

**PRESENTATION GIVEN AT THE TRANS LINKS VALUE CHAIN
WORKSHOP ENTITLED:**

**“Value Chain Cases in the Context of Conservation
Marketing and Certification”**

**JUNE 25-27, 2009
ARUSHA, TANZANIA**

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Value Chain Cases in the Context of Conservation, Marketing and Certification

WORKSHOP IN ARUSHA, TANZANIA (JUNE 25 - 27, 2009)

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Presentation Overview

- Introduction and context
- Objectives
- HBTL business model
- Certification and international marketing
- Lesson Learnt

Introduction and Context



Himalayan Bio Trade Pvt. Ltd.

- HBTL is a natural products processing and marketing company owned by community-based forest enterprises of Nepal
- HBTL promotes local value addition and marketing of forest based products to raise incomes of its shareholders and supplier communities
- HBTL offers a range of high quality natural products-essential oils, handmade papers, medicinal herbs, vegetable oils and fiber products
- In 2003, HBTL founded the Sustainable Bio Trade Group (SBTG) to build on their Forest Stewardship Council (FSC) certification, the first to be awarded to community forests for Non Timber Forest Products in Asia

Handmade paper products



Medicinal and aromatic herbs



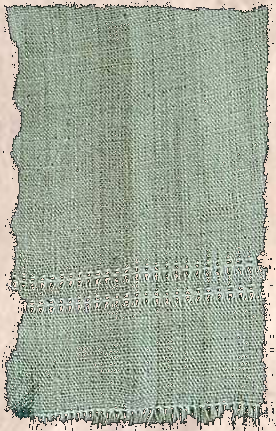
Aconitium heterophyllum



Rheum australe

Other products

Allo (Himalayan Nettle) fiber and cloth,
food supplement



Morchella sps

Essential oils







Where we are?



Nepal's Unique Biodiversity



- **Nepal Himalayan ecosystem - a global biodiversity hotspot**
- Nepal comprises only about 0.01 percent of the terrestrial area of the earth, but it harbors high share of species richness, for example, 9.3 percent (844 species) of bird species and 4.5 percent (181 species) of mammals
- Nepal has nearly 7,000 species of higher plants, 5% endemic to Nepal and 39% in eastern Himalaya

Nepal's Poor Mountain Communities as Responsible Biodiversity Stewards

- Conserving biodiversity in the context of economic survival
- About 42 thousand tons of over 100 Non Timber Forest Products (NTFPs) traded generating over US \$30 million annually
- 90% are wild crafted by the poorest of the poor in remotest mountains, where 57% live below poverty line (\$59)



Value chain of Nepali NTFPs

Global Enabling Environment

WTO
International treaty
Market research companies
International standards and certification mechanism (ISO, FSC, Fair Trade)
Technology developer
IUCN – CITES

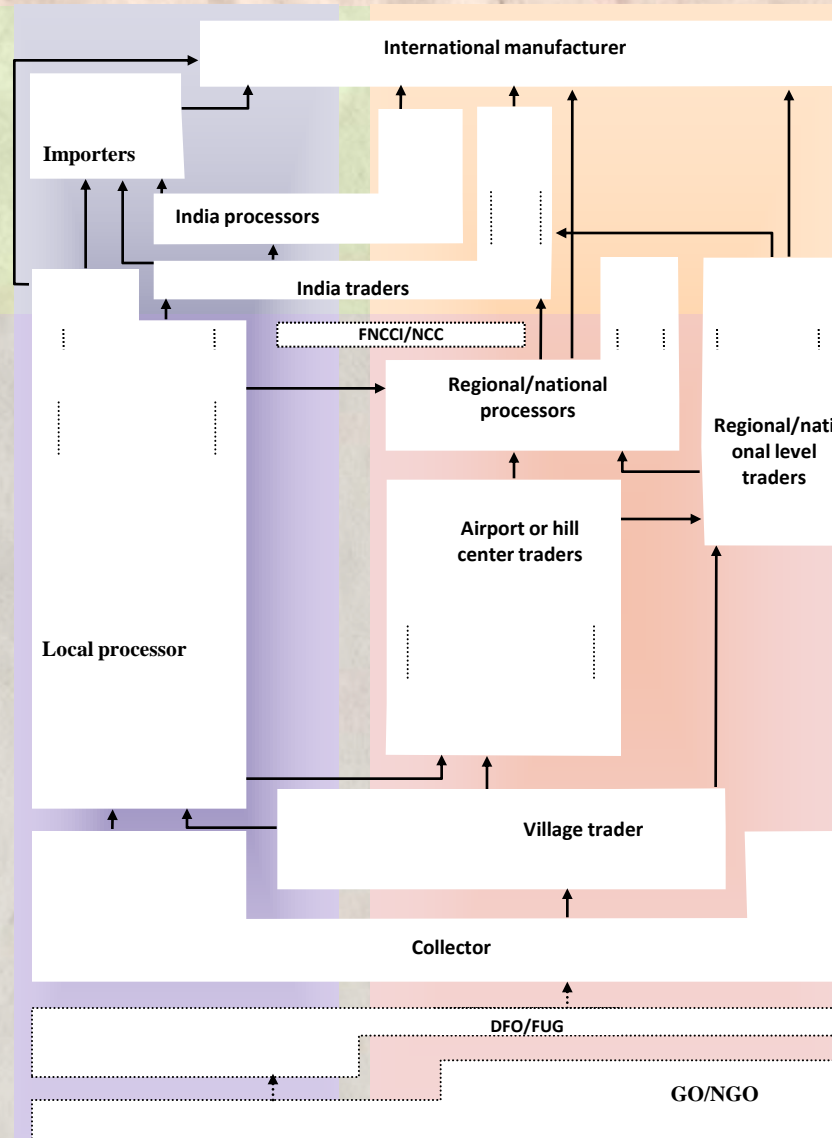
National Enabling Environment

Forest laws and regulations
Company laws and regulations
Industrial and trade policies and regulations
Local governance and decentralization policies and mechanisms
Local development policies and programs

Government ministries and their offices
NGOs/GOs
Research and educational institutes
Training centers

Associations
Machine fabricators
Freight forwarders
Transporters
Input supplies

Banks/financial institutes



Functions

Manufacturing/wholesaling/ retailing in overseas

Export to overseas

Wholesaling/retailing in India

Processing/manufacturing in India

Wholesaling/trading in India

Certificate of Origin

Grading/Packaging

Processing at regional/national centers

Storage

Trade at regional/national centers

Transport to regional/national centers

Packaging

Airport/hill center trade

Local processing

Storage

Financing for collection

Transport

Village trade

Cleaning/Drying

Collection

Collection/Transport permit

Forest management

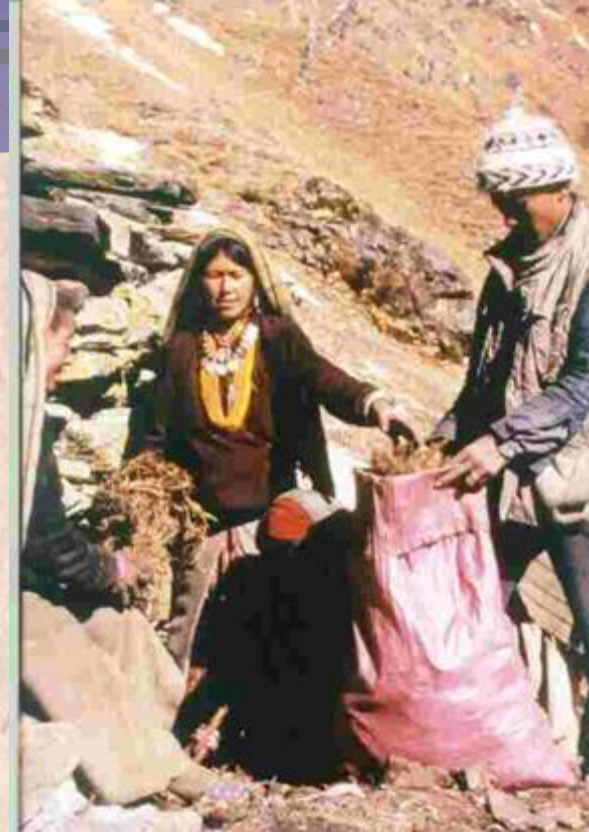
Research

LEGEND

➔ Product Flow □ Participant ▭ Indirect Participant Function not undertaken

Need to Change Existing Business Model

- Traditional NTFP trade only source of cash for poor high mountain communities
- The products moved through several hands to India and ultimately to US and Europe providing very little incomes to local communities and uncertain quality supply to industry
- Leading to low incentives (to collectors, traders and industries) for conservation and continuing threats to biodiversity, livelihoods and sustainable supply



Communities Have Significant Control and Influence

- Over 14,000 Community Forest User Groups (CFUGs), representing more than a third of Nepal's population
- Nationwide network and federation as - FECOFUN, >18% of forest area under community management
- Communities have forest management plans that include biodiversity conservation and livelihood development



HBTL Objectives

■ *Assuring sustainable production of high quality essential oils and other products*

- Design a framework where clear roles and responsibilities between the stakeholders ensure that: a) quality standards are met, and b) the sustainable use of the resource and the sustainable management or conservation of its habitat. This includes promoting local private enterprise and private sector partnerships and capacity building for the management of local resources.
- *Designing an **Access and Benefit Sharing system (ABS)** The role of CFUG and Equitable Operational plans to ensure access and benefit sharing for all community members for both subsistence and commercial products.*
 - widening the production system to new beneficiaries,
 - ensuring a continuous production stream for the source communities.

■ *Building long-term marketing relationships with quality buyers who have as their core value sourcing of sustainable products*

HBTL

- Enterprise developed with participation of community enterprises for the product manufacturing and marketing of community products
- Participate in community enterprise and build their capability
- Require enough capacity to meet requirement of international buyer

- Target the niche market that cares social and environmental issues
- Participate in the activities where producers can be educated on local business environment

HBTL
 A National Enterprise with participation of community enterprises and responsible individual

International Buyer

HBTL Business Model

Consistent product supply

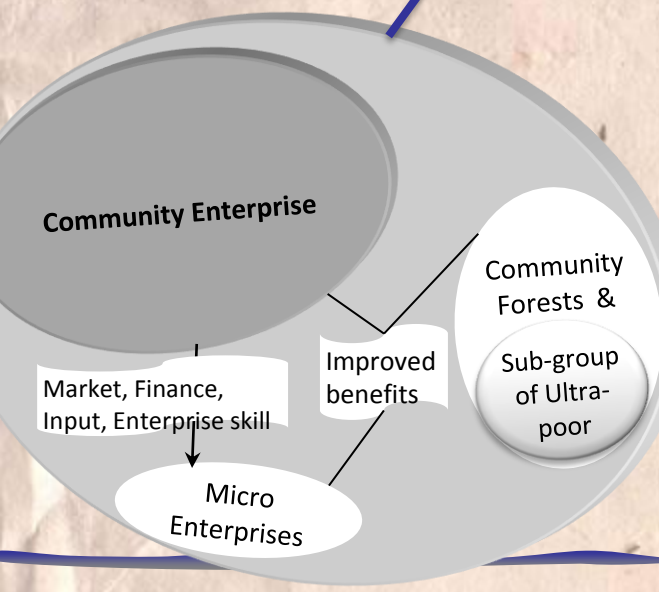
Market, Technology
 Quality, Finance

Micro enterprises and community forests:
Constraints:
 Market, Finance, Input, Enterprise skill
Opportunity:
 Raw material, labor, network with local & development agencies

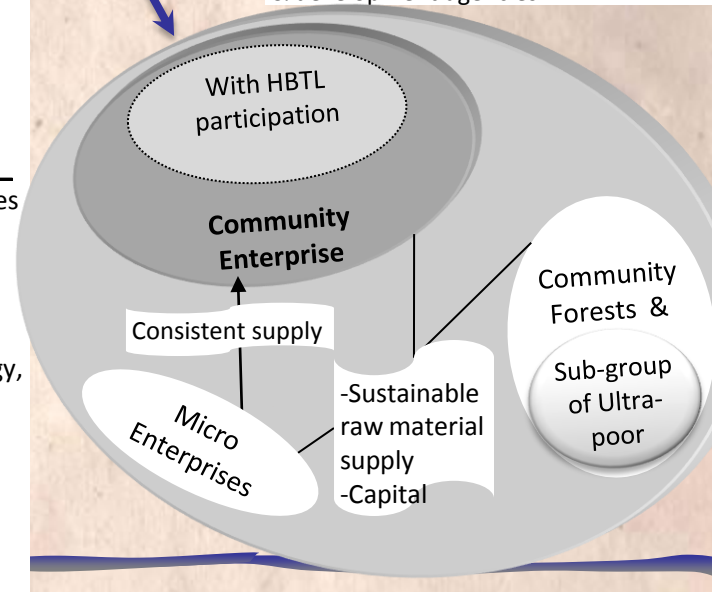
Community Enterprise:
 Mainly to provide following support to micro enterprises and community forests:

- Value addition and marketing
- Regular supply of inputs
- Training on quality and production
- Develop enterprise skills

- Jointly developed by HBTL and local enterprises (higher investment from locals)
- Facilitates marketing of products of local enterprises (focus on single or few product)
- Operates an enterprise unit and combines other services (finance, input supply, technology, production and quality and enterprise skills) required for development of micro enterprises
- Consortia of community forests and micro-enterprises for value addition and marketing
- Facilitate communication between national enterprise and enterprise in the district on market requirement and supply situation



District 1



District ...ⁿ

Development of HBTL

- Educate enterprises on responsible business practices and access to niche market
- Organize and build trust among responsible enterprises to form enterprise for manufacturing and marketing of community products
- Business planning and management of startup capital along with participation of community enterprises

Development of HBTL...

- Market promotion (product design and development, market research, meeting and communication with buyers, participate exhibitions and develop market promotional materials)
- Improve relationship with community enterprises
- Build institutional capacity for communication and collaboration with enterprises
- Enterprise management, marketing and new product development activities

Process of getting FSC certification in Nepal

- Institute forest management plans that consider all aspects of society and biodiversity
- Obtain clear land tenure with right to earn cash income from resources
- Share biological monitoring and technical information on sustainable yields and field based research to determine sustainable yield (not known for most species)
- Access value adding technologies and higher value markets to give premiums to support conservation
- Coordination of all actors – Nepali NTFP Promotion Alliance
- Establish Nepali private sector companies with conservation goals (HBTL, SBTG)

Alliance Partners



Himali Jadibuti Sarokar
Samuha (HJSS)



सामुदायिक वन उपभोक्ता महासंघ, नेपाल
Federation of Community Forestry Users, Nepal (FECOFUN)



ANSAB



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Strengthen democratic values, reduce poverty and injustice,
promote international cooperation and advance human achievement



Nepal NTFP
Network (NNN)



Alliance Goals

The Nepali Non Timber Forest Products (NTFPs) Promotion Alliance brought together the right mix of actors at a crucial time to link Nepal and overseas NTFP buyers, Nepali producers and NGO, donor and government programs assisting the NTFP sector in order to:

- increase incomes and employment for Nepal's NTFP producers (especially in remote rural areas);
- promote sustainable resource management;
- institute a certification program for NTFPs in Nepal; and
- expand responsible buying practices among industry members in the West.



Certification and Marketing



CoC of Nepali Handmade paper



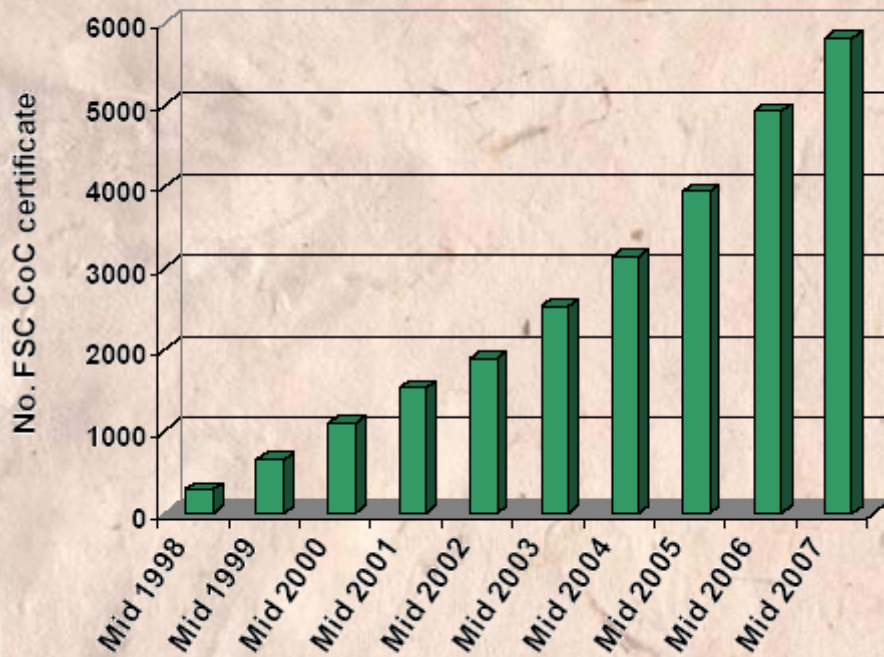
Why Get Certified?

- Sustainable supply of forest products
- Access to markets
- Market Positioning
- Recognition as leader
- Demonstrated commitment to sustainable forestry
- Healthy, productive & durable forests
- Verification of sources



FSC and market

FSC chain of custody (COC) certificate growth



Source: FSC International 01/06/07

- ❑ The FSC supply chain rapidly expanding, globally
- ❑ 40% growth in 2007
- ❑ It is becoming easier to find FSC labeled products in the market place, globally
- ❑ Greater choice for suppliers, globally
- ❑ Increased awareness of the FSC brand, globally

FSC and market



- In Switzerland the total turnover from the sale of FSC products in 2005 was estimated at the equivalent of over \$120 million.
- In 2006 Bolivia exported FSC certified products worth \$16 million.
- FSC's market share in the Netherlands is estimated at 17% in 2007.

FSC and market



- Based on an FSC survey completed in 2007, value of FSC labeled sales estimated at over 20 billion USD.
- Growth of over 4 times market value since 2005.
- Based on an FSC survey in 2005, FSC certified companies reported an estimated FSC labeled market value of \$5 billion.
- Companies with a combined estimated turnover of 250 billion USD in wood products are committed to FSC certification.

Customers and FSC

- Netherlands: FSC trademark is fourth in a ranking of the Netherlands' best-known quality assurance trademarks.
- Prompted recognition reaches 67% (21% unprompted).
- Switzerland: in 2007, 56% of the Swiss population recognize the FSC label when prompted (21% unprompted).
- Denmark: in 2007 label recognition reached 33% unprompted, doubled from 2006. 61% would actively look for FSC products.
- UK: 23% unprompted recognition. Highest recognition from ages under 25



SBTG: Group certification in Nepal

- 8 companies in SBTG – Group certificate covering all companies
- Audit “sampling” of companies
- US\$ 200,000 in new FSC buyer sales in 2008
- Annual certification costs (COC \$3,000 and Forest \$5,000)
- Centralized certification administration
- Flexible: Add or remove facilities from certificate as needed

Group Eligibility

- The group entity must be an independent legal entity
- Group Members shall:
 - have no more than 15 employees (including full time, part time and seasonal staff) OR
 - have no more than 25 employees and an annual turn over of no more than \$1,000,000 USD

Specific Requirements

in addition to CoC standard

Group Manager:

- n Centralized certification management
- n Certification management procedures
- n Orientation and materials on FSC CoC
- n Add/remove members
- n Internal audits
- n Issuance and follow-up of Corrective Action Requests (CARs)
- n Records
- n Trademark use
- n Coordination with SmartWood/RA



Specific requirements

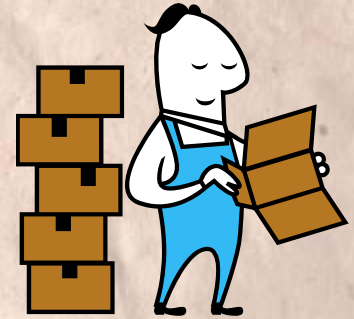
in addition to CoC standard

Group Member:

- n Sign consent form for certification participation
- n Coordination with CoC coordinator/manager for trademark use
 - ❖ Prepare documented control system
 - ❖ Compliance with CoC requirements for tracking and handling, CARs
 - ❖ CoC standard requirements

What companies need to do?

Company's Responsibilities



Chain of Custody Requirements

*Chain of Custody
Assessment Process*



The Company's Responsibilities

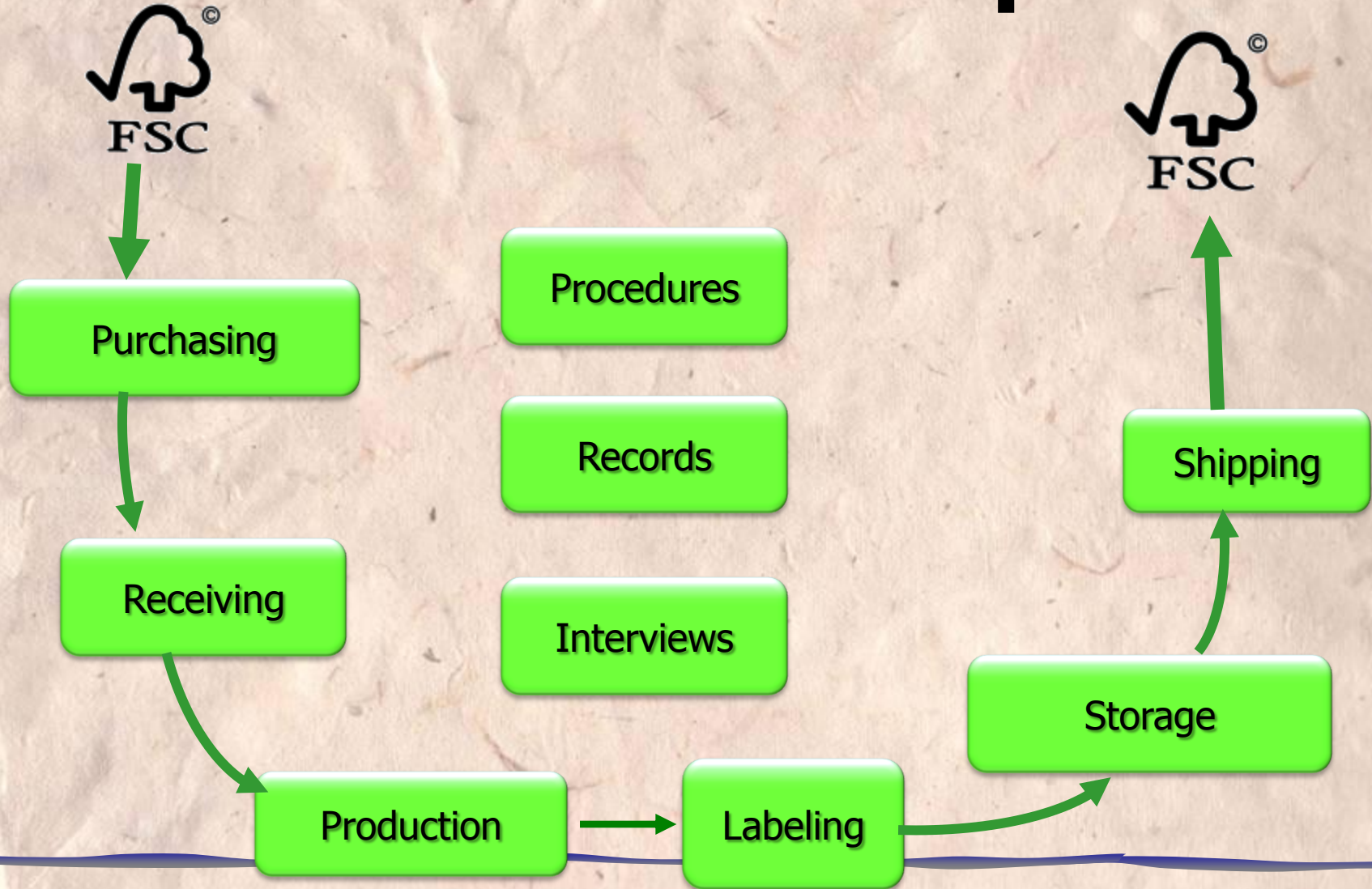
- ***Understand the CoC requirements***
- ***Procure certified raw materials***
- ***Develop a CoC control system***
- ***Develop Policies and Instructions***

Assessment process

- n Application
- n Budget Approval
- n Preparation
- n Audit activities
- n Evaluation
- n Report
- n Annual Audit



Evaluation of CoC Operation



Lesson learnt



Lessons Learnt

- Supporting better partnership between harvesters, community stewards, and industry when a product primarily comes from the wild can be a win-win
- To be competitive and reduce risks to the forests and communities new products and risk diversification strategies need to be pursued. But new product development is costly (new NTFP products, PES, bioprospecting) and require careful attention to developing responsible bioethics and benefits sharing protocols.

Lessons learnt contd.

- Intensive support is required for enterprise based biodiversity conservation from government, donors and civil society
- Partnership with industries in the west for long term business practices that conserve biodiversity is feasible
- Private public alliance to promote sustainable harvesting, FSC certification, product development and market linkages is crucial

Thank You

