

Forest Livelihood Briefs

August 2008
Number 11

DEVELOPING FOREST-BASED ENTERPRISES IN MEGHALAYA¹



Cinnamon bark being sold at a roadside.
Photo by H. Tynsong

Summary

With around half of its land area still forested, Meghalaya – one of the eight states of Northeastern India – has high potential for the development of forest-based enterprises. There are, however, various constraints to the development of forest-based enterprises as demonstrated by the noticeable underdevelopment of industries in the state and the dearth of information regarding the status of existing forest-based industries – an important element to guiding targeted interventions. This policy brief presents an overview of existing forest-based enterprises in Meghalaya, focussing on some of the most important forest products and identifying key areas and pathways to developing forest-based enterprises that would generate income and employment for the poor.

Forest-based enterprises in Meghalaya: status and constraints

There is a general lack of secondary industries in Meghalaya as most of its products are exported and processed outside the state. Noting that the state is rich in forest resources, this implies the need to encourage enterprise activities that will add value to its forest products and in the process, generate more income and employment for its generally poor population. The lack of industry and underdevelopment of forest-based enterprises, however, equally imply that forest-based enterprise development is not easy.

There is a lack of information about the status of forest-based enterprises, including the volume and value of supply and demand for certain products, who the market players are, etc. This explains the unrealistically low estimate of the contribution of forestry to the Net State Domestic Product as well as the relatively low government support for enterprise development. Recognizing this need, we conducted a study that identified forest products that have ready markets and which provide livelihood support to the rural poor of Meghalaya, including an analysis of the constraints and market potential of these products. Eleven forest products were selected based on data from different government offices (e.g. State Forest Department, Autonomous District Councils or ADCs); primary data were collected from public markets, vendors, and highway check points leading to nearby states and Bangladesh and interviews with key persons associated with marketing and trade of forest products.

¹ This policy brief is derived from studies that looked at the status and prospects of forest-based enterprises and the experiences of NERCoRMP in Meghalaya (See www.cifor.cgiar.org/forestlink/_ref/home/project_doc.htm).

Table 1: Status and constraints facing major forest products in Meghalaya

Forest products	Status highlights*	Constraints (opportunities for intervention and investments)
1. Bamboo	<ul style="list-style-type: none"> ▪ State has 12 genera & 43 species of bamboo, used for handicrafts, plywood and paper manufacturing, construction purposes, food (bamboo shoots) and fodder. ▪ Estimate volume of production marketed is 38,568MT/yr; value around INR 49.2 million. 	<ul style="list-style-type: none"> ▪ Limited value-addition: tonnes are exported outside the state for processing ▪ Bamboo shoot processing remains mostly micro-scale
2. Charcoal	<ul style="list-style-type: none"> ▪ Fuel for domestic and industrial use. ▪ Volume of production marketed annually 9,673 MT; value around INR 66.5 million. 	<ul style="list-style-type: none"> ▪ Inefficient processing technology ▪ Strict but lax implementation of rules leads to uncertainty and unsustainable practices
3. <i>Dalchini</i> (<i>Cinnamomum zeynalicum</i>)	<ul style="list-style-type: none"> ▪ Bark is extensively used as a spice in food, incense, perfume, pharmaceuticals and soaps. ▪ Annual production around 89 MT; valuing around INR 84.5 thousand. 	<ul style="list-style-type: none"> ▪ Very low price for producers (market information distorted by traders) ▪ Regulation and royalty collection as it is considered a forest product
4. Fuel wood	<ul style="list-style-type: none"> ▪ For cooking and other heating needs. ▪ Estimate annual production marketed is 491,635 MT; value around INR 614.5 million. 	<ul style="list-style-type: none"> ▪ High transport costs limit buyers who require large volume ▪ Unsustainable harvesting
5. Timber	<ul style="list-style-type: none"> ▪ Forest product that generates highest income for ADCs, especially before the Supreme Court order in 1996. Still generated around INR 135 million in gov't revenue in 2003-04. ▪ Estimate production before 1996 = 456,991 m³/yr with value around INR 1.7 billion; after 1996 average production went down to 7,068/yr with value around INR 26.2 million. 	<ul style="list-style-type: none"> ▪ Strict regulation (e.g., harvesting, transport) ▪ Royalties, taxes, and illegal collections in check gates
6. Bay leaf (<i>C. Tamala</i>)	<ul style="list-style-type: none"> ▪ Used for making spices and condiments (<i>Masala</i>) ▪ Estimate volume of production marketed annually 44,370MT with value around INR 576.8 million. 	<ul style="list-style-type: none"> ▪ Lack of storage and drying facilities, price information, and credit facilities ▪ Lack of proper storage and drying facilities result in leaves turning brown and thus lower prices
7. Broom grass (<i>Thysanolaena maxima</i>)	<ul style="list-style-type: none"> ▪ Estimate volume of production marketed annually 135,803 MT with value around INR 1.8 billion. 	<ul style="list-style-type: none"> ▪ Lack of credit and storage facilities. ▪ Local traders distort prices ▪ Royalties, taxes, and illegal collections in check gates
8. Medicinal plants	<ul style="list-style-type: none"> ▪ There are more than 100 medicinal plants in Meghalaya but mostly for household purposes only, with very few being sold. 	<ul style="list-style-type: none"> ▪ Lack of data on existing market (e.g. volume and value of production, sources) ▪ Limited selling or processing
9. Packing leaf (<i>Phrynium puvinerve</i>)	<ul style="list-style-type: none"> ▪ Grows abundantly and a popular wrapping and packaging material in the State and is source of cash for many poor. ▪ Estimate volume of production marketed annually 2,123 MT with value around INR 8.6 million. 	<ul style="list-style-type: none"> ▪ Bulky and low price ▪ Presence of substitute in the form of plastics and polythene bags
10. Wild pepper (<i>Piper peepuloides</i>)	<ul style="list-style-type: none"> ▪ Used in a variety of Ayurvedic medicines. ▪ Estimate volume of production marketed annually 123 MT with value around INR 11 million. 	<ul style="list-style-type: none"> ▪ Price fixing by traders ▪ Royalties, taxes, and illegal collections in check gates
11. Wood lichen (<i>Usnea</i> sp.)	<ul style="list-style-type: none"> ▪ Used mainly in making spices. ▪ Estimate volume of production marketed annually 127 MT with value around INR 7.3 million. 	<ul style="list-style-type: none"> ▪ Sold as raw product: limited value-addition, low price

Notes: Data were sourced from ADCs, State Forest Department, market surveys and interviews. Prices of most of these forest products fluctuate. The estimated value aims more for appreciation of value generated and comparability among forest products, and not exact value generated.



Medical plant being sold in Garo Hills Market.
Photo by H. Tynsong

Important observations

The study reveals that there is a lot of trading of forest products within and from Meghalaya, and most of these products are also being produced there, thereby employing the poor in rural Meghalaya. It is apparent, however, that a lot of these economic activities remain unnoticed or unrecorded and are thereby not given due support, as demonstrated by the dearth of data on many of these products or by the huge discrepancies between recorded outputs in government agencies and estimates made by people involved in the trade.

The study details specific constraints for each forest product but it is observed that many of these constraints are rather common across forest enterprises and especially to poor producers in Meghalaya. There is a substantial difference between the selling price received by the producers and the price of the same product (with no or minimal value-addition) when sold to final buyers. This can be attributed to many interrelated factors. As often reported, traders dictate prices and in many instances can depress the price simply by giving false information. This reveals a typical characteristic of these forest enterprises, of the market players, and the business environment: the producers are not organised, not informed, and are very poor; the physical infrastructures (e.g. roads, transport, storage) and business services (e.g. price information, credit, market linkages) are deficient or non-existent; the policy environment is either lax or too restrictive.

Areas for support and recommended strategies

As shown by the variety of constraints and weaknesses, there are many things that need to be done to develop forest-based enterprises in Meghalaya to increase the income that goes to the poor from the trade of forest products. Generally,

enterprise development support must include the provision of *business development and financial services* and *policy support*. Business development and financial services aim to improve performance of enterprises in various business functions such as marketing, production, human resource, and finance. Policy support is an indirect intervention targeting the business environment of enterprises such as harvesting and trading regulations, taxation and other legal requirements, investment and development.

Provision of business development and financial services

- *Provision of price information:* Price information should be made more transparent, specifically to improve accessibility of price information to the producers. The State government has just initiated posting commodity prices on the net (see <http://megamb.gov.in/default.htm>). This is a positive initiative but it needs improvement such as adding of prices of important forest products and market locations. Follow-up support should improve the accessibility of these prices for the poor producers including improving the poor's access to the internet and posting prices in other media such as in local public markets or radio programs.
- *Marketing assistance:* The producers' selling prices could also be increased by shortening the market chain - selling to wholesalers or processors. This can be facilitated by linking producers with buyers by sponsoring events or places where producers could meet with buyers or by direct assistance in contract production/buying between producers and buyers. These interventions, however, require organisation among producers, which is not the case for most forest product producers in Meghalaya and poor producers in general.
- *Organisation of producers:* Organising forest product producers in Meghalaya is difficult considering that most producers and collectors have not belonged to producer organisations before as they have primarily a subsistence



Broom grass ready for sale.
Photo by H. Tynsong

economy and production. Nevertheless, there are already various initiatives that have proved effective in increasing producers' bargaining power and lowering their transaction costs. A good model is that of the North Eastern Region Community Resource Management Project (NERCoRMP) where villagers are organised into Natural Resource Management Groups (NaRMGs) and Self-Help Groups (SHGs), many of which are starting to act as producer groups and are already joining trade fairs and contract growing schemes.

- **Technology development and transfer:** For many of the forest products, opportunities exist for technology development in wild-harvesting, cultivation, processing, and post-harvest which should be taken up by research organisations or with pharmaceutical companies. This is not to neglect the potential of introducing and transferring simple value-addition and processing technologies to producers such as sorting, drying, fermenting, packaging, etc.
- **Financing entrepreneurs:** Support should replicate or expand various micro-financing schemes, credit guarantee schemes, savings and money transfer infrastructure, and also other forms of incentives and capacity-building for credit providers. Support is also needed to improve the qualifications of producers to access credit such as improving loan processing and the availability of services in rural areas, capacity-building for SHGs, monitoring of fund management to protect savings, and promoting pro-poor guarantee schemes such as group guarantees since most lands, especially those accessible to the poor, are communally-owned and are not acceptable as loan collateral.

Policy support

There are various reforms that need to be made to existing policies and policy-making processes in support of enterprise development in Meghalaya - some reforms will be easier to implement than others.

- **Reclassification of various "forest products" into agricultural products:** Royalties and taxes that apply to products collected from the wild should be removed or significantly reduced for products that are also cultivated such as broomgrass, bay leaf, bamboo, and plantation timber. These should be exempted from royalties or reclassified as agricultural crops which are not charged royalties and often times receive subsidies.

- **Infrastructure development:** Forest policies in the state should change their focus to development as in the past they have mostly been regulatory. One way is by investing in infrastructure development. Given the remoteness and dispersion of forest product producers, support is needed for various processing and post-harvest facilities starting from simple drying (solar or fuel powered), storage and packaging in rural Meghalaya where the raw products are sourced. These should be coupled with increased investment in roads and processing plants within the state.
- **Rationalisation and/or establishment of harvesting and trading rules:** The processing centres for the granting of licenses to timber harvesters and saw mills should be made more accessible to make it easier for timber harvesters to apply and comply. Restrictions on charcoal and fuelwood trade needs to be rationalised, considering the large-scale trade in both products despite restrictions. Initiatives should target harmonising policies of the three autonomous policy-making bodies (the State Forest Department, ADCs, Villages), which may start by supporting the documentation of village-level regulations.
- **Clarification (survey and registration) of property rights:** Documentation of forest rules in the villages should be followed by measures to clarify property rights including survey and titling of forests and other private land surveyed and registration with a formal government agency (i.e. ADCs).

Conclusion

There is very high potential for the development of forest-based enterprises in Meghalaya but realising this potential, requires direct investments and spending coupled with strategic and urgent interventions. Investments are required in technology generation, infrastructure development, and provision of other services such as organisation and marketing services. At the same time, these investments must be complemented by reforms to the complex and many times perverse regulatory and property rights policies in the state.

Endnotes

This brief was prepared by Adrian Albano, Brajesh Tiwari, Marvellous Lynser, and Chetan Kumar. Thanks to Bruce Campbell for guidance, Karah Wertz for editing, and the Communications Team at CIFOR for all the help.



Center for International Forestry Research

P.O.Box 0113 BOCBD

Bogor 16000, Indonesia

Phone: +62 251 8622622; Fax: +62 251 8622100