELP THE POOR?

As well as investing in infrastructure, about two-thirds of the CFUGs undertake activities to help the poor. Of this money, almost all is used to give loans. However, the connection between pro-poor loans and the



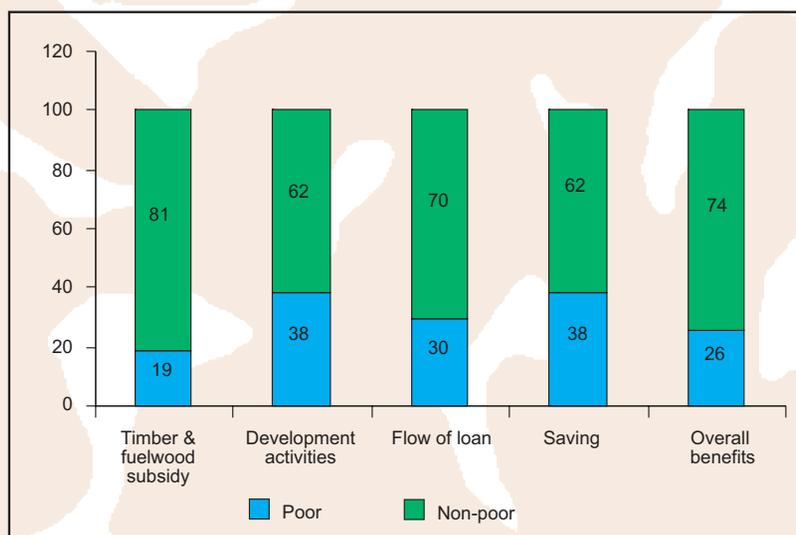
### Infrastructural Investments made by CFUGs

poor is not straight-forward. Pokharel found that while an almost equal percentage of the poor and non-poor get loans, the non-poor obtained 70% of the total value of loans given out in 2005.

Why are the better-off benefiting more than the poor? CFUG officers claim that the poor have a hard time making repayments. Also, higher value loans are given to well-off households so that CFUGs are seen to be 'active' in using funds. This is fuelled by a concern that the government would tax CFUG funds if there was 'too much' money in their accounts. Poor households may also receive less than their fair share because CFUG decisions reflect the view of local elites who occupy key positions in the executive committee.

### TREE SUBSIDIES IN QUESTION

Another way in which CFUGs could do more to help the poor is by changing their timber sale policies. Almost half the forests in the study area are made up of valuable Sal trees. However, Sal sales are heavily subsidized. The average price of Sal sold by CFUGs is NPR 67 per cubic ft, while in the open market Sal costs NPR 500 - 600 per cu ft. If Sal is sold at market prices, the average annual timber income to a CFUG would increase by 5 to 6 times. Furthermore, timber is used for building houses and making furniture and poor households hardly ever buy timber from community forests for these purposes. The data indicates that the non-poor buy most of the timber (81%). This means that the CFUGs are subsidizing the well-off through their timber sales.



Overall benefits (including subsidies) received by poor and non-poor from CFUG funds (per cent)



## SANDEE

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SANDEE's Policy Brief Series seek to inform a wide and general audience about research and policy findings from SANDEE studies.

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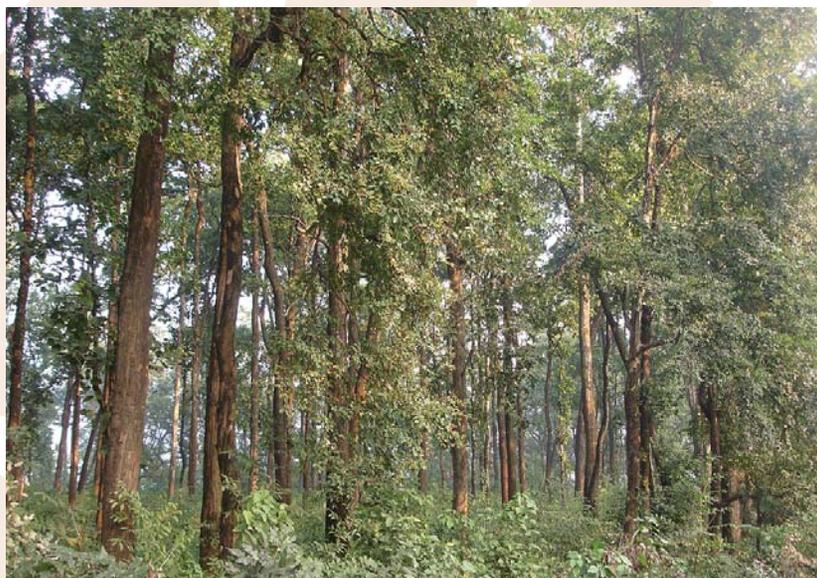
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## MAKING CFUGS BETTER FOR THE POOR

In 2005, the total benefits that accrued from CFUG funds (including timber subsidies, savings, development investments and loans) was NPR 198,709 (USD 3105). Of this money, the poor received 26% and non-poor 74% — given the composition of the poor and non-poor in this region, the poor receive less than their fair share.

There are several ways in which CFUGs funds could benefit the poor more. First, if timber could be sold at market price and an equal share given to all members, then the entire community as well as the poor would benefit substantially. It is timely for the Nepal Forest Department to pilot a program to assess whether high-value timber can be marketed externally through rural co-operatives or other organizations. The distribution system would also have to change to give the poor an annual share of timber sales.

Another area for action is in relation to how loans are made. Policy makers need to send a clear message to CFUGS about executive committee composition, loan distribution and who can access 'pro-poor' funds, and the likely tax implications on remaining money. This may change the incentives that are currently at play that reduce loans to the poor. Having the poor represented on executive committees would certainly give them greater 'voice' and enable them to benefit from larger loans.

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