



Making Paper, Building Communities

Himalayan Bio Trade: A Case Study

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From his office in Kathmandu, Khilendra Gurung shakes his head out of a daydream in which his company's handmade paper enterprise provides employment for all of the poorest families of Nepal's Bajhang and Dolakha Districts. Khilendra believes the idea may not be entirely far-fetched in light of a recent German Technical Cooperation (GTZ) study touting the "unlimited potential" of Nepal's handmade paper industry.¹ Khilendra serves as Operations Manager of Himalayan Bio Trade Pvt. Ltd. (HBTL). Since its inception in 2000, HBTL's business has grown steadily, primarily due to the support of one international buyer and assistance of a Kathmandu-based non-governmental organization (NGO). As a direct result of these partnerships, HBTL now sells the only Forest Stewardship Council (FSC) certified handmade paper in the world. And while FSC certification consumes a significant portion of HBTL's scarce funds and human resources, Khilendra believes that the company's investments in marketing certified paper products to high-end international buyers will pay off—not only for this small Nepalese social enterprise, but also for the poor, rural communities it supports.

For the last three years, approximately 85 percent of HBTL's handmade paper sales have been to Aveda, a skin and hair care product manufacturer and retailer headquartered in Minnesota. While Khilendra highly values Aveda's commitment to HBTL and its mission of helping mountain communities gain employment and generate income through locally owned enterprises, he is aware that it may be infeasible for Aveda to feature their product lines indefinitely since Aveda supports numerous community-owned enterprises around the world. "What will happen to us then?" thought Khilendra. "How will we fulfill our 'unlimited potential'?" HBTL is committed to generating employment and income for forest-dependent communities in Nepal, but if Aveda's orders diminish, how will HBTL continue its operations, let alone expand? "That's it," Khilendra reluctantly concludes, "we need another company like Aveda. Or, we need an alternate strategy, and fast."

A Socially and Environmentally Responsible Enterprise

Sustainable enterprise development in the hill regions of Nepal is vital to the livelihoods of its rural inhabitants. In some communities, the nearest town can take hours to reach by foot, so the need to work with locally available resources is paramount.² A readily available source of income for marginalized mountain communities are locally harvested non-forest timber products (NTFPs), such as medicinal and aromatic plants, bark for handmade paper, and fruits for textile dyes and medicines. NTFP-related economic activities can contribute up to 90 percent of a rural household's income³ and

¹ GB Banjara, "Handmade Paper in Nepal: Upgrading with Value Chain Approach," Kathmandu: Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH, 2007.

<http://www.mmw4p.org/dyn/bds/docs/605/GTZNepalHandmadePaper.pdf>.

² Kalyan Gauli and Michael Houser, "Pro-poor Commercial Management of Non-timber Forest Products in Nepal's Community Forest User Groups: Factors for Success," *Mountain Research and Development*, Vol 29, No 4, (November 2009): 298-307.

³ Sagun Bista and Edward L. Webb, "Collection and marketing of non-timber forest products in the far western hills of Nepal," *Environmental Conservation*, 33, 244-255: 2006.

generates over US \$30 million annually.⁴ HBTL is a social enterprise that links rural mountain communities with international markets for non-forest timber products. By strengthening the NTFP value chain and linking socially conscious consumers abroad with FSC-certified community-owned enterprises in rural Nepal, HBTL can simultaneously increase stakeholder incomes and conserve Nepal's rich forest resources.

Central to HBTL's mission is its socially and environmentally responsible approach to its business practices. As part of its pro-poor agenda, 90 percent of HBTL's products are harvested in the wild in the remote mountains of Nepal where 57 percent of the population lives below the poverty line.⁵ HBTL offers two types of handmade paper: FSC-certified and non-FSC-certified. All of their products are certified Wildlife Friendly (see Glossary and Abbreviations at end). The company's full product line includes NTFPs such as medicinal plants and essential oils, hemp products, in addition to its handmade paper products.

Macroenvironment of Nepal

HBTL is headquartered in Kathmandu (Exhibits 1 and 2), Nepal, a country with a population of roughly 30 million.⁶ Nepal is a landlocked nation bordered by India and China, where agriculture accounts for 35 percent of the gross domestic product (Exhibit 3), while 76 percent of the labor force relies on agriculture for its livelihood (Exhibit 4), and almost one third of the population lives in poverty.⁷ Below is a snapshot of the country's profile (Table 1).

Table 1: Nepal's Country Profile⁸

Location	South Asia
Bordering Countries	India, China
Size	56,827 square miles (about the size of Arkansas)
Population	28,757,000
Density	506 people per square mile
GDP per capita	\$1,200 USD
Population below poverty line	24.7 percent
Currency	Nepalese rupee (NPR.) Approximately 72 Npr = \$1 USD
Literacy	Total population: 48.6% (male: 62.7%; female: 34.9%) Definition: age 15 and over can read and write

Conducting business in Nepal comes with a host of challenges. Nepal has been under considerable political strife since 1990, when political reforms established a multiparty democracy within the framework of a constitutional monarchy. In 1996, Maoist rebels launched an insurgency, and the ensuing ten-year civil war resulted in the assumption of absolute power by King Gyanendra. In 2006, mass street protests forced the king to relinquish power. Parliament was restored, a prime

⁴ Parbat Gurung. "Community Based Conservation, Certification, Marketing and Benefit Sharing Modalities of Natural Products Based Enterprise in Nepal." PowerPoint presentation given at the International Congress on Raw Materials in Cosmetics, October 13-15, 2009.

⁵ CIA World Factbook-Nepal. <https://www.cia.gov/library/publications/the-world-factbook/geos/np.html> (accessed March 10, 2010).

⁶ *ibid.*

⁷ *ibid.*

⁸ *ibid.*

minister was appointed head of state, and the Maoists and the government agreed on the Comprehensive Peace Accord to put an end to the decade-long conflict. Nonetheless, instability and political uncertainty persist, giving justifiable pause to many foreign investors.⁹ Daily business can be disrupted at any time by the time-honored Nepalese way of expressing political discontent, the “bandh,” which is the forced closure of businesses and schools and the halting of vehicular traffic. Bandhs can happen as many as four times per week, depending on the political situation in the country.¹⁰

With a national unemployment rate of 46 percent¹¹, the lack of skilled labor is another major limiting factor for the private sector. Also, those who do conduct business in Nepal struggle with shipping constraints. Goods must either be transported by air at roughly \$6.30 USD per kilogram, or by road to Calcutta, India, and then by boat, at \$1.05 USD per kilogram, a process that costs less but takes about 48 days total from Nepal to the US.¹²

Nepal also lacks basic infrastructure: the road network is underdeveloped and its distribution highly unequal, with more than 50 percent of the total road network concentrated in the flat river plain of the south and very few roads in the mid- and high-hill areas. Less than half of Nepal’s people have access to electricity¹³, and those who do face power cuts of up to sixteen hours a day, due to electrical shortages. While some businesses use gas-powered generators during outages, not all businesses can afford this luxury.

Considering Nepal’s limited power supply, HBTL is somewhat favorably positioned since many of its production processes are manual. However, because today’s business climate relies heavily on the Internet and electronic communication, intermittent electricity prevents Khilendra and his staff from responding to email correspondence in a timely fashion. HBTL’s ability to update its web site is at the mercy of the government’s schedule of power outages. Water shortages also affect HBTL’s paper production, despite Nepal’s abundant fresh water supply. Inadequate, inefficient and deteriorating infrastructure impedes the distribution and purification of available water supplies.¹⁴

Handmade paper industry

Handmade paper is a large international industry with many players. Types of handmade paper range from Egyptian papyrus to Thai mulberry paper to high-art handmade papers, as well as a wealth of “decorative” papers that are machine-made to look like handmade paper. Nepalese lokta

⁹ Asian Development Bank (ADB), Department for International Development (DFID), and International Labour Organization (ILO), *Nepal: Critical Development Constraints*, (2009).
<http://www.adb.org/Documents/Studies/Nepal-Critical-Development-Constraints/Main-Report-Nepal-Critical-Development-Constraints/default.asp>

¹⁰ <http://www.nepalbandh.com>

¹¹ Asian Development Bank (ADB), Department for International Development (DFID), and International Labour Organization (ILO), *Nepal: Critical Development Constraints*, (2009).
<http://www.adb.org/Documents/Studies/Nepal-Critical-Development-Constraints/Main-Report-Nepal-Critical-Development-Constraints/default.asp>

¹² "Lowest Outbound Shipping Rates in Nepal." <http://www.nepalshipping.com/> (Accessed April 14, 2010)

¹³ Bishwambher Pyakuryal. “Nepal’s Binding Constraints to Growth,” Tribhuvan University, Kathmandu, Nepal.
www.unescap.org/pdd/SeminarSeries/Pyakuryal_NepalConstraints_30sept09.pdf (Accessed March 10, 2010).

¹⁴ Suresh Das Shrestha, “Water crisis in the Nepal Himalayas,” Tribhuvan University, Kathmandu, Nepal.
<http://www.fiu.edu/~sukopm/seminar/Suresh.pdf> (Accessed March 10, 2010).

paper competes with all of these, but is a niche player. Nepal ranks 23rd among handmade paper-exporting countries, with less than 0.5 percent of the total worldwide annual exports (Exhibit 5). The largest exporter, China, accounts for 26 percent of the world total.¹⁵

Nepal might not produce the volumes necessary to compete with the world's largest exporters, but the unique story of lokta paper and its production by community-owned enterprises differentiates Nepal's paper products in the market. Potential for capturing more of the global market remains largely untapped due to the lower comparative quality of Nepalese lokta paper and the lack of marketing efforts by Nepalese paper producers and distributors. While generally regarded as beautiful paper, Nepalese lokta paper products such as note cards, journals, and photo albums lack refinement and Western-tailored designs compared to their competitors. In the West, Nepalese paper products are currently distributed through specialty alternative or exotic goods shops, not the mainstream retail market. A market survey carried out by GTZ in 2006 concluded that there is great potential to promote lokta paper through mainstream channels, but both paper quality and industry marketing must improve.¹⁶

Lokta Paper

Nepalese handmade paper is made from the bark of the lokta shrub (*Daphne bholua* and *Daphne Papyracea*) (Illustration 1). Lokta is a high elevation forest shrub that grows abundantly on the southern slopes of Nepal's Himalayan forests between elevations of 5,250 and 13,000 feet. The five main steps in manufacturing the paper and paper craft products are: harvesting the lokta bark; processing the paper pulp; diffusing and drying the pulp on screens; producing craft products from the finished paper; and marketing the final products.¹⁷



Illustration 1: Lokta plant
(Source: <http://www.nepalipaper.com>)

Lokta paper has been produced in Nepal since at least the twelfth century and used for government documents and religious tracts. When paper craft imports from Tibet started trickling into Nepal in the early 1930s, the Nepalese handmade paper industry began to decline. Mass-produced paper from India almost finished off what was left of the industry by the 1960s. The rise of tourism in the 1970s and the corresponding recognition of potential markets in the West helped fuel interest in rejuvenating the craft of lokta papermaking. In 1980, the United Nations Children's Fund (UNICEF) and the Agricultural Development Bank of Nepal/Small Farmer Development Program (ADB/SFDP) launched the Handmade Paper Project, initiating the world's first donor-funded attempt to revive indigenous paper making processes. Assessments of the Handmade Paper Project showed that it was not only profitable, it also supported community development. The project designers intentionally promoted indigenous technical knowledge in rural areas that built on existing cultural values and

¹⁵ Philip M. Parker, *The World Market for Handmade Paper & Paperboard: A 2005 Global Perspective*, San Diego: Icon Group (2005): 13.

¹⁶ GB Banjara, *Handmade Paper in Nepal: Upgrading with Value Chain Approach*.

¹⁷ Stephen Biggs and Don Messerschmidt, "Social Responsibility in the Growing Handmade Paper Industry of Nepal," *World Development* 33, no. 11 (2005): 1821-1843.

socially responsible behavior. Lokta paper is still used in Nepal today, as most birth certificates and all land ownership contracts are printed on it.¹⁸

Lokta harvesting and papermaking provides employment to 4,155 families, or about 21,000 people, spread across 16 of Nepal's 75 districts.¹⁹ About 80 percent of those employed in the industry are women.

The people of Nepal's hill areas rely on forests for income. Because lokta is abundant in the forests, there are, as a result, many lokta harvesters and paper producers in Nepal. Although some paper producers have opted to concentrate on other fibers, such as recycled cotton waste and other natural fibers, lokta-based products currently make up about 70 percent of Nepal's handmade paper industry, and recycled fiber products comprise the remaining 30 percent. Nepali Paper Products and Everest Art Paper are Nepal's two largest producers, each comprising about 27 percent of the total official export figures for Nepal in 2008-2009. HBTL is the ninth largest producer (Exhibit 6). The top five producers have captured 64.3 percent of Nepal's handmade paper market (Exhibit 7).

Markets for Lokta Paper

The recent growth of Nepal's handmade paper industry, from a state of decline in the 1970s to an average yearly expansion rate from 1998 to 2004 of 22 percent, has been remarkable. Growth has slowed somewhat in the last five years, but still remains positive. From 2003 to 2009, according to official statistics from the Federation of Handicraft Associations of Nepal (FHAN), the export of handmade paper products (which constitutes the great majority of sales) was about \$3.59 million USD, representing about 10 percent of the total export handicraft market. Handmade paper products are the fifth largest export product in the handicraft category, after pashmina products, woolen products, silver jewelry and metal statues (Exhibit 8).

The vast majority of lokta paper is exported to the West; the domestic market is very small.²⁰ Reliable data on domestic consumption is scarce, but Nepalese paper entrepreneurs estimate that the local market for lokta paper is less than 10 percent of the total global market²¹ – a figure that does not seem to be growing. Most of the paper that is rejected by the large export buyers for quality reasons ends up on the domestic market, sold to tourists and used for wedding invitations, business cards, and folders.

The major international markets for Nepalese lokta paper are the United States, United Kingdom, France, and Japan (see Table 2). The top five export destinations account for about 76 percent of total exports. Sixty-five percent of handmade paper products go to European Union (EU) countries, making the EU the largest market for Nepalese handmade paper products. The top export items to the EU are office paper, writing pads, files, folders, binders, and envelopes.

¹⁸ Stephen Biggs and Don Messerschmidt, "Social Responsibility in the Growing Handmade Paper Industry of Nepal," *World Development* 33, no. 11 (2005): 1821-1843.

¹⁹ *ibid.*

²⁰ *ibid.*

²¹ *ibid.*

Table 2: Nepal's Top Export Destinations

Export destination	Amount
USA	28.0%
UK	20.4%
France	16.2%
Japan	6.1%

Source: Federation of Handicraft Associations of Nepal, 2006.

Many market players in Nepal's handmade paper industry are now recognizing that niche markets, both international and local, have to be developed and maintained, which will require the creation of new, high-quality products and designs. A number of organizations and associations are now dedicated to this pursuit (e.g., the Handmade Paper Association of Nepal and Fair Trade Group Nepal). National and international media have caught on as well.

In spite of the growth and maturation of the Nepalese handmade paper industry, firms are still learning. It is not uncommon for Nepalese paper firms, for example, to adopt shortsighted sales strategies by relying on too few buyers. In the early 1990s, The Body Shop partnered with Nepalese firm Get Paper International (GPI), agreeing to buy a large percentage of GPI's output. GPI became overly dependent on The Body Shop such that when The Body Shop stopped placing orders, GPI was left without other buyers. The Body Shop subsequently worked with GPI to develop a successful diversification strategy, and GPI grew into one of the largest paper companies in Nepal.²²

The Handmade Paper Customer

Customers of Nepalese lokta paper are generally environmentally conscious women in their forties and fifties who are sympathetic to products made by the poor in developing countries. However, in Western countries, as mentioned above, Nepalese lokta paper is frequently distributed through alternative and exotic goods shops, whereas middle-aged, environmentally and socially conscious women might more often shop in mainstream outlets, such as department stores. Therefore, a large segment of the potential target market is currently unreached. A market survey carried out by GTZ in June 2006 found that only a limited number of buyers who value exotic products produced in developing countries tend to buy Nepalese products.²³

Competition

There are many types of handmade paper in the international market, and it is unclear whether customers differentiate between lokta paper and other types of handmade and decorative paper. Lokta paper is priced competitively in comparison to its competitors. A survey of the wholesale prices of various types of handmade and decorative paper sold over the Internet indicates that lokta paper is in the low- to mid-range (\$2-4 USD per sheet versus \$10 USD per sheet of papyrus).²⁴ The

²² D Lewis, "Non-governmental organizations, business and the management of ambiguity, case studies of 'fair-trade' from Nepal and Bangladesh," *Nonprofit Management and Leadership* 9 (1998): 135-151.

²³ GB Banjara, *Handmade Paper in Nepal: Upgrading with Value Chain Approach*.

²⁴ Creative Papers Online. <http://www.handmade-paper.us> (accessed February 12, 2010).

production cost of lokta paper per sheet is nearly 45 percent lower than Thai mulberry paper, which is mostly likely attributable to Nepal's lower raw material and labor costs.²⁵

The Creation of Himalayan Bio Trade Pvt. Ltd.

HBTL was started in 2000 by the Kathmandu-based international NGO Asia Network for Sustainable Agriculture and Bioresources (ANSAB) to provide marketing assistance to a consortium of community-owned enterprises, all of which collected and processed NTFPs. After ANSAB refined its social enterprise model for two years and was sure that small community-owned enterprises could indeed contribute to the economic development of rural communities and biodiversity conservation, ANSAB asked Parbat Gurung, a Dolakha-based entrepreneur, to take over management of HBTL.²⁶

Parbat ran HBTL from 1992 to 2009, at which point he stepped aside from his day-to-day involvement in HBTL to serve as Chairman of the Communist Party for his home district of Dolakha. At that time, Khilendra scaled up his involvement in HBTL from consultant to full-time Operations Manager.²⁷ Although running HBTL was a good opportunity to gain more business experience, taking full responsibility for managing the daily operations and ensuring the commercial viability of HBTL was a new challenge for Khilendra. His academic background in botany and his technical expertise in essential oils did not necessarily fully prepare him for all the challenges that lay ahead.

Community Forestry

The success of ANSAB and HBTL's social enterprise model derives from their ability to capitalize on one of Nepal's most innovative natural resource management initiatives: community forestry. In 1978, the government of Nepal devolved management responsibility of some national forests to local communities, and allowed forest-dependent communities to harvest, use or sell timber and non-timber resources therein. Because the collection and sale of NTFPs are essential to rural peoples' livelihoods, responsible forest management practices are key to bioresource conservation and rural communities' economic well-being. Instead of protecting natural resources by taxing businesses and restraining the market, the Nepalese government took an ecosystem services approach and allocated both management responsibility and user rights to stakeholder communities. Communities interested in participating in the community forestry program formed community forest user groups (CFUGs) and were guided through the process of developing practical and appropriate management plans for the sustainable harvest and regeneration of their community forests.²⁸

The formation of CFUGs lowered the transaction costs for community members who wanted to collect plants from the forest and reduced incentives to collect plants illegally or unsustainably. Prior to the implementation of community forestry, individual community members who wanted to collect plants had to apply for a collection permit from the local district forest office. As this process proved intolerably cumbersome for many forest users, they simply collected plants illegally, leading to unsustainable harvest levels and rapid plant population decline. Under the new regulations, however,

²⁵ GB Banjara, *Handmade Paper in Nepal: Upgrading with Value Chain Approach*.

²⁶ Khilendra Gurung. Personal interview. March 3, 2010.

²⁷ *ibid.*

²⁸ Hukum B. Singh, "Shree Binayak Pimidanda Community Forest: More than a paper tiger," *Food and Agriculture Organization of the United Nations, Regional Office for Asia and the Pacific, Regional Forestry Training Center for Asia and the Pacific*, RAP Publication (2005/2).

CFUGs could harvest forest products in accordance with the five-year forest management plan developed by the CFUG and approved by the Department of Forests (DOF).²⁹ Each CFUG monitors the ways, times, and quantities that its members harvest forest resources and maintain those records for audit by the DOF.

Nepal's community forestry program slowly, but steadily, advanced across the country in the early years. By the mid-1990s a few hundred CFUGs existed. However, as word of the program's benefits spread, its popularity skyrocketed. Today, 14,387 CFUGs, comprising one-third of Nepal's households, have gained legal access to Nepal's rich forest resources.³⁰

Forest Stewardship Council and SmartWood

With the facilitation and support of ANSAB, HBTL sought Forest Stewardship Council (FSC) certification in 2002 to provide international customers independent assurance that their forest products have been harvested in a well-managed and responsible manner.³¹ The third-party certification considered best able to convey the transparency, traceability and verifiability of HBTL's wild-harvested forest products was FSC certification: the international gold standard for responsible forest management.

The Forest Stewardship Council (FSC), an independent not-for-profit NGO, was established in 1993 in the wake of the United Nations Summit on Sustainable Development to improve forest management worldwide. The FSC devised strict standards for "responsible forest management," incorporating the three pillars of environmental stewardship, social well-being, and economic viability.³²

Since its inception in 1993, FSC certification has gained recognition as the most rigorous and prestigious forest certification in the world. Although for the first six years the FSC standards were applied only to timber products, in 1999 the first non-timber forest product (chicle gum from Mexico) became FSC-certified, paving the way for HBTL's own pursuit of certification a few years later.³³

In 2002, ANSAB spearheaded an initiative to obtain FSC certification for a selection of NTFPs and CFUGs in Nepal. The idea of certification was new in Nepal, and the task of educating the stakeholders was daunting. For three years, ANSAB and SmartWood, an organization accredited by the FSC to perform audits and award certificates, collaborated on developing SmartWood's FSC certification standards for Nepal. This involved training communities on the requirements and benefits of certification, and scaling up the number of CFUGs covered by the group certificate. In 2005, SmartWood awarded HBTL with FSC certification, which covered 11 CFUGs (10,500 hectares of forest) in the districts of Dolakha and Bajhang. This FSC certificate for NTFPs was the fifth awarded worldwide and the first awarded in Asia. The certificate was the first in the world to include FSC-

²⁹ Stephen Biggs and Don Messerschmidt, Social responsibility in the growing handmade paper industry of Nepal. *World Development* 33, 11 (2005): 1821-43.

³⁰ Singh, Shree Binayak Pimidanda *Community Forest: More than a paper tiger*, 2005

³¹ Parbat Gurung, "Community Based Conservation, Certification, Marketing and Benefit Sharing Modalities of Natural Products Based Enterprise in Nepal."

³² Forest Stewardship Council. www.fsc.org (accessed on February 22, 2010).

³³ *ibid.*

certified handmade paper.³⁴ The FSC certificate has since been expanded to include 21 CFUGs in Dolakha and Bajhang, covering 14,086 hectares of forest and 4,695 households. The certificate covers both NTFPs and timber.³⁵

HBTL’s entire handmade paper value chain has been FSC certified, from the lokta bark collectors in the CFUGs, to the community-owned forest enterprises that process the bark into paper, to HBTL that turns the paper into products and markets them internationally. Any uncertified link in the product chain would nullify the certified status of the final product. Therefore, the entire value chain obtained chain-of-custody certification from the start. With the certification in place for the entire handmade paper value chain (see Figure 1), the daunting task of finding buyers interested in purchasing FSC-certified handmade paper took center stage.

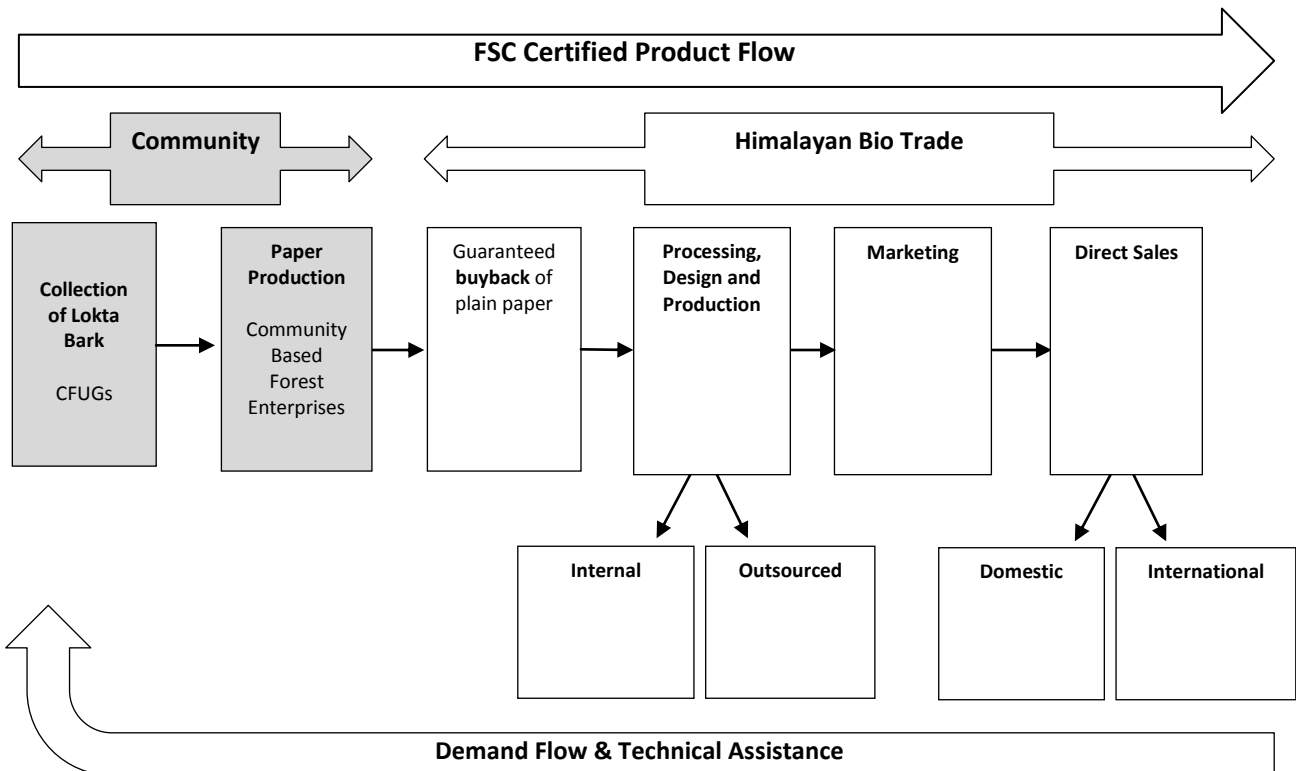


Figure 1: HBTL Supply Chain

Aveda

In 2002, through a USAID-funded initiative called the Nepal NTFP Alliance, ANSAB strived to find a company who could be a supportive partner and prospective buyer of FSC-certified NTFPs from Nepal. They sought a company not only driven by a desire to buy high-quality products, but also to support sustainable livelihood generation for rural Nepalese communities. That company was Aveda:

Our mission at Aveda is to care for the world we live in, from the products we make to the ways in which we give back to society. At Aveda we strive to set an example for

³⁴ Parbat Gurung, “Community Based Conservation, Certification, Marketing and Benefit Sharing Modalities of Natural Products Based Enterprise in Nepal.”

³⁵ Subedi 2007

*environmental leadership and responsibility—not just in the world of beauty, but around the world.*³⁶

Aveda provided much-needed private-sector guidance on the demands and requirements of the international natural products market. Their willingness to buy FSC-certified products from HBTL proved to be a major turning point in HBTL's development as a commercial enterprise. HBTL had gained access to the one thing that every small natural products-based enterprise in Nepal desires: the international market.

Over the course of the next five years, David Hircock, herbalist and advisor to Aveda's president, worked closely with HBTL on their line of FSC-certified handmade lokta paper, covering issues such as product quality, design, price, packaging and shipping. His guidance proved invaluable in the development of a range of exclusive gift items and decorative packaging, many of which were purchased in large quantities to package Aveda's 2007 holiday line of cosmetics.

Aveda's first order of FSC-certified lokta paper amounted to \$59,487 USD, and the success of their first Nepal-themed holiday campaign led to a near doubling of their order for the 2008 holiday season, worth \$115,232 USD.³⁷ Featuring Nepalese faces and landscapes in its product packaging and marketing materials, Aveda explicitly showcased HBTL's certified handmade paper and championed the social and environmental benefits of community forest enterprises in Nepal.

Between 2007 and 2009, Aveda vociferously proclaimed its support of FSC-certified lokta paper from Nepal. David Hircock stated:

*Aveda believes this project to be truly transparent and is starting to bring true long term benefit to the FUGs. Aveda has supported and helped build this project due to the quality of the products and the protocols on sustainability and socio-economic impact on the communities. Aveda sees this project as a model for the world on the use of NTFPs, bringing awareness of the inequities of the supply chain to the primary producers. Everything is in place to showcase the country of Nepal to produce a quality natural plant product that brings provable benefit sharing to the people.*³⁸

Despite the synergistic relationship between Aveda and HBTL, David Hircock's tireless championing of Nepal's FSC-certified community enterprises, and the market's favorable reception of Aveda's 2007 and 2008 Nepal-themed holiday campaigns, Aveda simply cannot feature Nepalese handmade paper enterprises in its holiday campaigns forever. Although Aveda placed an order for the 2009 holiday season, the value had dropped to \$96,160 USD,³⁹ a decline that was most likely a sign of things to come. This feared outcome was confirmed with the 2010 holiday order of \$75,000 USD (see Table 3).

³⁶ Aveda. About Aveda: Mission. [cited March 3 2010]. Available from <http://www.aveda.com/aboutaveda/mission.tmpl>.

³⁷ Gurung 2010.

³⁸ Asia Network for Sustainable Agriculture and Bioresources (ANSAB). 2008. ANSAB: Capability Statement. Kathmandu: ANSAB.

³⁹ *ibid.*

Table 3: HBTL Sales to Aveda (Amounts in USD)

	2007	2008	2009	2010
	\$59,487	\$115,232	\$96,160	\$75,000

Source: HBTL

Paper Production Capacity

To design a growth strategy that could compensate for the decline in Aveda's orders, Khilendra assessed his product profile and capacity for expansion. Currently HBTL produces FSC and non-FFSC products including: sheet paper; journals; notebooks; photo albums; wrapping paper; folders; shopping bags; greetings cards; envelopes; stationary sets; and gift and interior design products (see Table 4). The amount of HBTL's FSC-certified lokta bark stock is subject to sustainable harvest schedule caps specified in the FSC forest management plan. HBTL has the capacity to expand its supply of FSC-certified lokta bark if the demand increased.

Table 4: HBTL's Projected Paper Supply

Lokta Bark Product	Over the next 4 years	After 4 years; next 4 years
FSC Certified	10 tons/500,000 sheets	18 tons/900,000 sheets
Total	22 tons/1,100,000 sheets	38 tons/1,900,000 sheets

Source: HBTL

HBTL's handmade paper sheets come from three suppliers in two districts: Malika Handmade Paper Pvt. Ltd; Everest Gateway Herbs Pvt. Ltd; and Bhimeshwor NTFP Processing and Production Pvt. Ltd. Each of the suppliers sources the lokta bark from multiple CFUGs (see Exhibit 9). Malika Handmade Paper Products exclusively supplies to HBTL, while the two other papermaking enterprises sell to other companies in addition to HBTL. HBTL has a guaranteed buy-back arrangement with suppliers who produce quantities according to HBTL's annual needs. HBTL also works to improve the quality of products, occasionally offering technical assistance to supplier enterprises.

Once HBTL has procured the handmade paper sheets, a variety of treatments can be applied. Some customers desire the natural color of the paper, while others require the paper to be dyed, treated with a surface pattern, or manufactured into another product. Any paper dying and calendaring (flattening) is performed by an outside contracted company in the Kathmandu valley. Die cutting, which involves cutting a high volume of paper into the same custom shape or form, is also outsourced. Other treatments, such as adhering cardboard onto the paper or performing large volumes of silkscreening is done by outside companies that are equipped to handle more technical tasks.

Handmade Paper Sales

HBTL's FSC certification was granted in 2005, and domestic sales of FSC-certified paper began in 2006. The company reported very low revenue in 2006, comprised primarily of sales to ANSAB. However, from 2007 to 2009, FSC-certified product sales rose 706 percent, due to the acquisition of Aveda as a client (Table 5).

Table 5: HBTL Handmade Paper Sales

	2007 USD	2008 USD	2009 USD
Expenses (all costs including buy-back costs, manufacturing, labor, and overhead)	\$68,010	\$129,405	\$97,210
Net Sales	\$69,985	\$135,568	\$113,130
Net Revenue	\$1,975	\$6,163	\$15,920
Net Profit Margin	2.82%	4.5%	14%

Source: HBTL

The Future of HBTL

Khilendra knows that his company is at a crossroads. With Aveda decreasing its orders, HBTL's revenue will decline, and this will directly affect the communities that supply lokta bark and handmade paper to HBTL. Though HBTL has a number of positive attributes, plenty of market opportunities, and ten years of success so far (see Table 6), it also has areas in need of improvement. The shaky political and business climate in Nepal only amplifies their challenges.

Table 6: HBTL Assessment

Strengths	Weaknesses
Dedicated staff	Staff usually does not travel internationally
Strong relationship with Aveda	Only one major buyer
Strong relationships with communities	Guaranteed buy-back
Unique product	FSC-certified paper production is capped
Pro-poor/admirable guiding principles	Marketing is ad-hoc; includes cold-calls and email
Low-tech manufacturing processes	Pricing strategy not established
Has been in business for 10 years	Lack a business plan
Centrally located in Kathmandu	Weak branding
Supportive external organizations	Poor understanding of Western preferences
Some in-house design capacity	No operations-specific staffing

Potential Growth Strategies

In order to grow, Himalayan Bio Trade must develop a strategy that optimizes its current strengths and capitalizes on emerging market opportunities. Since each strategic option requires a different set of investments and tactics, HBTL must choose carefully. Some possible growth strategies are elucidated below.

Status Quo Strategy: One potential strategy that Khilendra could adopt is for HBTL to continue on their current path and hope for the best. The handmade paper industry in Nepal is growing, so HBTL could, in theory, maintain their current level of operations and try to grow along with the industry. New customers could arise at any time in the course of normal business. Also, the international travels and professional networking undertaken by ANSAB's executive director, Dr. Bishma Subedi, has proved extremely fruitful for HBTL in the past and ANSAB's marketing support could lead to new business partnerships in the future. The interest of development organizations, UN agencies, philanthropic foundations, and international non-governmental organizations in HBTL's enterprise model of community development and natural resource conservation has previously

brought the company recognition and accolades. These successes could bear fruit at any time by leading to more FSC-certified and non-certified handmade paper orders.

Product Diversification Strategy: Although HBTL produces a product that has been well received by its customers thus far, another possible growth strategy could be to develop and market a more diverse range of products. HBTL has successfully targeted the high-end, socially conscious market. Perhaps the key to HBTL's future growth is to diversify their product range.

Client Diversification Strategy: The possibility exists that no other large international business will step in to fill Aveda's role. Although a partnership with HBTL was enthusiastically developed and greatly valued by Aveda, perhaps few Western companies have the time or enthusiasm to partner so closely with their suppliers. HBTL may need to critically analyze its target markets. Perhaps the constraint lies not in the products, but in the diversity of customers reached. Could the key to HBTL's success lie in reaching a wide range of customers with its existing product line?

Conclusion

With Aveda's lokta paper orders declining dramatically each year, the survival of Himalayan Bio Trade's handmade paper business rests on Khilendra's corporate strategy for future growth. Although he cannot control the economic, social and political environment in which his company operates, nor is his company large enough to influence the direction of the Nepalese handmade paper industry, Khilendra can make strategic decisions that can strengthen his company's ability to capitalize on market opportunities and produce returns for HBTL's stakeholders. The future for HBTL is bright, but Khilendra must maintain momentum and make some critical decisions soon. The livelihoods of many Nepalese people, including the staff of HBTL, are riding on his choices.

Glossary and Abbreviations

ADBN/SFDP	Agricultural Development Bank of Nepal/ Small Farmer Development Program
ANSAB	Asia Network for Sustainable Agriculture and Bioresources
CFUG	Community Forest User Groups
DOF	Department of Forests
FHAN	Federation of Handicraft Associations of Nepal
FSC	Forest Stewardship Council
GTZ	German Technical Cooperation
HBTL	Himalayan Bio Trade Pvt. Ltd.
NGO	Non-Governmental Organization
SBTG	Sustainable Bio Trade Group
Smartwood	Organization accredited by FSC to perform audits
UN	United Nations
UNICEF	United Nations Children's Fund
Wildlife Friendly	Certification that assures people and nature coexist

Exhibit 1: Nepal Country Map



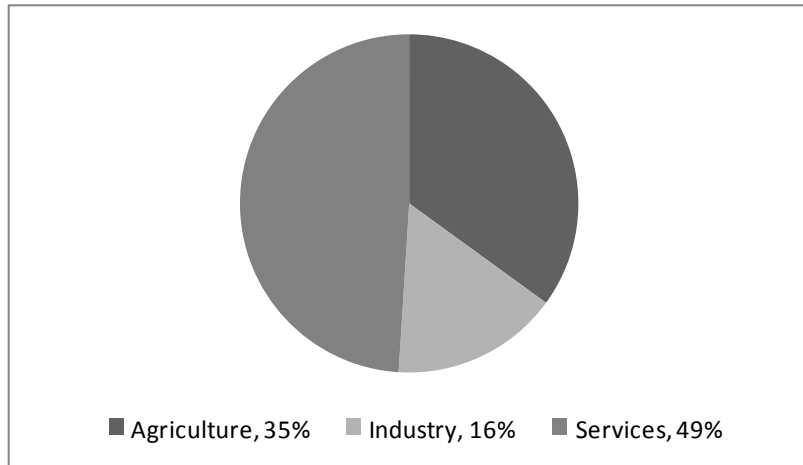
Source: PBS, Frontline World (www-tc.pbs.org/frontlineworld/stories/nepal/images/map.gif)

Exhibit 2: Nepal District Map



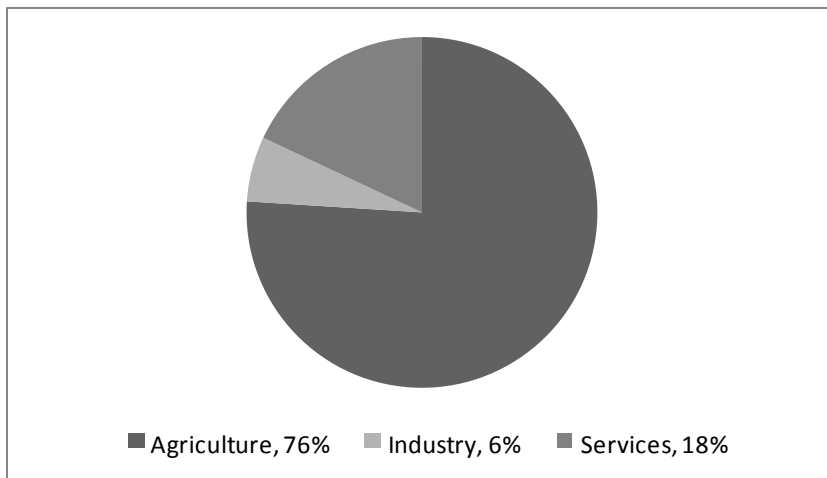
Source: Association of District Development Committees of Nepal (www.addcn.org.np/images/District%20Map.jpg)

Exhibit 3: GDP by sector



Source: CIA Factbook

Exhibit 4: Labor Force by Occupation



Source: CIA Factbook

Exhibit 5: World Supplies of Exported Handmade Paper and Paperboard: 2005

Exporters	Rank	Value (000 US\$)	% of World	Cumulative %
China	1	18,867	26.10	26.10
Germany	2	9,061	12.53	38.63
France	3	3,955	5.47	44.10
South Korea	4	3,630	5.02	49.12
Thailand	5	3,546	4.90	54.02
Taiwan	6	3,234	4.47	58.50
Indonesia	7	3,162	4.37	62.87
United States	8	2,933	4.06	66.93
Italy	9	2,710	3.75	70.67
Sweden	10	2,342	3.24	73.91
Portugal	11	2,142	2.96	76.88
Finland	12	1,879	2.60	79.47
Netherlands	13	1,876	2.59	82.07
Spain	14	1,699	2.35	84.42
Belgium	15	1,657	2.29	86.71
Japan	16	1,536	2.12	88.84
UK	17	1,405	1.94	90.78
Philippines	18	1,304	1.80	92.58
Singapore	19	1,126	1.56	94.14
India	20	867	1.20	95.34
Austria	21	726	1.00	96.34
Russia	22	452	0.63	96.97
Nepal	23	262	0.36	97.33
South Africa	24	240	0.33	97.66

Source: Philip M. Parker, Professor, INSEAD, copyright 2005, www.icongrouponline.com

Exhibit 6: Nepal's Top Exporters of Handmade Paper Products: 2008-2009

	Exporter	Amount (Nrs.)
1	Nepali Paper Products P. Ltd.	35,488,528
2	Everest Art Paper	33,809,464
3	Bagmati Paper Industries P. Ltd.	32,554,285
4	Giftsland Enterprises P. Ltd.	31,803,060
5	Get Paper Industries P. Ltd.	16,989,577
6	Tibetan Handicraft & Paper P. Ltd.	14,209,407
7	Mahaguthi Nepal P. Ltd.	9,817,157
8	Hatale Udyog Pvt. Ltd.	7,838,277
9	Himalayan Bio Trade P. Ltd.	6,793,749
10	Marina Paper P. Ltd.	5,779,965
11	Shubham Handicrafts	5,677,940
12	Freedom Export	5,382,676
13	Third World Export	3,302,975
14	Watabaran Cards And Paper Creations P. Ltd.	3,235,713
15	Himalaya Network P. Ltd.	2,825,619
16	Superior Handmade Paper Product	2,499,690
17	Kanpou Nepal	2,371,510
18	Sadle Niryat P. Ltd.	2,026,587
19	Makalu Paper Products	1,987,707
20	Kailash Exports	1,815,821

Source: Federation of Handicraft Associations of Nepal

Exhibit 7: Market Share of Paper Producers in Nepal

Category of Producers	Market Share (Million NPR)	% Market Share	% Cumulative Market Share
Top 5 producers	180	64.3%	64.3%
Middle 20 producers	60	21.5%	85.8%
Lower middle 20 producers	30	10.7%	96.6%
Bottom 50 producers	10	3.5%	100.0%
Total (estimate for 2004)	280	100.0%	

Source: FGD with paper product entrepreneurs, May 2004

Exhibit 8: Nepal's Export of Handicraft Goods
Fiscal Years 2003/04 to 2008/09 (Amounts in Nrs.)

S.N	Products	2003/2004	%	2004/2005	%	2005/2006	%	2006/2007	%	2007/2008	%	2008/2009	%
A	Textile Products :												
1	Pashmina Products	989,897,860	38.77	661,373,832	25.72	700,701,035	24.59	619,391,984	21.50	491,205,766	18.08	584,265,083	21.78
2	Woolen Goods	277,937,043	10.89	432,203,471	16.81	555,182,797	19.48	657,726,442	22.83	475,270,083	17.50	373,802,779	13.93
3	Felt Products	-	-	-	-	-	-	-	-	224,742,173	8.27	226,999,611	8.46
4	Silk Products	41,489,102	1.63	132,354,320	5.15	129,084,221	4.53	126,521,848	4.39	121,662,533	4.48	122,082,813	4.55
5	Cotton Goods	96,199,631	3.77	113,720,701	4.42	110,769,595	3.89	92,564,129	3.21	101,935,371	3.75	105,015,940	3.91
6	Hemp Goods	43,675,079	1.71	45,256,263	1.76	62,082,023	2.18	51,614,459	1.79	29,253,310	1.08	31,793,708	1.19
7	Allo Goods	-	-	-	-	-	-	4,764,624	0.17	4,884,444	0.18	4,841,153	0.18
8	Dhaka Products	3,991,182	0.16	4,995,352	0.19	3,370,222	0.12	4,661,928	0.16	2,192,217	0.08	1,805,730	0.07
9	Misc. Textile Products	10,142,175	0.40	7,097,350	0.28	8,441,589	0.30	13,452,267	0.47	14,098,867	0.52	12,786,586	0.48
	Sub Total :	1,463,332,072	57	1,397,001,289	54	1,569,631,481	55	1,570,697,682	54.53	1,465,244,764	53.94	1,463,393,405	54.55
B	Non Textile Products :												
1	Silver Jewelry	353,059,924	13.83	367,498,246	14.29	377,448,266	13.25	360,079,696	12.50	371,174,442	13.66	345,695,653	12.89
2	Metal Craft	276,238,090	10.82	293,065,733	11.40	373,010,297	13.09	437,790,118	15.20	381,198,709	14.03	372,515,583	13.89
3	Handmade Paper Prod.	275,374,703	10.79	301,725,045	11.73	263,764,274	9.26	269,630,462	9.36	242,019,925	8.91	236,647,187	8.82
4	Wood Craft	56,211,726	2.20	69,881,610	2.72	80,824,001	2.84	66,806,760	2.32	60,984,160	2.25	58,204,940	2.17
5	Leather Goods	24,850,288	0.97	23,610,502	0.92	25,811,618	0.91	20,761,121	0.72	21,629,804	0.80	15,813,451	0.59
6	Incense	16,502,523	0.65	18,308,356	0.71	20,591,579	0.72	17,726,273	0.62	22,048,909	0.81	17,636,657	0.66
7	Paubha (Thanka)	15,761,935	0.62	15,002,557	0.58	21,009,108	0.74	15,411,112	0.53	16,397,750	0.60	13,608,253	0.51
8	Bone & Horn Products	12,308,845	0.48	10,691,236	0.42	14,976,693	0.53	23,824,695	0.83	26,041,350	0.96	23,586,444	0.88
9	Ceramics Products	15,970,615	0.63	14,864,420	0.58	18,716,832	0.66	15,081,348	0.52	20,647,331	0.76	16,115,157	0.60
10	Beads Items	7,099,160	0.28	6,026,616	0.23	7,967,173	0.28	9,519,405	0.33	8,525,295	0.31	6,173,314	0.23
11	Bamboo Products	1,768,574	0.07	2,487,826	0.10	2,918,536	0.10	2,198,939	0.08	1,647,215	0.06	3,240,493	0.12
12	Stone Craft	3,616,754	0.14	3,458,700	0.13	3,372,941	0.12	3,018,383	0.10	2,749,158	0.10	2,584,900	0.10
13	Plastic Items	1,853,942	0.07	7,453,119	0.29	8,530,634	0.30	8,921,345	0.31	21,697,113	0.80	17,851,699	0.67
14	Miscellaneous Goods	29,003,392	1.14	40,766,170	1.59	60,902,905	2.14	59,177,511	2.05	54,378,122	2.00	89,747,766	3.35
	Sub Total :	1,089,620,471	43	1,174,840,135	46	1,279,844,858	45	1,309,947,166	45.47	1,251,139,283	46.06	1,219,421,500	45.45
	Grand Total	2,552,952,543	100	2,571,841,423	100	2,849,476,340	100	2,880,644,848	100	2,716,384,047	100.00	2,682,814,905	100.00

*Percent is based on Contribution of Each Product to Total Export of Handicraft Goods

*Misc. Textile Products include products made from Rayon, Polyester, Velvet and Jute

*Miscellaneous Goods include goods/products other than classified above

*Felt Products categories separately from fiscal year 2063/64 which was included in woolen goods in previous years

Source: Federation of Handicraft Associations of Nepal

Exhibit 9: Lokta Bark Suppliers (CFUGs)

Company	Malika Handmade Paper	Everest Gateway Herbs	Bhimeshwor NTFP Production and Processing
Lokta Bark Suppliers (CFUGs)	<ul style="list-style-type: none"> • Shri Binayak • Pimidanda • Ranada • Lataun • Hemantabada • Binayak • Lahare • Sallipatan Trisakti • Martinaula • Pariban • Daya • Mastamandu 	<ul style="list-style-type: none"> • Kalobhir • Thulonagi • Balemamji 	<ul style="list-style-type: none"> • Bhitteeri Pakha • Charnawoti • Suspa • Bolde Setidevi • Dhande Singhadevi • Jharani • Majhkharka Lisevani

Source: HBTL