



# Forest business incubation

Towards sustainable forest and farm producer organisation (FFPO) businesses that ensure climate resilient landscapes

Duncan Macqueen and Anna Bolin (Eds)



Food and Agriculture  
Organization of the  
United Nations

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# ANSAB: developing community-based farm and forest-based enterprises in Nepal



by Bishma P Subedi, Sudarshan C Khanal and Puspa L Ghimire

Nepal is rich in biological and cultural diversity, including many natural resources on which rural communities rely. Yet despite this, Nepal is one of the world's poorest countries. Since the early 1990s, the Asia Network for Sustainable Agriculture and Bioresources (ANSAB) in Nepal realised that the conservation and sustainable use of bio-resources had great potential to address the livelihood needs of small farmers. In this chapter, the authors explore how business incubation can stimulate the growth and sustainability of locally controlled farm and forest-based enterprises. They advocate for developing holistic programmes which address specific needs and gaps, such as identifying value chains with business potential and providing technical support, leadership and initial support from government and development organisations, and delegating responsibility and ownership to local communities.

## 3.1 Introduction

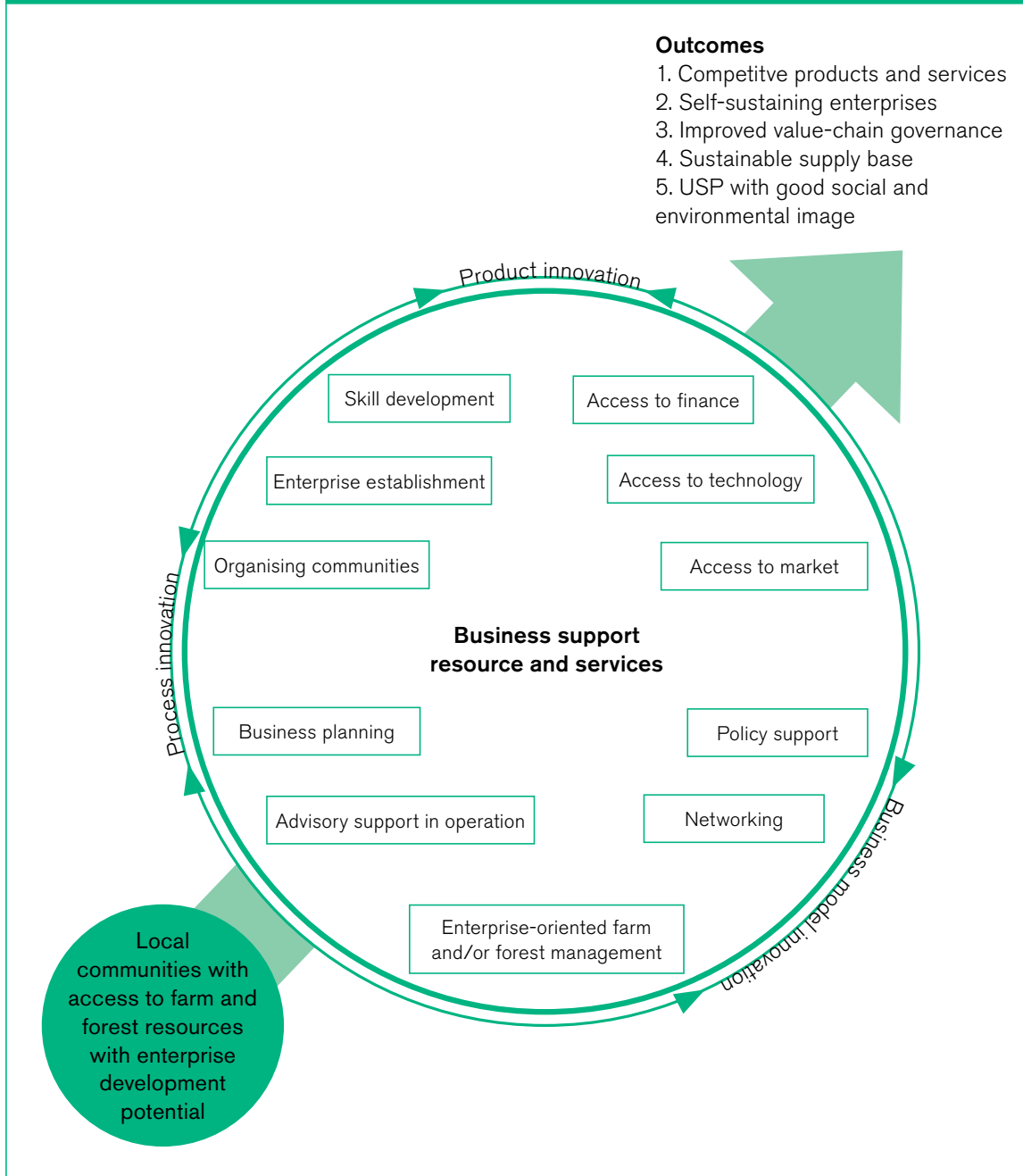
### 3.1.1 Incubator

ANSAB in Nepal has been promoting the development of natural resource-based enterprises since the early 1990s. This is part of its larger programme to create incentives for conservation and sustainable community development. Through ANSAB, a number of businesses utilising forest and farm resources have been incubated and graduated and now function well, with some exemplary outcomes. ANSAB's approach to developing community-based farm and forest enterprises is presented in Figure 3.1.

ANSAB is a competent, professional, and value-based institution for enterprise-oriented natural resource management in Nepal. It was established in 1992 by Appropriate Technology International and the Ministry of Agriculture of Nepal. Initial financial support helped create small-scale technology development and extension programmes to generate knowledge and build capacity in the agriculture and forestry sectors. The preliminary projects focused on tissue culture, bio-fertiliser, research and capacity building in Nepal, Sri Lanka, India, the Philippines and Indonesia.

ANSAB realised that the conservation and sustainable use of bio-resources had great potential to address the livelihood needs of small farmers. It expanded its focus to include micro, small and medium enterprise (SME) development and natural resource management. It is also registered as ANSAB Nepal with the district administration office in Kathmandu.

**Figure 3.1 ANSAB's approach to developing community-based farm and forest enterprises in Nepal**



ANSAB is a not-for-profit civil society organisation governed by a board of directors elected by its general assembly. The board of directors reviews the organisation's programme activities and decides on action plans at annual general meetings with its general members, central management committee, officials and staff representing various divisions. Financing is mostly from project-based funding that it generates through the development of programmes and projects. ANSAB also receives funding from national and international donors, including government agencies, bilateral and multilateral donors, United Nations agencies, private foundations and individuals.

### 3.1.2 Context

Nepal embraces some unique geographical regions including tropical plains (the Tarai) along the Indian border in the south, an extensive range of mid-mountains, and the trans-Himalayan mountains bordering Tibet in the north. As a result of this topographic and climatic variation, Nepal hosts a wide diversity of natural resource products, upon which rural communities rely for food, medicines and other products. For example, Nepal has documented over 7,000 species of flowering plants, many of which are important for both subsistence and commercial purposes (GoN 1988). The agroforestry sector has also a huge untapped potential for generating economic value of legally produced and sustainable products and services. A recent national-level study has shown that the forestry sector alone (if its full potential is harnessed) could generate economic value worth NRs 373 billion (about US\$ 3.7 billion). This is a many-fold increase from its present value. It could also create the equivalent of 1.38 million full-time jobs in Nepal (Subedi *et al.* 2014).

The latest national census shows that the population of the country is about 26.5 million with an annual population growth rate of 1.6 per cent and median age of 21.6 years (CBS 2012). The economically active population of the country is about 64 per cent with only 4.5 per cent of the population aged more than 65 years. People in the country are diversified into many social, ethnic and language groups living in climatically hot areas in the south and cold areas in the north. There are 125 ethnic groups and 123 spoken languages documented by the latest census in 2011. These groups have developed and managed to adapt their livelihood strategies to changes in environmental and socioeconomic conditions. This has created, over a long history of time, a multitude of artefacts and practices contributing to cultural wealth.

In spite of the country's rich biological and cultural diversity with a high proportion of its population economically active, Nepal is one of the world's poorest countries. It has a gross domestic product (GDP) of about US\$740 per capita. Almost one fourth of the population lives below the absolute poverty line (World Bank 2016a). Nepal has a primarily agrarian economy with the agriculture sector accounting for over 30 per cent of its total GDP and employing about two-thirds of the total labour force (MoF 2016). Trading business dominates the non-agriculture sector with wholesale and retail contributing to about 14 per cent of the total GDP in 2015–16 (MoF 2016). While enterprise activities (especially processing and value addition) are limited, the investment from the private sector in the farm and forestry sector is very limited, which in turn is limiting the growth of the sector. The limited investment is understandable in the sector as long-term supply chains have not been developed. While there are cases of natural resource-based enterprises being developed at community level using government and development-sector assistance, there are only a limited number of success cases. A significant number of enterprises cease operations once external support is removed.

To develop natural resource-based enterprises, there have been a few notable business incubation programmes initiated by government, development organisations and the private sector. Over the past few decades, industrial zones and special economic zones have been created by the government, but these have mostly focused on industrial development and attracting large foreign and national investors with the aim of increasing exports.



It is only in the past decade that 'incubation programmes' have been introduced in Nepal, which aim to transform innovative ideas in the areas of small and micro industries into competitive enterprises. Most of these programmes are grant based and have become inactive after time. For example, the Business Incubation Programme was established in 2006 and operated under the Department of Cottage and Small Industries. It aimed to graduate successful enterprises by providing incubating facilities and helping small and micro industries to improve and upgrade systems and processes. But in practice, this programme is now inactive. More recently in April 2017, the Project for Agricultural Commercialisation and Trade (PACT) under the Ministry of Agricultural Development has set up an Agri-business Incubation Centre (ABIC) with financial assistance from the World Bank. It plans to support over 150 SMEs over the next 18 months by providing a customised suite of services, including coaching, training, market linkages and investment facilitation. A few incubation efforts have also been initiated by the private sector and have been providing spaces and business advisory support to potential entrepreneurs and enterprises.

In this context, ANSAB's approach and ongoing support programme for natural resource-based enterprises have been providing essential business-support resources and services to community-based farm and forest enterprises, helping them to establish linkages to remunerative value chains. ANSAB's experiences could offer useful lessons for successful business incubation approaches.

### **3.1.3 Target businesses**

ANSAB has been providing its services to locally controlled forest and farm businesses as part of its larger programme, and incubation is an inherent part of this process. The targeted sectors are:

- Community forestry, especially non-timber forest products (NTFPs)
- Agriculture, especially ecosystem-based commercial agriculture (ECA)
- Biomass-based energy, and
- Ecosystem services, especially ecotourism.

In addition, ANSAB has been working in the timber sector, including macro-level research and policy recommendations. However, considering the limited participation of smallholders in large-scale timber industry due to their limited investment capacity and the cumbersome legal formalities involved, ANSAB has targeted community-based small-scale timber enterprises and in particular, the sectors which are accessible to smallholders and have the potential for income and employment generation.

ANSAB generally provides services to one or a few enterprises at a time. The enterprises supported by ANSAB are mostly community based and are based on natural products. The challenges these clients face include a lack of understanding of business development and of concepts to do with the value chain, and challenges related to the enabling environment, the availability of appropriate technology, access to finance and reliable markets.



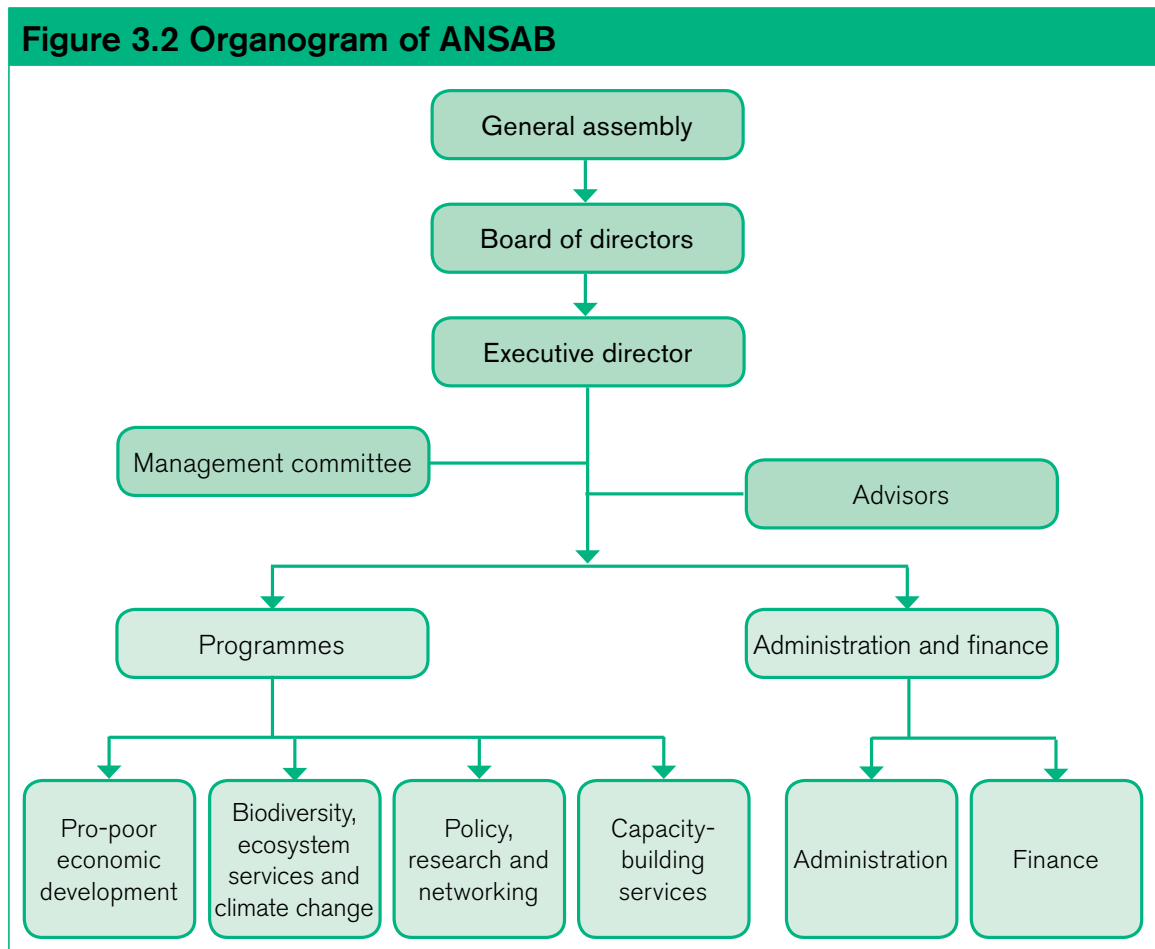
## 3.2 Institutional design

### 3.2.1 Staffing and structure

ANSAB's pro-poor economic development programme aims to create or strengthen environmentally sustainable businesses that benefit the poorest of the poor while promoting social justice, equity, and good governance. ANSAB has been designing and implementing initiatives to accelerate the entrepreneurial process in the farm and forestry sector. ANSAB's organisational structure is presented in Figure 3.2. With the overall guidance and supervision of the organisation's executive director, the programme has a pool of competent regular staff who work in a participatory way with the communities and enterprises who are ANSAB's clients. ANSAB helps its clients to deal with enterprise issues that allow natural product enterprises to prosper and which promote biodiversity conservation and social equity. Because the organisation is mostly financed by grants, the number of staff varies over time. ANSAB receives advice and support from its advisory board and its other divisions as needed.

### 3.2.2 Advisory board

ANSAB's advisory board consists of international experts representing private industry and various fields of expertise including community-based conservation, small and medium farm and forest-based enterprises, rural development, policy formulation, and the promotion of innovation and entrepreneurship. The advisory board provides strategic input on a voluntary basis to both the board of directors and the management team. Its role is



to maintain the organisation's achievements and improve its effectiveness, outreach and impact. The members of the board also advise ANSAB's programmes on the development of relevant projects, recommend ideas or concepts for grant proposals, propose relevant institutions for collaboration, and assist with targeting potential funding agencies.

ANSAB also uses expertise from its pool of staff for relevant support. When needed, ANSAB seeks advisory support from former entrepreneurs who have graduated after receiving incubation support, and from former personnel previously trained by the organisation and who are currently working as practitioners and professionals in their respective fields. The support from ANSAB staff and its networks has been helpful to incubatees in providing resources and services such as preparing business plans, enterprise registration, advising on different relevant financial products, and accessing market information.

### **3.2.3 Networks**

ANSAB uses its wide network to deliver its services. It maintains a database of more than 200 supporting experts and relevant organisations, and actively seeks to expand the number of relevant experts who wish to be included in its network. Furthermore, ANSAB coordinates a number of multistakeholder platforms such as the Nepal NTFP Network (NNN), the Public Private Alliance (PPA) for Certification and Sustainable Marketing of NTFPs, and the ECA Forum. These platforms are important in bringing together relevant stakeholders including government agencies. They serve as spaces to share knowledge and experiences, bridge gaps in understanding about grassroots realities, to discuss national policies and international standards, and reduce duplication of efforts and activities, thus linking the learning between organisations about both top-down and bottom-up approaches. ANSAB has also maintained a network of commodity-based federations and associations, such as the Federation of Community Forestry Users Nepal (FECOFUN), Nepal Herbs and Herbal Products Association (NEHHPA), Jadibuti Association of Nepal (JABAN), the Federation of Forest Based Industry and Trade (FenFIT) and the Briquette/Charcoal Producer Association. This network provides advice and other forms of support as needed.

### **3.2.4 Finance**

ANSAB finances its programmes through external grants and other internal resources. Training and other service fees to the incubatee are mostly subsidised (project based) and sometimes fee based. The fees vary between 50 and 100 per cent depending on the nature of the support provided and the capacity of the clients. For example, village-based entrepreneurs and enterprise managers are offered essential support services free of cost most of the time, including some service packages – whereas national-level entrepreneurs and enterprise managers pay a fee for services, especially for structured trainings. ANSAB also provides equity funds<sup>1</sup> to a very small number of enterprises which have the potential for having positive socioeconomic and environmental community impacts, but which lack the capacity to access mainstream financing.

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1. For equity support, a percentage of the shareholding is made over to ANSAB during the establishment of an enterprise. However, this condition is mostly waived for community-based enterprises, such as those which have been established for specific development purposes eg to test new models or to act as demonstration projects. If support is provided for establishing an enterprise which is demonstrating a proof of concept, then the shares held by ANSAB are partly or fully restored to the organisation's fund. The duration of an equity fund is based primarily on the business plan, and normally ranges from 5 to 10 years. The equity fund is managed by an equity fund management committee within ANSAB.

## 3.3 Services offered

### 3.3.1 Services offered

ANSAB offers its expertise and services through targeted initiatives/projects for the development of farm and forest-based enterprises, especially community-level enterprises based on natural products, ecosystem services and bioenergy. These enterprises include community-level production and processing enterprises, the lead firms coordinating the value chain, and the associated business development service (BDS) providers in the farm and forestry sector. The support is provided based on the interest, capacity and needs of the entrepreneurial clients.

ANSAB introduced the idea and practice of involving lead firms to promote greater integration of SMEs into value chains. These lead firms organise the chain by addressing the specific bottlenecks that SMEs usually face, especially when marketing their products. These lead firms were developed by grooming existing enterprises and facilitating their forward and backward linkages to the targeted farm and forestry-based SMEs. Lead firms function as dynamic market actors, have a clearly stated value-chain vision, and are involved in the organisation of the different phases of the chain by consolidating production enterprises, providing the production enterprises with access to technology, finance, skill trainings and infrastructure maintenance, and organising markets.

ANSAB's focus is on providing material and capacity-building support to accelerate the entrepreneurial process. Given the nature of locally controlled farm and forest-based enterprises, smallholders face difficulties receiving financial and non-financial business development services. Therefore, ANSAB provides material support and capacity-building services (technical skills and business management) to improve the performance of enterprises, their access to markets, ability to compete, and participation in the value chain. This includes a mix of business training, financial investment, networking support, market development, and other essential support.

During project implementation, the incubation support services that ANSAB provides are mostly onsite rather than shared physical spaces. If there is not any specific onsite project, the



**A unit for distilling essential oils in Dolakha district, Nepal**

© ANSAB

entrepreneur visits the ANSAB office or ANSAB's staff visit the enterprise site to provide support. The services offered vary depending on the stage of enterprise development:

- Enterprises at the initial stage of development usually require assistance in the development of latent entrepreneurship, identifying opportunities, and participatory planning including product, process and business model innovation.
- Enterprises which are developed but need incubation support are offered services for the development of supply-chain management and assistance in business management.
- Established enterprises with products, markets and business model are supported for their continuous growth and socioeconomic and environmental commitments.

Services include mainly training and mentoring at the beginning and advisory and market-development support as the enterprises become established and advance to the next stages. ANSAB's services include assessment of key bottlenecks for enterprise operation and success, business planning, financial support (such as development of financial products in collaboration with bank and financial institutions, and providing initial equity funds and 'silent guarantees'<sup>2</sup>), marketing support (market research, marketing strategy, identifying target markets, market mix), and building constituencies and forums for policy advocacy and reform. In some cases, initial support for developing infrastructure and equipment has also been considered to reduce upfront costs.

### **3.3.2 Service delivery**

These services have been provided to enterprises/entrepreneurs mainly through hands-on training and mentoring to provide the necessary knowledge, skills and tools. ANSAB has well-documented and published toolkits and manuals on community organising, enterprise development, entrepreneurship development, business planning, and marketing information systems among others. Relevant training from other external agencies is also organised as needed.

ANSAB has maintained an online database of small and medium forest-based enterprises in Nepal and regularly disseminates pricing information for 33 forest products and high-value crops through its marketing information system. The pricing information system has also been used by some interest groups, mainly NEHHPA, an agriculture magazine and a television programme for dissemination through their channels.

### **3.3.3 Linking**

ANSAB's database of contacts and networks are made available to its clients to help them to access essential business development services, markets and further networking support. ANSAB has a wide network of business development service providers, business membership organisations, universities, and international companies that it works with on a case-by-case basis. These networks have been helpful to the enterprises in areas such as information flow, bulk purchasing, international expert advice, product development,

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2. With a silent guarantee, the bank disburses loans to the borrower enterprise on the basis of a guarantee from a third party. The third party provides a commitment to the bank that it will pay back the loan if the borrower organisation is unable to. There is a provision that the bank holds the required amount of money from the third-party organisation's bank account until the payment is made.

financial product development, information and social media management. They also help to establish communication channels and support initial negotiations to enter into international markets. A notable example includes how ANSAB helped to link Himalayan Bio Trade Limited (HBTL) (a national-level natural products marketing company) with Aveda Corporation, an international personal-care products company based in the USA. Aveda advised HBTL on the production of quality natural-resource products and potential international markets. Since 2007, Aveda has featured Nepali handmade *lokta* paper (*Daphne sps*) in its holiday-line products and has purchased handmade paper certified by the Forest Stewardship Council (FSC) and produced by rural communities in Nepal. In another national-level case, ANSAB worked closely with banks and related institutions in Nepal on appropriate financial product development and linking these institutions to rural enterprises.

ANSAB continuously uses its widely referenced policy platforms, including NNN and others professional networks to support enterprises. NNN members include over 50 organisations and 300 individuals. The network focuses on policy and practical issues relating to NTFPs at national level through periodic meetings, sharing of activities and organising task forces. The ground-breaking initiatives of including NTFPs in community forest management, and the handing over of rights and responsibilities of these government-owned lands to community forest-user groups (CFUGs) were greatly accelerated through the network.

In addition, ANSAB has provided its client enterprises with linkages to experts and volunteers from professional organisations and universities from around the globe to help these enterprises to prepare marketing strategies and conduct market research.

## **3.4 Incubation management**

### **3.4.1 Selection**

ANSAB reaches out to its potential clients, particularly rural people starting natural product-based enterprises, through different channels. These include other ANSAB local projects, networks including associations, lead enterprises and forums and ANSAB's website, marketing information system and newsletters. ANSAB looks for clients from its programme areas that need incubation support while developing programmes/projects and generating funds. As potential clients express an interest in becoming incubatees, the key point that ANSAB takes into consideration when considering who to select for offering services to is the appropriate match between the prospective client's capacity and needs, and ANSAB's mission and resources.

While selecting its entrepreneurial clients at the local level, ANSAB uses the following criteria:

- Does the candidate have leadership experience in enterprise development?
- Is the candidate young and energetic? (They can be with or without leadership experience but must exhibit good vision and leadership skills) and/or
- Does the local entrepreneur have a good social image?

For the selection and development of lead firms, their long-term value-chain vision and commitment to social and environment is considered.

### **3.4.2 Performance oversight**

The assessment of client needs is done through a thorough review of the availability of resources, their supply potential, market demand and the client's business interest and capacity. The client organisation sets the targets jointly, developing the business plan with ANSAB. Progress is measured against the targets set in the plan. For example, one of its clients, Himalayan Naturals, exceeded its sales to over 2 million briquettes in its first five years of operation and has now expanded its production lines to include pellets and stoves in its business plan.

### **3.4.3 Graduation**

There is no clear-cut line for the discontinuation of support. However, once the institutional set-up of the enterprise is finalised, with a clear mechanism of ownership and benefit-sharing among the actors, and they start their operations according to their business plan, limiting support for these enterprises is considered. Financial support will not be provided once the production, supply and market chain are established, and once the enterprises are capable of accessing needed financial and non-financial business development services. Appropriate technical and advisory support will be provided regularly to the enterprises to help sustain growth and upgrade the business with new opportunities.

### **3.4.4 Outcome evaluation**

ANSAB closely monitors the enterprises it supports, and measures their effectiveness on the ground through a detailed impact tracking system (ITS) even after their graduation. ANSAB maintains and updates these enterprises on a yearly basis, where the enterprises provide information based on their yearly outcomes. Lead firms are used for collecting the information from the enterprises. For those enterprises whose information could not be collected for a specified year, their past years' information from the ITS is used for the detailed analysis of the effectiveness of ANSAB programmes, measuring on-the-ground effectiveness of its programmes, as well as the effectiveness/success of the enterprises it has supported.

Through the ITS, specific outcomes are measured in terms of total monetary benefits to primary producers and collectors, number of economic participants in the value chain, and the forest area under improved management. Indicators for these outcomes are the sales, production, persons involved, forest area under improved management, and capacity building and training activities benefitting local communities. This will help ANSAB to identify the scope of its support to the enterprises (mostly advisory to improve their performance) and also assess the impacts generated from ANSAB-supported programmes.



## 3.5 Impact

### 3.5.1 Overall assessment

The success of ANSAB's client enterprises is measured considering their economic viability, environmental impact and socioeconomic contribution. ANSAB has developed and strengthened a total of 1,196 economic entities involved in the production and value addition of forest and farm products, and their trading both at national and international levels. These economic entities include over 65 regional and national processing and marketing enterprises, including HBTL (a national-level lead firm for FSC-certified essential oils and *lokta* handmade paper), Himalayan Naturals (a leading national company marketing charcoal briquettes) and Ashapuri Organic (a major distributor of organic dried herbs, herbal teas, fresh mushrooms and fresh vegetables and fruits in Kathmandu and to some extent abroad). ANSAB's ITS shows that the economic entities generated US\$ 7.31 million in annual total monetary benefits in 2014 to 84,553 economic participants in rural communities through enterprise development activities, and improved marketing.



© ANSAB

**A demonstration kiosk for Himalayan Briquette in Kathmandu, installed by ANSAB as part of a marketing campaign aimed at the urban market**

### 3.5.2 Successes

One of ANSAB's success stories is HBTL, a company processing and marketing natural products which was established in 2000 by ANSAB. It is currently owned by a consortium of community-based forest enterprises of Nepal. Since its establishment, HBTL has been providing a marketing platform to community-based natural products enterprises and has remained as a committed lead firm for FSC-certified handmade paper and essential oils. Supported by ANSAB's equity fund during its establishment, HBTL has its own office and processing, printing and packaging sites in Kathmandu.

Its operations are in profit, with an annual revenue of about US\$600,000 in 2014. Furthermore, HBTL embraces socially and environmentally responsible approaches to its business practices. It markets its natural products – which are sustainably harvested from community-managed forests and processed by community-owned enterprises – to domestic and international markets including the USA and Europe. HBTL's success benefits about 15,000 rural poor by empowering them to fight poverty and improve their living standards, while protecting Nepal's unique biodiversity and taking positive action in addressing global climate change.



The following briefly describe the key factors behind HBTL's success:

**The right products and unique selling proposition (USP) for the right markets:** The potential products were primarily selected based on supply potential and market demand. Considering the size of supply and speciality quality of the products, ANSAB targeted high-value niche markets for the products from HBTL. The USP of HBTL products are that they are high-quality with a story of environmental sustainability and social equity. To ensure this, ANSAB introduced FSC and organic certification schemes, among others, that built consumers' confidence in the quality of the products with the added value of social and environmental safeguards and contributions.

**An innovative enterprise model with clear shareholding and equitable benefit-sharing mechanism:** HBTL embraces a community–private partnership model and the business includes community members involved in production activities with a structured shareholding and benefit-sharing mechanism. ANSAB introduced the business model to overcome the deficiency of the two previous enterprise models. This new model involved the participation of community members themselves in marketing their products, where the marketing costs were high. It also involved private traders to collect and market the products, where the major challenge was trust between the community members and the private traders. The current business model has also helped to increase motivation among the community members to become involved in protecting their natural resources by sustainably harvesting *lokta*, medicinal and aromatic plants (MAPs), and other NTFPs and in their primary processing at the local level.

**Sustainable availability of raw materials and their legal access:** HBTL organises the FSC certification for handmade paper and essential oils and has remained as a committed lead firm. It has been closely working with the community-level enterprises and CFUGs for the long-term ecologically sustainable supply of the targeted natural products in sufficient quantities. With Nepal's community forestry programme, there is a legal provision of access to forests products, which has provided a favourable policy environment for the sourcing of raw materials along with the development of enterprises at community level. With ANSAB's facilitation, the CFUGs have incorporated enterprise activities, such as producing handmade paper from *lokta*, essential oils from aromatic plants and other merchandise using natural products into their overall forest-management plans, which in turn are sold to HBTL once produced.

**Committed leadership and entrepreneurial capacity of the team:** After the establishment of HBTL, ANSAB itself managed the enterprise 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. 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. HBTL currently has people with knowledge and experience of enterprise operations and with technical expertise, who have developed different paper products, essential oils and other natural products for domestic and international markets.

### **Mutual collaboration and partnership with communities, development programmes and other enterprises:**

HBTL's enterprise model involves direct collaboration with communities which has helped secure the supply base. It has been closely working with ANSAB and some other development agencies such as the German Agency for International Cooperation (GIZ). This has been helpful in creating a conducive policy environment and accessing development money for building the capacity of the enterprise and communities. HBTL's partnerships with other enterprises at national and international level, such as Aveda, have helped to increase its consumer base while diversifying products and markets.

### **3.5.3 Failure**

There are cases where even a successfully established company may not run smoothly when a number of factors do not work during its operation. Such is the case of one community-based handmade paper enterprise, Malika Handmade Paper Pvt Limited. It was successfully established with full participation of the community. The enterprise had an assured supply of raw materials and market. Yet it is struggling to remain in continuous operation due to improper management and incentive structures.

Malika was established in 1995 in Bajhang district as a community-owned enterprise. A feasibility study conducted in the district considering biological, social, economic and technological criteria with the participation of local community members showed a handmade paper enterprise as one of the most viable options for local-level income generation. The enterprise was established with an investment of US\$12,617 with the support of a 50 per cent equity fund from ANSAB and equal shareholding for the 240 members of Binayak Pimidanda community forest-user group. With technical support from ANSAB for sustainable harvesting and processing of *lokta* bark and for marketing the paper, the CFUG managed the enterprise and operated successfully during its initial few years of operation. For its overall performance, it was featured in the Food and Agriculture Organization of the United Nations (FAO) 2005 landmark publication *In search of excellence: exemplary forest management in Asia and the Pacific*.

The enterprise managed profit in the initial years of operation. However, the individual members found the profit not significant enough when divided equally among the group members. Furthermore, there was an alternative opportunity of collecting new NTFPs with higher incentives following new market demands, especially *yarsagumba* (*Ophiocordyceps sinensis*) and *satuwa* (*Paris polyphylla*), diverting a significant number of members from the groups to collect these plants instead. Such disincentives among the community members who were actively involved in enterprise operations led to the closure of the enterprise for few years.

A number of meetings with CFUG members and local-level potential entrepreneurs was conducted to address the cause of the enterprise's closure. After a series of discussions, the CFUG members unanimously agreed to contract out the company to a private entrepreneur. An entrepreneur was selected and he operated the company at a profit, paying a fair share to the CFUG until last year. Then the entrepreneur suddenly misappropriated the enterprise's funds and failed to pay the *lokta* producers. This shows

that while the involvement of a private entrepreneur was an important factor for the successful operation of enterprise, identifying and selecting a responsible and reputable private entrepreneur is essential for the enterprise's sustainability. In the absence of a good leader, the enterprise is currently struggling due to lack of proper management in spite of being well connected with a national company for marketing.

### **3.5.4 Lessons for other incubators**

Many lessons can be drawn from ANSAB's experiences of facilitating the development of farm and forest-based enterprises and accelerating their entrepreneurial process, that could be useful to others in designing a successful incubation programme.

**Consider the whole picture while providing incubation support:** There are a number of factors strongly associated with enterprise genesis, operation and growth that need facilitation, such as market, policy, technological and institutional support. The single-intervention approach (for example providing training or specific resources) will not be sufficient for the success of an enterprise, and especially natural product-based enterprises that usually involve smallholders. A holistic approach should consider the capacity of the incubatee, the business potential of the value chain, critical services, business development services, market development and linkages. These should be integrated into the incubation support programme. There are no shortcuts if the incubatee enterprise is to be successfully integrated into a remunerative value chain and for sustainability to be achieved.

**Intervention approaches should be evidence based and realistic in the given context:** Business incubation programmes have been gaining popularity in Nepal and other developing countries recently. There is an increasing number of organisations established in these countries which are focusing on business incubation. The incubation programmes, however, are mostly influenced by similar programmes abroad and adopt intervention approaches mostly based on the available literature. It is critical that the incubation approach should be evidence based, considering the local context and triangulated and verified with real experience.

**Consider all the important factors for success while designing an incubation service:** Major success factors that could determine the context and which need to be considered include the nature and characteristics of biodiversity (commercial value, production and production capacity, threats), local communities (property rights, production of goods, benefits and services, and institutional and technical capabilities to manage biological resources and enterprises), and enterprise (market, technology, financial and other business development services). The incubator should consider at least the eight requirements for the success of natural resource-based enterprises seen in Box 3.1.

### Box 3.1 Requirements for success for natural resource-based enterprises

- **Raw material availability:** A long-term biologically sustainable supply of the targeted natural product in sufficient quantities is necessary for the enterprise activity to be financially viable.
- **Legal access to and control over the natural resources:** Collectors should be able to manage natural products harvesting and incorporate the enterprise activity into their overall forest-management plans. Enterprise activities must comply with a range of legal requirements.
- **Equitable distribution of benefits:** If community members do not feel the benefits are being distributed fairly there will be less incentive to protect the natural resources. The overall raw-material source could become threatened as well as the commercial activity and the ecosystem's biodiversity.
- **Appropriate processing technology:** Is the technology compatible with the prevailing infrastructure and human resource conditions at the chosen location? Conditions to be considered include: transport and storage facilities, equipment/machinery availability, power or fuel required for the processing activity, and technical skills.
- **Good management:** People with knowledge and experience of managing proposed activities should be available to run the enterprise or they should be closely involved in its operations.
- **Commercial sustainability (economic or financial viability):** Commercial sustainability is a simple concept. Sell the product at a price and volume that covers all the costs associated with the natural product enterprise with enough money leftover as profit.
- **Access to capital:** Start-up capital and ongoing working capital is needed for the enterprise.
- **Available and accessible market for the products:** Is there a market for the available quantity and quality of product? Is there adequate demand at the expected selling price? Who will buy the products?

Source: ANSAB and EWW (2003).

## 3.6 Conclusions

### 3.6.1 Relevance

Most locally controlled farm and forest-based enterprises involve rural smallholders with little entrepreneurial experience. These enterprises require proper facilitation and technical assistance, especially for sustainable forest and farm management and development, governance and growth of the value chain. A general incubation approach (which considers providing incubator space, business support services and networking opportunities) does not seem to produce the desired results in the context of smallholders and local community-based enterprises, and where the value chain is not developed or fully functioning. A better incubation approach is needed: one which also considers increasing the capacity of smallholders and their enterprises while developing a value chain. It should facilitate locally controlled enterprises to survive, grow and become sustainable.

### 3.6.2 Future prospects

In Nepal, business incubating services are limited in general and are lacking in the agriculture and forestry sectors in particular. Existing business incubators mainly provide services to technology start-ups and simple trade businesses. There is very limited



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**ANSAB's technical staff train community members in participatory resource mapping**

involvement of donors and incubators working in the farm and forestry sector, with no long-term and only limited supply-chain development. Furthermore, the few business incubation programmes which are in the sector are mostly grant based and have still not devised appropriate activities and training built on real experiences.

In this context, the appropriate option is to develop a business hub to support farm and forest-based enterprises. This should simultaneously generate knowledge through research and act as a facilitator to improve the policy and regulatory environment, organise communities to develop enterprises, analyse the entire value chain, understand and meet the end market requirements for prioritised products, facilitate the business development services market development and linkages, build the capacity of each group of stakeholders (community-based enterprises, national enterprises, service providers, government and value chain facilitators), and identify critical services and facilitate the process of service delivery. It is unlikely that this function could be undertaken by a business membership organisation (such as an association or federation) or a private enterprise. Business membership organisations focus mainly on policy advocacy and as pressure groups, rather than providing technical services. Private enterprises focus on the profitable operation of their specialised business.

Instead, a business hub could be developed building on the strengths of existing technical service providers that provide practical support to locally controlled farm and forest-based enterprises, and could be supported by public and grant funding in the initial phase. This could be developed and managed as a separate department or centre within an existing organisation. ANSAB has good experiences of working with a multistakeholder alliance – the Public-Private Alliance for Certification and Marketing of NTFPs – that has brought together farmers, forest managers, domestic enterprises, international buyers, certification agencies, government, donors and non-governmental organisations (NGOs). The alliance has established a market for Nepal's products, such as handmade paper marketed to the USA, while meeting international standards of forest stewardship and sustainability. Similarly, there are some lead firms that have clearly stated value chain vision and have been organising farm and forest-based value chains and markets (Subedi and Khanal 2014). Some notable lead firms include HBTL for FSC-certified essential oils and *lokta* handmade paper, Himalayan Naturals for briquettes, and Ashapuri Organic for organic dried herbs, herbal teas, mushrooms and vegetables. The alliances and lead firms could provide real incubation services building on real experiences.

### **3.6.3 Recommendations to policymakers**

Business incubation can be an effective tool to stimulate the growth and sustainability of enterprises. But there is no shortcut for facilitating locally controlled farm and forest-based enterprises to thrive. These enterprises are mostly dominated by smallholders with little entrepreneurial experience and no properly developed value chain for their products. Innovations in terms of products (devising new products), processes (improving existing products) or business models (management and incentive structures) could be captured by business incubation programmes to increase impact by promoting entrepreneurship activities, value chain development and the enabling environment.

The focus should be on developing programmes that are holistic and capable of providing all components of the business ecosystem rather than focusing on one or a few areas of special interest so that any specific needs and gaps in a given situation can be addressed. Some of the main activities should be the identification of value chains with business potential, provision of leadership along with the delegation of responsibility and ownership to local communities, and the provision of initial support from government and development organisations to establish business incubators and provide partial funding until enterprises can sustain themselves. Technical support should be provided to the programmes and the incubators by professionals with practical knowledge and experience in the field.