



Who benefits from taxation of forest products in Nepal's community forests?



Jens Friis Lund ^{a,*}, Keshab Baral ^b, Nirmala Singh Bhandari ^c, Bir Bahadur Khanal Chhetri ^b, Helle Overgaard Larsen ^a, Øystein Juul Nielsen ^a, Lila Puri ^b, Rebecca Leigh Rutt ^a, Thorsten Treue ^a

^a Department of Food and Resource Economics, Faculty of Science, University of Copenhagen, Rolighedsvej 25, DK-1958 Frederiksberg C, Denmark

^b Institute of Forestry, Tribhuvan University, Pokhara, Nepal

^c REDD Forestry and Climate Change Cell, Ministry of Forest and Soil Conservation, Kathmandu, Nepal

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ABSTRACT

This paper is concerned with who benefits from taxation of forest products in Nepal's community forests. The objectives of the study are two-fold; to document who benefits from community forestry user groups' (CFUG) financing of investments in public services and infrastructure and pro-poor initiatives and to explore whether biases against certain groups in investments coincide with biases in their participation in decision-making. The paper is based upon data on taxation income and revenue expenditures of 45 community-forest user groups (CFUG) and on data from 1111 CFUG member households on socio-economic status and participation in and perceptions of CFUG management. The results indicate an overall bias against poor and Dalit households in terms of access to CFUG funded public infrastructure. This overall picture conceals important variation; including that poor CFUG members have a higher likelihood of obtaining CFUG financed pro-poor loans than more well-off groups. However, members of the CFUG executive committees have an even higher likelihood of obtaining loans. Results also show that most CFUG members are knowledgeable about CFUG finances, but that they generally express dissatisfaction with the level of transparency about CFUG finances and decision-making processes. Further, poor and Dalit households are generally less knowledgeable on and participate less in CFUG management than other groups, and are less well represented on the CFUG executive committees. Thus, overall, the distribution of benefits from taxation of forest products in community forestry remains unequal, and the disadvantaged groups are poorly placed to claim a larger share of the benefits. Accordingly, the evidence presented in the paper exemplifies how participatory policies are framed by existing inequalities and social hierarchies, but also how such policies may modify these structures through affirmative strategies, such as the policy on pro-poor activities of CFUGs.

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1. Introduction

An important ambition of community-based approaches to natural resources management is to contribute towards improved rural livelihoods and poverty alleviation (Bowler *et al.*, 2012; Brown *et al.*, 2002). The expectation of community-based natural resources management in this regard is based on the premise that such approaches can improve the efficiency of natural resources management and/or induce a more equitable distribution accruing from such resources (Ribot *et al.*, 2008). One of the avenues by which this expectation can be met is the redistribution of natural resource values through taxation of their utilization. While several studies have demonstrated that substantial values may be redistributed through taxation and subsequent financing of natural resources management costs and local public services and infrastructure (Bigombe-Logo, 2003; Chhetri *et al.*, 2012; Fométe, 2001; Lund, 2007; Pokharel, 2009, 2010), this aspect is ignored in many

studies of the livelihood impacts of community forestry (e.g., Adhikari *et al.*, 2004; Adhikari and Lovett, 2006; Sharma, 2009; Thoms, 2008).

The overall importance of the collection and redistribution of forest products taxation revenue to the redistributive consequences of community-based approaches to natural resources management are, thus, well documented. However, there is a lack of studies interrogating who actually benefits from this redistribution, i.e. a disaggregated analysis of the benefits trickling down to the individual households participating in community-based management (Maharjan *et al.*, 2009).

This knowledge gap regarding the household-level distribution of the taxation revenue-based benefits of community-based natural resources management is the starting point for the present study. The objectives of the study are two-fold; to document who benefits from community forestry user groups' (CFUG) financing of investments in public services and infrastructure and pro-poor initiatives and to explore whether biases against certain groups in investments coincide with biases in their participation in decision-making. We investigate these objectives through analysis of empirical evidence from 45 CFUGs in Nepal. Community forestry was initiated in Nepal in the 1970s and has advanced significantly in both geographical spread and

* Corresponding author. Tel.: +45 3533 1767; fax: +45 3533 1508.
E-mail address: jens@life.ku.dk (J.F. Lund).

the policy framework (Arnold and Campbell, 1986; Kanel and Dahal, 2008); Nepal therefore provides a good opportunity to look into the distribution of benefits to CFUG members.

Our study involved investigations of taxation income and expenditures of 45 CFUGs from three mid-Hill districts in the Western Development Region of Nepal. Further, the study included survey interviews with 1111 CFUG member households on their socio-economic status and participation in and perceptions of CFUG management. The household-level data allow us to study the distribution of expenditures financed by CFUG taxation revenue to member households stratified by wealth and caste [caste has important implications for individual opportunities in the Nepalese society and in community forestry (Bhattachan et al., 2003; Lama and Buchy, 2002)]. Our study focuses on interrogating who benefits from investments in public infrastructure such as drinking water points, electricity, schools, and irrigation systems, as well as loans that are considered part of the pro-poor initiatives required under the Nepalese 2009 Community Forestry Guideline (MFSC, 2009). Decisions on how to spend CFUG funds are made by the CFUG executive committee (Pokharel, 2009) and we therefore also investigate to what degree marginalized groups are represented on the CFUG executive committee and whether they seek to influence it through active participation in CFUG decision-making processes.

The paper proceeds as follows. In Section 2 the study area and data collection methods are presented. Section 3 outlines the results. In Section 4 the results are compared to findings in previous studies and their implications are discussed with an aim to draw out relevant policy recommendations. Finally, in Section 5 we provide conclusions.

2. Study area and methods

As the study was concerned with exploring who benefits from taxation of forest products in Nepal's community forests, we chose to focus on Nepal's mid-Hill areas, where the community-forestry model is the most widely implemented (Dahal and Chapagain, 2008). Further, for budgetary reasons, the study was confined to one of the five administrative regions of Nepal, namely the Western Development region. Accordingly, the eight mid-Hill districts of that region were chosen as the sampling frame for districts. From this frame, the three districts of Baglung, Gorkha and Kaski were selected purposively to obtain 'average' values for aspects of forest area per capita, altitude range, and percent of wood users in the district, as well as to reflect variation in the donor funded projects behind the implementation of community forestry.

Within these districts, a censored random sampling of CFUGs was undertaken. The sampling frame was the list of CFUGs produced by the District Forest Offices. Censoring was completed using three criteria concerning the CFUGs: minimum 5 years of age; minimum of 30 members and; minimum of 5 ha of community forest. The purpose of the censoring was to ensure the availability of financial records at least 5 years back in time, and the existence of a financial flow. Hence, we assume that larger forest area and more members are predictors of larger financial flows. This assumption is supported by a recent study (Chhetri et al., 2012). A random drawing from each of the three lists of CFUGs resulted in 45 CFUGs that fulfilled the censoring criteria, whereas 33 were discarded mainly because of insufficient area and age.

Preliminary information about each selected CFUG was collected at District Forest Offices, namely constitutions, operational plans and audit reports. Subsequently, the CFUGs were visited to review the operational plans, minutes, audit reports and original vouchers to obtain information on income, income sources and expenditures since CFUG establishment. The recorded financial information was validated by key informants – usually a present or past secretary, treasurer or chairperson. The key informants were selected on the basis of their knowledge of the records. Further, information on larger investments by the CFUGs was validated by other key informants, selected from amongst the member community and with no close relations to the CFUG executive committee. In several of the CFUGs, some of the records were

missing, which appeared to be a consequence of poor filing conditions. In such situations, the information was based on informants' recollection of past incomes and expenditures. The final taxation dataset contains 508 observations of annual taxation income and revenue expenditure from 45 CFUGs. The dataset was used to prepare simple annual averages for income-tercile groups of CFUGs that are presented in Tables 1 and 2.

Information on forest resources (e.g. species composition and area), forest management activities, CFUG executive committee composition (e.g. caste, age, sex, education), number of member households in the CFUG, population and number of meetings held in different time periods was obtained by reviewing minutes, operational plans and constitutions as well as by interviewing the members of the CFUG executive committee. The data were collected from December 2008 to March 2010.

In all of the sampled CFUGs, the total list of CFUG members was updated and a wealth ranking was done in collaboration with a group of 3–5 key informants. The key informants were selected with an aim to ensure that they would be able to rank households from all the toles (hamlets) of the community in question, and they were instructed to agree on and use their own criteria for the wealth ranking. Also in all CFUGs, 10% of the member households, though no less than 24 households, were randomly selected for a face-to-face administration of a survey questionnaire. A total of 1111 households were interviewed. The survey questionnaire was developed by the authors on the basis of extensive interviews and focus group discussions and thoroughly tested in two CFUGs before being implemented by a team of three enumerators who were accompanied by the first author to four CFUGs during the process of implementation, and who also collected the data on CFUG incomes and expenditures. The survey questions covered to what degree CFUG investments on public infrastructure had benefited the household, indicators of the household's socio-economic status and level of participation in CFUG management, and respondent perceptions of CFUG management.

3. Results

3.1. CFUG income and expenditure

Table 1 displays source-wise taxation income for the 45 CFUGs divided into income-based terciles. The average annual CFUG-level

Table 1
Average annual CFUG incomes in Rs^a by income tercile.

| CFUG income tercile | Low | Middle | High | All |
|-----------------------------|------|--------|--------|--------|
| Wood | 1754 | 3939 | 24,921 | 10,418 |
| Timber | 623 | 2298 | 15,497 | 6282 |
| Firewood | 1077 | 1591 | 9163 | 4013 |
| Poles | 1 | 24 | 199 | 77 |
| Other wood | 53 | 27 | 62 | 47 |
| Non-wood | 593 | 1761 | 3592 | 2028 |
| Grasses | 423 | 1156 | 2772 | 1483 |
| Leaf litter | 0 | 1 | 42 | 15 |
| Other non-wood ^b | 171 | 605 | 777 | 531 |
| User | 1286 | 4363 | 13,132 | 6410 |
| Membership and entry fees | 877 | 2211 | 9810 | 4392 |
| Fines and confiscated | 105 | 257 | 574 | 319 |
| Interest on loans | 159 | 1848 | 2090 | 1415 |
| Other ^c | 145 | 47 | 658 | 284 |
| Donor and DFO | 235 | 1085 | 1281 | 893 |
| Project and NGO support | 16 | 211 | 939 | 399 |
| DFO support | 213 | 874 | 343 | 491 |
| Other external support | 6 | 0 | 0 | 2 |
| Other income | 1454 | 1914 | 7029 | 3515 |
| Grand total | 5323 | 13,062 | 49,955 | 23,265 |

^a 1 USD equals approximately 70 Nepal Rupees (Rs) (2008 level).

^b Includes, among other, resin, grass, stones, bamboo, tree fodder, seedlings, bio briquettes, and white clay.

^c Includes, among other, fees for applications for membership and forest products, such as timber.

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