THE SIGNIFICANCE OF TOWNS FOR RURAL LIVELIHOODS IN NEPAL – TWO CASE STUDIES FROM WESTERN NEPAL

Martin Raithelhuber

Nepal is often described as a country with a largely rural population working in agriculture. This is only a part of the truth. Subsistence agriculture does no longer – and in some regions never has – guarantee livelihood security for most rural households. The Nepal Living Standards Survey, performed by the Central Bureau of Statistics (CBS), shows that only 65% of the incomes of an average rural household comes from farming whereas 35% stems from other income sources (CBS 1997:10). In the study area, over 60% of the households has less then 1 ha land (CBS 1993a, 1993b). Thus, most of them need other sources of income to survive. How do rural people make a living, then? How do households cope with a situation when an increasing numbers of people have to share the same resources? The growing number of towns indicates that part of the answer may be found in studying urbanization and rural-urban interaction.

Urbanization and national planning
Urbanization is a relatively new phenomenon in Nepal. About 50 years ago, there were few towns outside the Kathmandu valley. Now, about 15% of the population lives in 58 towns (CBS 2001), and the number of towns as well as the urban population is increasing steadily. The urbanization process in Nepal is characterized by a rapid growth of small and medium-sized urban centres, most of which are situated in the Terai flatland in the south of the country along the East-West Highway. Some of these towns like Butwal and Bharatpur in the Terai flatland almost doubled their population in the last decade.

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Urbanization is not just the evolvement and growth of towns. Urbanization implies social and economic change in both towns and villages, which often leads to widening disparities between urban and rural areas. The selected living standard indicators given in Chart 1 illustrate some aspects of these appalling disparities.

**Chart 1: Rural-Urban Disparities in Living Standards**
*(selected indicators)*

<table>
<thead>
<tr>
<th></th>
<th>Av. annual per capita income (Rs)</th>
<th>Mean time to reach nearest health post</th>
<th>Literacy male/female (%)</th>
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</thead>
<tbody>
<tr>
<td>Urban</td>
<td>16,118</td>
<td>21 min</td>
<td>77.3 / 50.5</td>
</tr>
<tr>
<td>Rural</td>
<td>7,075</td>
<td>1 h 17 min</td>
<td>50.1 / 22.4</td>
</tr>
</tbody>
</table>

*Source: CBS 1996.*

While there are some studies about rural-urban migration trends (e.g. Sharma 1989 and KC 1998), it is much less evident what urbanization means for the majority of the population, i.e. those who stay back in the villages. Does the evolvement of new urban centres offer them new opportunities to
lead a better life? Does urbanization make them more vulnerable to existing risks or bring even new risks? Which households can benefit from urbanization, which are not affected, and which households lose out?

**Rural-urban Interaction**

The 9th 5-Year Plan acknowledges that the increasing imbalances between rural and urban areas caused by urbanization (National Planning Commission 1998, p. 262). However, the way national level planning deals with rural-urban interaction and the role of towns for regional development is rather one-sided, and biased towards physical infrastructure development. The National Planning Commission proposes to increase the “inter-relationship” between rural and urban areas to fight poverty by physical development of market areas and the construction of rural roads (ibid.). Yet, this opens up some important questions:

Which products are rural people expected to sell on these markets, in view of the fact that a majority of rural households cannot even produce enough food for their own needs?

Who is going to manage these markets to secure access for rural people and to guarantee fair terms of trade?

How do existing markets work? In what way would new market infrastructure affect these markets? How can the existing formal and informal weekly markets be integrated into development programmes?

And lastly,

How can we make sure that further market integration of rural households will be beneficial for them?

In order to gain empirical evidence for the questions raised above, the author has carried out a survey in two villages in Palpa and Rupandehi Districts, in 1998/99 (see Figure 2): The first phase of the research, based on PRA-tools, was followed by a stratified random sample questionnaire survey. About 40 households, 30% of all households in each village, were surveyed.

The main hypothesis of this research is that an intensifying interaction between rural areas and regional urban centres is part of the explanation why most people remain living in their villages – although under increasingly difficult circumstances. The assumption is that the emergence of regional urban centres, especially along the East-West Highway in the Terai, provides new opportunities but also new risks for rural households in the hinterland.
Some households may be better equipped and faster to adapt to the new situation than others may. There will be winners and losers among rural households in the process.

Figure 2: Map of the study area. Draft: M. Raithelhuber. Cartography: H. Nischk.
“Real markets” and “institutions”
In this paper, the market-related income strategies of rural households in two villages, one hill village and one peri-urban Terai village, are discussed using the concept of “real markets” (cf. Mackintosh 1990). This concept has been modified with elements of institutional theory (cf. North 1990, 1995, and Leach, Mearns et al. 1997). As the rural subsistence economy can provide less and less livelihood security for rural households, market participation is of increasing importance for the rural population in Nepal. Thus, the increasing importance of markets asks for a more elaborate analysis of the term. Mackintosh (1990) distinguishes three different meanings of market.

Firstly, market stands for the “private sector”, or “any process of exchange, undertaken by independent actors (people or institutions), of goods, services, labour power and money” (ibid:46). The second meaning is that of abstract market models. They often imply assumptions like perfect competition or see markets as costless and free. Some models include questions of access, entitlements, and limited information (e.g. Sen 1981). The third meaning is based on such market abstractions but deals with markets “as they operate in the world” (Mackintosh 1990:47). Such “real markets” are seen as structured sets of social relations. Studies on “real markets” deal with the institutional context of all kinds of buying and selling. “Real market” models try to include “questions of entitlement, power and class, of inequality, accumulation and exploitation, of market-makers and market-victims into abstract market models” (Bohle 1992:129)

The key elements of the modified “real markets” concept are institutions and actors. From an institutionalist point of view, institutions are much more than just the “context” of business transactions as Mackintosh describes them. This shall be explained in more detail. According to North (North 1995:23), “institutions are the rules of the game of a society, or, more formally, are the humanly devised constraints that structure human interaction.” Some institutions have a high degree of formalization. They are codified as formal laws and sanctioned by the government. Other institutions are informal, regularized patterns of behaviour, e.g. friendship or neighbourhood labour exchange systems in a village. They are sanctioned informally. One can lose his or her reputation or trustworthiness and thus be (temporarily) excluded from certain institutions (e.g. informal credits or mutual help).

Many institutions simultaneously have formal and informal aspects. Actually, even in highly complex and formalised societies many activities like
business transactions involve both formal and informal institutions. The transfer of property rights regulated by formal institutions is just a small part of the transaction. The terms of the contract (discount, payment options) and the transaction itself (who is doing business with whom?) will be influenced by other factors such as the information the business partners have, e.g. about the reliability of payment and delivery, whether the quality of the goods is guaranteed or not, etc. All this is not just a question of individual business behaviour but also a reflection of the “habits” or “customs” in business life, i.e. of informal institutions. Prices, for example, are influenced not only by supply and demand but also by the anticipation of the probable behaviour of the transaction partners (whether he/she is under pressure to sell, at which point will he/she leave without selling, how he/she is going to use the purchased item, etc.).

How do institutions come into existence? According to Leach, Mearns et al. (1997), it is “regularized practices, performed over time, which come to constitute institutions”. However, “as they consciously monitor the consequences of past behaviour and the actions of others, different social actors may choose – or be forced – to act in irregular ways. Over time (...) institutional change may occur.” Thus, institutions are actively produced and reproduced in a society. Consequently, their functioning reflects the power relationships in that society and helps to maintain these relationships at the same time: “Institutions are not necessarily or even usually created to be socially efficient; rather they (...) are created to serve the interests of those with the bargaining power to create new rules” (North 1995:20).

Setting focus only on formal institutions will not show the whole picture in a country like Nepal. Here, formal institutions often do not reflect people’s practises, and government authorities often do not enforce official sanctions. For a still largely illiterate rural society, informal institutions based on habit, tradition, culture, personal relationships etc. can be much more important for their daily activities than formal institutions. This is even true for activities like marketing, for which formal institutions exist.

In order to better understand “real markets” of real people with real needs we have to find out:

Which institutions regulate access to markets and market transactions?
Who can influence these institutions?
What is the power relationship of the different actors, e.g. who has control over information and the terms of transactions?
How could the institutional arrangements governing markets be influenced in such a way that especially vulnerable rural households can participate under better conditions, and who could do that?

**Cottage Industries and Marketing in the Hill Village of Kachal**

Kachal is a hill village some 17 km northwest of Butwal municipality (see Figure 2). The village is only accessible by a four to five hours walk from the Butwal-Pokhara highway, which involves crossing the Dobhan River twelve times without bridges. The population is mostly Magar with some households of Brahmin, Chetri and Occupational castes.

![Figure 3: Yearly income of households in Kachal from marketing cottage products. Source: Own survey, 1999.](figure)

Most households in Kachal do not produce enough grain to meet their own consumption needs. About 63% of the households in the village have grain from their own production for less than ten months (food self-sufficiency <10 months), and still 47% of all households have grain for less than seven months a year. As there is not enough grain produced in the village, most households depend on urban grain markets in Dobhan and Butwal. These households need additional income opportunities, which are locally available, for their survival, as remittances from seasonal labour migrants are sporadic and
unreliable. In other words, many households need an opportunity for cash income that is ready at hand when the need for food arises. Producing one or several cottage products is a strategy adopted by 76% of the households in Kachal for this purpose (see Figure 3).

![Figure 4: Market-related income strategies of households in Kachal (multiple responses were possible). Source: Own survey, 1999.](image)

People from Kachal village come to Dobhan regularly in order to sell cottage products such as grass ropes (dori), bamboo baskets (doko), brooms (kuco), and strings for carrying loads (namlo). Dobhan is a roadside bazar village situated about 5 km north of Butwal at the highway from Butwal to Pokhara. The market at Dobhan is an informal market; there are no organizers, no fees, and there is no control of quality or prices. Everyone can come to buy and sell. However, there is a set of institutionalised rules, which regulate the market.

The market activities in Dobhan start in the early morning several hours before the bi-weekly market in nearby Butwal. On market days, there are between one and four wholesalers in Dobhan, depending on time and season. Most of them have a storeroom in Butwal and sell most of their goods on Butwal's weekly market immediately after they leave Dobhan. Transportation of goods is done using public jeeps and buses. Whereas most of the
wholesalers concentrate on cottage products, one of them buys the whole range of rural products including ginger, pre-dried turmeric, and pulses. Thus, he is the preferred business partner for people from Kachal who often bring small amounts of different items.

The prices offered by the wholesalers change frequently, sometimes even within minutes. In the early morning, when all wholesalers are already there but few villagers have arrived, prices for the villagers tend to be medium to high. During that time, the villagers have several options:

- They can wait and see how prices develop in Dobhan
- They can go to Butwal and sell their produce there to wholesalers waiting at several small informal market locations outside the official market area
- They can sell at Butwal’s weekly market directly to customer

When more and more villagers arrive, prices start to fall. Those wholesalers leave who have filled up their stock. Prices reach the lowest level when only one wholesaler is left and villagers still continue to arrive with new goods. The price for a bundle of rope, for example, can fall from Rs 5 to only Rs. 2.5 then. Both, the amount of goods the wholesalers plan to buy and the amount and types of goods brought by the villagers during the morning are impossible to predict. Thus, it is highly unpredictable which price the villagers will get for a certain product. As there are no storage facilities in Dobhan, people from Kachal are forced to sell their products at whatever price they get. Carrying the goods back to the village plus an additional load of grain would be difficult. Besides, they might not have the cash to buy grain without first selling off their goods.

Dobhan is a weekly market where informal institutions and unequal distribution of power play a major role. The informal character of the market has positive and negative effects. One of the positive effects is free access for all. There are no fees or regulations whereas at the weekly market in Butwal vendors have to pay an entry fee of Rs 10 to the municipality, which manages the market. This regulation prevents many small farmers from entering the market because often they have just small amounts of goods worth around Rs. 100 to sell. Dobhan is one of many informal “pre” markets in and around Butwal, which help farmers to save the market fee and the costs of a bus trip. On the other hand, they cannot profit from the competitive atmosphere at the large weekly market in Butwal.
In Dobhan, two types of market actors can be identified: urban based wholesalers (about four) and small rural cottage producers with a farming background (several hundred men and women). The villagers come down from their homes, located at several hours walking distance, with small amounts of cottage and / or agricultural products. They have to sell off all of their goods. The price they get depends very much on the time when they enter the market. As supply is mostly much higher than demand, they cannot influence prices very much. They are not organized and do not coordinate their bargaining even if they come from the same village. There is no storage facility available in Dobhan nor is there a price information system, which could inform about prices in Butwal or in other places. As Kachal is affected by a strong male labour migration, women who are often illiterate do most sales. Many women reported that they do not feel to be in a position to bargain for better prices with the male, literate and eloquent wholesalers. Thus, market institutions also have a gender dimension. The farmers enter the market in a position of weakness. They are forced to sell at a certain time for a price they cannot influence. They cannot foresee the behaviour of the wholesalers and other villagers, and often they lack the information, confidence and skills to confront the wholesalers with demands for higher prices.

The wholesalers, on the other hand, mostly get the amount of goods they want to acquire. For them, the problem is unreliability of quality and – to a minor extend – of supply. Although they have some storage facility in Butwal, they try to keep stocks low, as retail prices for cottage products are relatively stable. Just one of the wholesalers sells to a bigger wholesaler once in a while or does some processing of turmeric, whereas most of them retail the products bought in Dobhan at various urban weekly markets in the region. Wholesalers are the “market makers” of the local market for cottage products. They make the prices and decide disputes over quality, as there is no neutral quality control or standardization. Still, they could profit from supply that is more reliable and a better quality control.

Vegetable Production and Marketing in the Terai Village of Semlar
Semlar is a multi-ethnic village located in the Terai flatland just 8 km southwest of Butwal Municipality (see Figure 2). Due to the connection to the highway by an all-weather road, there is regular public transport to Butwal and other towns. In addition, many people use bicycles as means of transport.
Among the population, there are autochthonous Tharu, hill caste groups like Brahmin and Chetri, and other Terai groups like Murau and Yadav. About 39% of all households in the village have a food sufficiency of six months or less. The degree of food self-sufficiency varies widely among the households of the village. Roughly, one third of the households produces grain surpluses, one third has a high food self-sufficiency of 10 to 12 months, and the last third has a low food self-sufficiency, with a majority of the households having no agricultural production at all.

![Figure 5: Intra-village disparities of food self-sufficiency in Semlar. Source: Own survey, 1999.](image)

The houses of the Murau are all lined up along a side road in the lower part of the village. They migrated into the area from the Nepal-Indian border area about 30 years ago, dug wells in their fields and started an intensive irrigated cropping system with one paddy crop in summer and vegetables during the rest of the year. During the dry season, the striking difference between their fields and those of other villagers is clearly visible: in the fields of the Murau people are busy weeding and irrigating all kinds of vegetables whereas the adjacent fields of their neighbours are left fallow.

Unlike grain farming, which is characterized by a labour-intensive summer season and a slack season in winter, the paddy-vegetable cropping pattern adopted by the Murau farmers is labour-intensive throughout the year. Consequently, all members of Murau households are engaged in full-time
farming. Whereas seasonal labour migration and wage labour are a common income strategy of many households in Semlar, they do not exist among Murau households. The most important factor for their vegetable production is the availability of workforce in a household. The more persons work in the fields, the higher is the total production (see Fig. 4). Other factors like the size of a household's land holding have a minor influence on the amount of a household's vegetable production. The vegetables are sold in Butwal and at other weekly markets in the area. The income from vegetable marketing reaches considerable heights. In the sample, the maximum figure for one household was over Rs. 60,000 per year. Thus, vegetable production in Semlar is a big business compared to cottage production in Kachal.

![Diagram](image)

*Figure 6: Yearly household income from vegetable production in Semlar. The numbers refer to size of landholding in bigha (1 bigha = ca. 0.7 ha). Source: Own survey, 1999.*

Yet, there are also problems. Similar to the case study discussed above, the main obstacles lie in the field of marketing. The Murau farmers have no storage facilities for vegetables nor are such facilities available in Butwal. Thus, whenever a crop is ripe, the harvested produce has to be sold immediately. Vegetable prices, therefore, go down significantly during the peak season. Mostly, farmers transport the vegetables on bicycles. The vegetables are packed in bags or large wooden boxes. As there is no special packing for those vegetables like tomatoes, which are sensitive to shock, to
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protect them during transport, a certain percentage of the vegetables is always damaged. While almost all farmers from Kachal sell to wholesalers, the vegetable farmers from Semlar do most of the retailing by themselves. The disadvantage of that strategy is that during the vegetable season one adult family member has to do the time-consuming marketing and is not available for farm work. The Murau possess and use skills other households in Semlar possess as well. Building dug-wells and growing vegetable in a kitchen garden for home consumption are widespread in the region. The differences consist in the way in which the Murau households make use of these skills and how they organize their livelihood strategy around them. Non-Murau households in Semlar organize their livelihood strategies around a labour-intensive transplanting and harvesting time in summer. During the long slack season in winter, they engage in seasonal migration and wage labour. Murau households on the other hand use their labour resources on their own land throughout the year.

The Murau farmers reported not to know about modern production techniques such as improved seeds. They do no grading or sorting of vegetables, as this is not necessary for retailing at weekly markets. However, one of the reasons for the high percentage of Indian vegetables (75%) traded at Butwal’s weekly market is the difficulty in getting larger amounts of graded, sorted Nepalese vegetables at specific times (Market Access for Rural Development 1998; 1999). Weekly markets are no guarantee for full transparency of prices. An attempt to introduce a price information system in some villages in Rupandehi to give vegetable farmers a better bargaining position against wholesalers have failed for lack of support by the farmers and the, in some cases even violent, opposition of some wholesalers. These are some of the reasons why the farmers from Semlar have little access to the wholesale market at favourable terms with their current production and marketing strategies.

Discussions with villagers revealed that there is more behind these differences in economic behaviour than just a different cropping pattern. Remarks from non-Murau participants like “They [the Murau] can work all day on their fields, even during noon. We [hill people] couldn’t do that” or “It is not our [the hill people and Tharus] tradition to grow vegetables” try to link ethnic categories and regional origin with specific income strategies. Interestingly, the arguments brought forward by the discussion participants hold true only in the local context. A few kilometres north of the village, in
the adjacent hills, commercial vegetable production is widespread among hill people living close to the highway. Caste, therefore, should not be taken as a reason for a specific livelihood pattern. In an institution-theoretical perspective, caste is an institution, and as such produced and reproduced by actors in society. Caste is the outcome of local livelihood patterns as well as it serves as an orientation for households to help them decide upon their own, specific livelihood pattern. Institutional change is well reflected in the patterns of some households, which adopt strategies new to their “traditional” caste background, like Tharu households producing and marketing vegetables or Brahmin households rising poultry. Still, the influences of localised institutions on household level decision to include a specific income strategy into its livelihood strategy or to exclude it are strong – an aspect often forgotten in development schemes promoting commercial agriculture.

Vegetable farmers in Semlar benefit from a growing urban demand for vegetables but being producers and retailers at the same time, they face the double risk of harvest losses and price variations. The prices they get for their vegetables are influenced not only by seasonal variations but also by extra-regional factors like vegetable imports from India. An additional difficulty is that Murau farmers who belong to a non-Nepali speaking group which is considered “Indian” by mainstream society have problems in accessing the existing government resources like agricultural extension programmes. “Indian” in this respect does not refer to India as a country but to the ongoing discussion about the social and legal status of many ethnic groups living in the Nepal-Indian borderland. Murau vegetable farmers are not “market victims”. However, the current institutional setting for vegetable production and marketing does not allow them to fully take advantage of the opportunities offered by vegetable farming.

**Consequences for Regional Development in Nepal**

The “typical” Nepalese farming household living mainly from subsistence agriculture does no longer exist. Rural households in the Nepal of today employ a complex combination of livelihood strategies. Interaction with urban goods and labour markets forms a part of most rural livelihood patterns. Cottage production is an income strategy adopted by the majority of households in Kachal as an opportunity to earn cash money in the agricultural slack season, when other income opportunities are scarce. As an additional income source, cottage production strengthens the livelihood security of rural
households. This is especially true for households with a low food sufficiency and, consequently, a high risk of food insecurity. However, there is a strong difference in the spatial organisation of goods and labour markets. While weekly markets and urban market centres in the region play an important role for the marketing of rural products, looking for a job still implies seasonal long-distance migration to India.

Evidence from the case study Semlar shows that livelihood strategies which include commercial vegetable production and grain production for own consumption can be the source of considerable cash income, ease the need for labour migration and provide a high degree of food security. Labour-intensive commercial vegetable production, however, does not fit into the livelihood pattern of many rural households, as they try to meet their need for cash income with wage labour and labour migration. Often, local labour arrangements offer access to loans or wage advances, which adds to their attractiveness but causes dependency and inflexibility at the same time. Introducing vegetable production into a household’s livelihood pattern implies to change its complex combination of livelihood strategies. This is not an easy process as the allocation of labour in time and space has to be changed, thoroughly.

On the one hand, the study shows that the lack of physical infrastructure such as roads and telephone lines does not prevent rural households from adopting rural-urban marketing of products as a livelihood strategy. The existence of physical infrastructure, on the other hand, does not automatically imply that more rural households engage in rural-urban income strategies. Other factors such as institutionalised livelihood patterns (in the case of the Murau vegetable farmers) and time-space allocation pattern of workforce have a more significant influence. The analysis of the rural-urban marketing strategies of rural households indicates that the institutional framework of this interaction is inadequate. The existing institutions limit market access for rural people and are responsible for the uneven distribution of risks to the disadvantage of rural people.

One of the main tasks for regional planning in Nepal is to identify and bring together the regional actors such as districts, municipalities, VDCs, business organizations, NGOs, development programmes, etc. in a region in order to set up a regional level institutional framework for rural-urban interaction. Such an institutional framework has to guarantee easy access to urban markets for rural people on fair terms and to find ways to reduce the
risk for rural households involved in marketing in order to allow them more intense market participation. Institutional development of marketing channels like establishing trading relationships, providing price information, improving access to formal weekly markets, and strengthening the marketing skills of rural people could improve the situation considerably. The Rural-Urban Partnership Programme (RUPP) is already working in field of institutional development of rural-urban linkages. The programme promotes urban-based rural development and works from within the municipalities, covering the municipality area and adjoining VDCs. Thus, the municipalities are expected to become rural-urban actors. This may be a first step towards developing an institutional framework on the regional level.

The prevalence of a high percentage of long-distance labour migration and the marketing problems mentioned above indicate that most rural households are not in a position to benefit from the growth of urban centres in Nepal even if they live relatively close to these towns. Only very few well-to-do households in the village seem to fully profit from the new job, business and education opportunities provided in towns e.g. by giving their children a good, “urban” education and thus, step by step, moving capital and residence to town. The ongoing uprisings of the Maoist guerrilla may be an indicator for the urgent need to strengthen the livelihood security of rural households by promoting a fair, efficient and sustainable rural-urban institutional framework for rural-urban interaction in order to give rural households a better chance to benefit from urbanization.

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References


