

Actors and Hidden Incentives in Nepal's Community Forest Timber Value Chain

Bijendra Basnyat, Thorsten Treue, Ridish Pokharel and Gajendra Shrestha

Taking the case of Sal (*Shorea robusta*) timber trade from community forests, this paper describes about rent seeking collusions among the actors on chain of custody. This research was carried out in 36 timber trading community forest user groups followed by intensive observations in four community forests and in-depth interviews with some 100 actors along the timber supply chain. Three actors have colluded together; (a) direct actors, e.g. user groups, agents/contractors, saw mill owners (b) regulating actors, e.g. forest bureaucrats, and the police, and (c) influential actors, e.g. local youths/gangs and political leaders. The contractors have high profit margins (almost 50%) and nurturing collusions. They manipulate officially intended fair, transparent and competitive processes by making pre-investment on harvest; mobilizing local youth; manipulating bureaucratic requirements; providing logistics support and colluding with other contractors to avoid competition and secure bid at lowest possible price. The cost price analysis reveals that hidden costs, such as donations, allowances and incentives accounts for one fifth of saw mill gate price, which are shared between regulating (40%), influential (51%) and direct actors (9%). The study concludes that all actors are using different power to extract rents from community forest timber.



1. Introduction

- Community forests (CF) are a primary source of timber in Nepal, especially for valuable timber species
- CF timber is a “Hot issue” in the forestry sector
- Scholars’ work on incentives have mostly focused on
 - Rent seeking collations among the actors (Iversen et. al. 2006)
 - Corrupt practices (Adhikari, 2015)
 - Private gains of forest bureaucrats (Paudel, 2006; 2016)
- Increasing activeness of “anticorruption measures”
- How actors, under the changing context, seek to maintain privileged positions in the timber value chain has remained illusive

2. Research Questions

Who benefits from community forest timber and through which mechanisms?

- Which actors are involved in the CF timber value chain?
- How do actors compete, collude or collaborate?
- Who benefits by how much?

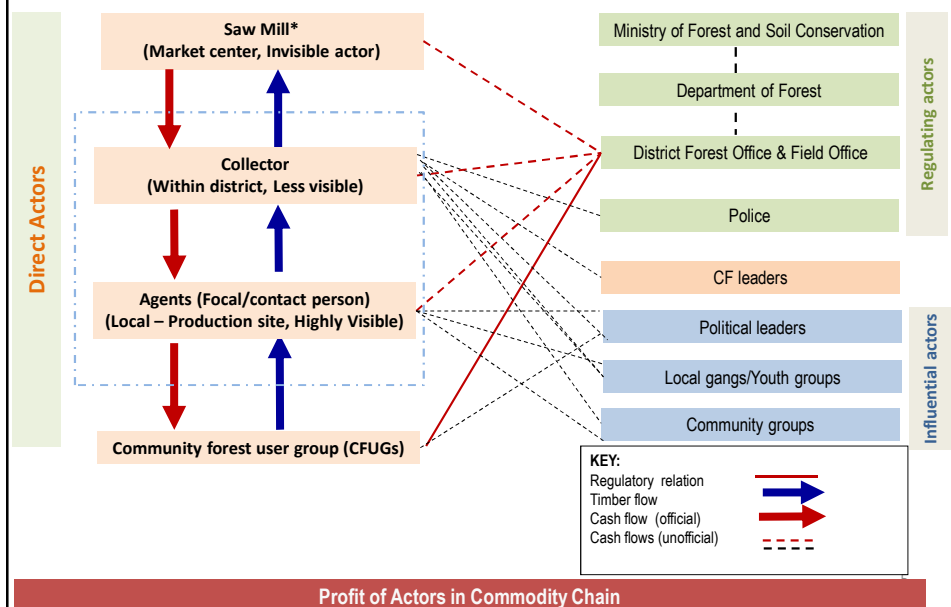


3. Methodology

- **Case study – *Sal* timber case**
- Districts selected randomly
- **Building and using networks**
- **In-depth observation in two CFs**
 - From selection of standing trees to be harvested to the market
- **Value chain actors mapping & interview**
 - Following timber flow (from production site to the market)
- **Repeated studies & interview**

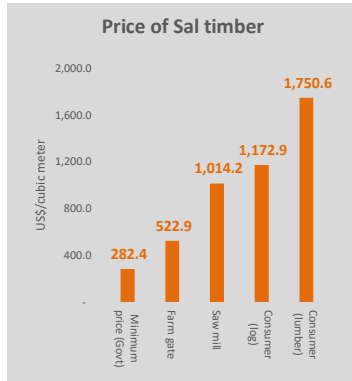
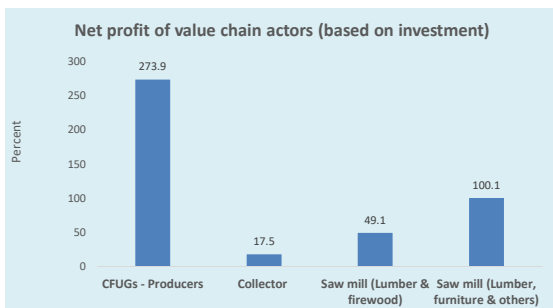


4.1 Timber Commodity Chain & Actors



4.2 Net Profit of Direct Actors

- **Gross Income**
 - Income from sale of round logs
- **Expenses**
 - Direct costs (log price, logging and stacking, transportation)
 - Government taxes (VAT, Forest product fee)
 - Hidden costs (bribes, allowance, 'incentives', protection from gangs)

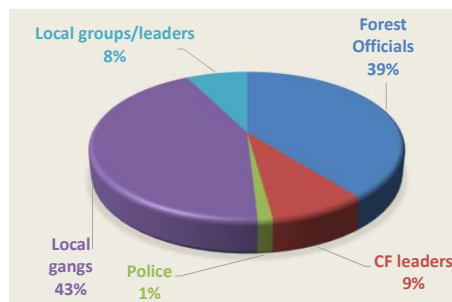


4.3. Hidden Expense and Incentives

Actors are colluding together

- **Hidden Expense \$ 181.9/m³**
 - Cash Incentives (Tips /Bribes)
 - Mobilization (food, travel, fee)
 - 35% of farm gate price
- **Mobilization - \$ 34.9 /m³**
 - 33% as tips & payments in process
- **Cash incentive - US\$ 157/m³**
 - 29% of farm gate price
 - 7% of market price
- **USD 1.79 million in 2016,**
 - 2.5 times higher than the official royalty payment

Bancha or Bachna Dau “Stay alive and let others live too”



Every thing appears perfect on paper, but it's all “Window Dressed”

4.4 Actors' Mechanisms

- **Actors have devised different means and ways of maintaining access by**
 - Competing, colluding, collaborating
 - Sharing risk & return
 - Influencing (Power and money)
- **Mechanisms include:**
 - **Competing/Financing - Direct actors** (Saw mill, collector)
 - **Enforcing – Regulatory actors** (Forest officials, CF leaders)
 - **Colluding – All actors** (CF leaders, collectors, traders, political parties)
 - **Manipulating – Regulatory** (CF leaders, forest officials)
 - **Blocking/Obstructing – Influential** (Local gangs/youth, political parties)

Can you wash your face with one finger? You need all fingers !

5. Conclusion

- Largely a system of systemic petty corruption
- Yet it is transforming towards collusive corruption
- Traders nurture collusion, due to high margins
- Reducing collusive corruption remains a challenge

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