



Connecting People's Capacities

SNV Nepal Forest Products Sector Case Study:

## **Generating Impacts through Collaboration: *Value Chain Development of Lemon Grass***

*This case refers to SNV's experience in the value chain development of lemon grass in Sarlahi. In cooperation with the Regional Support Unit of BISEP-ST program, SNV Nepal began to explore options to strengthen the value chain for lemon grass. After analysing the potential and bottlenecks of the Lemon Grass value chain, interventions were designed to overcome the barriers and strengthen the whole value chain. Capacity building on VC, institutional development, and inputs on marketing were provided to the targeted group through our client the "Nepal Non Timber Forest Product Promotion Association", Lalbandi (NNPAL). As a result, a cooperative was formed and an oil distilling plant was installed – benefiting 500 farmers in Sarlahi. Due to improved product quality and quantity, and the increased bargaining power of farmers, the market price per litre of lemon grass oil has increased by 78 percent. Furthermore, as well as benefiting from price hikes, 110 households are also eligible for dividends as they are the shareholders of the enterprise.*

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## Introduction

Non-timber forest products (NTFPs) in Nepal possess social, ecological, and economic values. They are used as food, medicine, fibre, perfumes, cosmetics, and in some cases, for various religious functions. They provide an important source of rural livelihood – comprising up to 50% of a family's annual income in certain communities. NTFP production in Nepal have a clear marketing advantage, as a wide range of products are available which are also purely organically produced without the use of pesticides and chemical fertilizers

Situated in Central Terai, Sarlahi District is also where the Biodiversity Sector Program for Siwalik and Terai (BISEP-ST) program intervention – which is supported by SNV – is taking place. Sarlahi has a population of 635,701 of which 78 percent is involved with subsistence agricultural farming and/or livestock husbandry production. The district is famous for producing different essential oils (NTFP) of which Lemon grass is the major one. Farmers cultivate Lemon grass in Community forest, Lease hold forest, under Sagarnath Forest Development area and also on their private land.

There are currently three companies working in this area distilling essential oils, these include: Male International, Sambala Herbal and Chure Herbal. Farmers cultivate different types of oil producing grass such as Lemon grass, Citronella, Mentha, Pamarosa and bring the raw product to the nearby oil distillation plant. They receive payment on the basis of the quantum of oil products – the prevailing rate of a litre of lemon grass oil which farmers received was NRs 450.

## Opportunities & Challenges

Once people started to receive a consistent income for the cultivation of this type of grass, many other farmers began to enter the same business. Even a landless farmer can lease land from Sagarnath Forest Development Project (Government Initiative), costing NRs 250/Hectare/Year for NTFP cultivation as intercropping with Eucalyptus in this area. So land leasing is guaranteed for poor families. However, people are forced to wait for more than 45 days to distil their product due to over-production. The subsequent queuing and drying of the raw material not only decreases the quantity of oil production per vessel but also decreases the quality of production. As a result, many farmers stopped harvesting lemon grass altogether.

The Value Chain Analysis (VCA) of the Lemon Grass clearly identified the bottlenecks as; lack of sufficient number of distillation plants; lack of collective bargaining power; weak institutional strength and; lack of knowledge of value chain development. However, during the VCA, SNV found that there was also institutional development potential in one of the local service providers – the Nepal Non Timber Forest Product Promotion Association, Lalbandi (NNPAL). Alternatively, the fact that there was surplus production of lemon grass meant that there was scope to implement value addition interventions.

**Client: Regional Support Unit of BISEP-ST & the Nepal Non Timber Forest Production Promotion Association, Lalbandi (NNPAL)**

The Regional Support Unit (RSU) of the Biodiversity Sector Program for Siwalik and Terai (BISEP-ST) is a program being implemented by the Ministry of Forests and Soil Conservation (MFSC) of Government of Nepal. Through sector wide approach the

programme is targeting eight districts of the central development region of the country. The program aims sustainable production and equitable distribution of forest products and revenues, while maintaining ecological balance and conserving biodiversity. One of the focus areas of BISEP-ST is promotion and trade of NTFPs for better livelihood of poor rural communities.

**Nepal Non Timber Forest Product Promotion Association, Lalbandi**

NNPAL is a common platform of the NTFP growers and small and medium NTFP entrepreneurs of the Sarlahi district. The main aim of the organisation is to develop Sarlahi as the most important and productive district in NTFPs among Terai districts. Accordingly, the organisation is trying to unite all efforts in NTFP field in Sarlahi district to produce synergy amongst actors. The organisation has felt the need of networking and developing linkages with national level NTFP Networks to explore international markets such as India. The organisation has sixty four members. The main slogan of the association is:

**"Jadibuti Kheti Bistar, Jivikoparjan ko Adhar"**

(The extension of NTFP cultivation is the backbone of livelihood)

NNPAL is the lead initiator for the value chain development of Lemon grass. It facilitates linkages for and access to financial support, participatory process, technical exploration and backstopping on distillation plants, and seeks interface with different government organisations for required assistance. The Network is also involved in forming cooperatives, local institutional constitution drafting, registration process, preparation and installation of the distillation plants.

## Other Stakeholders & Their roles

- **Makwanpur Chamber of Commerce & Industry (MCCI):** It is a local capacity builder providing support to NNPAL in terms of marketing and production promotion.
- **District Forest Office (DFO), Sarlahi:** DFO, Sarlahi supported the intervention providing monetary support and regular supervision of the project. The organisation also helped the enterprise by providing land and permission to install the distillation plant.
- **Office of District Forest Coordination Committee (DFCC Office):** DFCC Office played coordination role and also provided technical inputs.

## SNV Intervention

Though NNPAL was established in 2005 with joint support of BISEP-ST and CARE-Nepal, the organisation did not have desired capacity to deal with above issues comprehensively. Therefore, SNV worked with NNPAL starting from institutional strengthening to the eventual installation of a distillation plant in the Murtiya area (intervention site) of the Sarlahi district. By working together with NNPAL, SNV identified four community forests in the nearby area of Murtiya, where 105 households were determined to be living below the poverty level.



**Institutional Development of NNPAL**

Initially, an "Institutional development and social inclusion training workshop" was designed and delivered to members of NNPAL – including to its executives. The training and workshop stimulated NNPAL's productive and progressive value-added work on NTFPs. On the other hand, the VCA approach was very new for the NNPAL and other stakeholders. Without familiarisation with the VCA concept, it was simply impossible to

include all the stakeholders in the proposed project. Therefore, a three day long capacity building workshop and training was organised in the Regional Support Unit of BISEP-ST with participants from our client and other relevant stakeholders such as the DFO, DFCC, Non Government Service Provider (NGSP) and Private sector organisations. A sector wide approach was adopted in order to include stakeholders from the private-public arena, in order to involve as much stakeholders as possible. Regular meetings with stakeholders and beneficiaries were conducted at the project site.

The second step was the creation of an executive committee – under the supervision of NNPAL – in order to initiate the value chain development of lemon grass program, by overseeing the creation of a cooperative and enterprise. The committee was formed in an inclusive manner, incorporating a diverse range of stakeholders with respect to gender, caste and ethnicity. The first act of the executive committee was to form a cooperative in order for farmers to gain bargaining leverage and also to become part of the enterprise development.

The next step was to generate funding in order to kick-start the development of the oil distilling enterprise. Through SNV's mediation, funds were gathered to kick-start the development of the oil distilling enterprise. BISEP-ST provided funding for the 105 households who were living below the poverty line by providing NRs 400,000 to be equally shared. DFO, Sarlahi supported the project with NRs 137,000 and the four



**Forming a Cooperative**

Community Forest Users committees contributed NRs 25,000 each to the project. In addition, five innovative farmers bought shares in the cooperative with their own personal income. All in all, NRs 1,000,000, including labour costs, was invested to install the enterprise. The set-up of the enterprise – and the funding mechanism – meant that a total of 110 households and four community user groups became joint owners of the distillation plant. With the exception of an agreed 10% of annual profits to be re-invested into the plant, the communities are eligible for an equal share of the profits.

## Outcomes

- Completion of a Value Chain analysis of lemon grass together with RSU
- Institutional development gender and social inclusion training delivery to NNPAL based on their need assessment
- Market and product development training provided to NNPAL through a local capacity builder MCCI
- Formation of an executive committee to oversee the project
- Institutional norms prepared through the drafting of a customised constitution for the cooperative
- Formation of one Community NTFP production cooperative
- Enterprise business plan developed and implemented
- Installation of one NTFP oil distillation plant

## Impact

- In the past, due to the delay in the processing, local farmers were receiving only half to 1 Ltr of essential oil from one vessel (500 Kg) of Lemon grass. However, after SNV's intervention they are now extracting 2.5 to 4 Ltrs of essential oil from the same quantity of raw material.
- Due to the intervention and increased bargaining power of the farmers, existing oil distilling companies were forced to raise the price of lemon grass oil to NRs 800/Ltr – an increase of 78%.
- 110 households and four community forest user groups have shares in the enterprise increasing their annual income further as they are eligible for profits.
- 500 farmers have access to the distillation plant and are directly benefiting from the price hikes and improved product quality & quantity
- 2,500 households of Sarlahi and adjoining districts are benefiting from the rise in lemon grass oil prices.



Oil Distilling Plant

## Lessons Learnt

- In this context, the value chain approach was effective, not only to develop the enterprise, but also in designing market based solutions and inclusive business.
- The private-public partnership approach of enterprise development was essential for the success of the Murtiya distillation plant project.
- Institutional development and regular coaching is must for sustainable entrepreneurship development.
- Finally, a "**Collaborative Effort**" is always needed to achieve success.



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SNV is dedicated to a society where all people enjoy the freedom to pursue their own sustainable development. We contribute to this by strengthening the capacity of local organisations