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Small towns and rural development: A study of urban-rural relations in the hill region of Nepal. A case study of Banepa

Bajracharya, Bhishna Nanda, Ph.D.
University of Hawaii, 1994
SMALL TOWNS AND RURAL DEVELOPMENT:
A STUDY OF URBAN-RURAL RELATIONS
IN THE HILL REGION OF NEPAL

(A Case Study of Banepa)

A DISSERTATION SUBMITTED TO THE GRADUATE DIVISION OF THE
UNIVERSITY OF HAWAII IN PARTIAL FULFILLMENT OF THE
REQUIREMENTS FOR THE DEGREE OF

DOCTOR OF PHILOSOPHY

IN

GEOGRAPHY

MAY 1994

By

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Dedicated to
My Parents
Beda Nanda Bajracharya and
Jwala Devi Bajracharya
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ABSTRACT

The dissertation investigates the nature of urban-rural relations between a small town of Nepal and two of its hinterland villages. It examines three major rural-development functions of small towns, namely; (1) acting as market centers; (2) creating industrial and other non-farm employment; and (3) providing urban services. The linkages between the town and the hinterland are considered from both the town-level perspective and the viewpoint of the villagers. A case study approach which incorporates several field instruments such as document review, functional survey of the town, village household surveys and key informant surveys were used in this study.

In the hill context of Nepal, it was found that terrain was a constraint for physical, social and economic linkages between the town and the village. In like manner, ethnicity and caste were important factors in the access to services and off-farm jobs available in the town.

In terms of marketing linkages, the small town plays an important role in the distribution of daily essential items such as foodgrains for food-deficit hill and mountain areas, but only a limited role as collection center for village produce.

With regard to employment, most jobs available were low paying and lack security of tenure. There was also spatial and ethnic segmentation of labour with respect to access to
jobs. The dairy industry had the most beneficial urban-rural linkage in the area.

The provision of services such as agricultural credit and fertilizer supply was found to be a region-serving function catering primarily to hinterland villages while schools were predominantly town-serving functions mainly fulfilling the needs of town residents.

The factors constraining the villagers' use of urban services were identified. A policy recommendation for an integrated urban-rural area development in the hill region was presented as an outcome of the study.
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CHAPTER ONE

AN OVERVIEW

1.1 PROBLEM STATEMENT

Rural areas in the middle hills of Nepal are characterized by growing population pressure on limited rural resources (diminishing cultivated area per family), limited opportunity for productive employment, and lack of adequate public services and marketing facilities. The majority of people in the rural areas have small fragmented landholdings and there is unequal distribution of land among different socio-economic groups. Often the sizes of rural settlements are very small (population less than 500) and the settlements are scattered in an undulating terrain, thus making the provision of services to them more difficult.

Although some small towns (population less than 20,000) exist in the rural areas as market towns or administrative centers, they are not well developed owing to the low agricultural base of the rural areas, poor linkages with the surrounding rural settlements and low investments by the central government. Possibilities of diversifying local agricultural production are limited, due in part, to lack of marketing facilities. The subsistence agricultural economy of the rural areas with their low employment opportunities have created a situation in which many people are forced to
migrate to nearby urban settlements or elsewhere in search of non-farm employment.

As a part of an integrated rural development strategy for the hills of Nepal, the Nepalese government, in its successive development plans, has suggested the need to promote small towns in the hills. In its fifth five year plan (1975-80), the government stressed on developing small towns in appropriate locations in hill and mountain regions "to act as intervening points for migration, development and diffusion of socio-economic activities in the lagging areas of the country" (NPC, 1975). Similarly, the sixth plan (1980-85) reiterated the need to promote deliberate urbanization by promoting the growth of small urban centers and towns in the underdeveloped regions of the country (NPC, 1980). The seventh plan (1985-90) had the objective of using urbanization to supplement rural development efforts (NPC, 1985). The eighth plan (1992-97) proposes that "rural-urban linkages will be promoted through the development of small town/market centers" (NPC, 1992). This promotion of small towns is based on the assumption that small towns can stimulate economic growth in the rural region, minimize the growth of larger urban centers, provide lower order urban services for surrounding rural settlements and coordinate planning at the local level.

However, in the context of Nepal, very little is known of the way small towns interact with their hinterland and
how they can promote rural development. Only after a proper understanding of the urban-rural relations between small towns and their rural hinterland will it be possible to formulate a rural development strategy for the rural areas in the hills of Nepal.

This study addresses a number of related research issues: What roles do small towns play in the development of the hill regions of Nepal? What kind of relationship exist between the small towns and the hinterland villages? What are the reasons for the growth and decline of small towns? How can small towns contribute to agricultural development and off-farm employment in the hill region? Conversely, how does the condition in the hinterland affect the growth and decline of small towns. Consequently, what processes constrain the performance of small town functions in these hill areas?

Small towns have been defined as nucleated settlements with between 5,000 to 20,000 inhabitants (Hardoy and Satterthwaite, 1986). Although no single definition is appropriate for all countries because of different population concentration, level of economic development, Hardoy and Satterthwaite provide a general basis for defining small towns. In the case of the hills of Nepal with scattered population, even a central place with less than 5,000 population can be considered a small town. Thus, for the purpose of the research, small towns in the hills are
assumed to be all central places providing vital urban functions such as retail services, administrative services, agricultural inputs services and employment opportunities to rural hinterland population. In the hill context of Nepal, this would generally include towns between 2,000 and 20,000 population.

The succeeding sections attempt to illuminate the research problem through a discussion of the historic and contemporary processes pertaining to the growth of small towns in Nepal, particularly in the hill areas, and the government policies that have affected small towns and rural development in general. Past studies on small towns in Nepal are then examined to arrive at the current status of research on this subject and determine the entry point of this study. An extensive review of relevant literature both in the theory and practice of small town development is done next to create a framework for studying urban-rural relations, taking into consideration the peculiarities of small towns in the country. The chapter ends with a statement of the research objectives, enumeration of the research questions and presentation of how the study is organized.
1.2 EVOLUTION OF SMALL TOWNS IN THE HILLS OF NEPAL

Nepal is one of the least urbanized countries in the world, with only about 10 percent of its population living in officially defined urban areas. The focus of the study is the hill region in Nepal which constitutes about 50 percent of the land mass of the country. The hill region lies between 600 meters and 4850 meters elevation and is situated between a small strip of fertile plains called Terai in the south and high mountainous region in the north. (Map 1). The hill region is punctuated by smaller fertile low valleys like Kathmandu and Pokhara. Historically the hill region is the major area of concentration of population in Nepal.

Nepal has been divided into five development regions (eastern, central, western, mid-western and far-western), 14 zones and 75 districts. Thirty two districts in Nepal lie in hill region (excluding the three Kathmandu valley districts).

The small nature of hill towns and low levels of urbanization in the hill region of Nepal need to be seen both in the light of historical and contemporary processes of urban growth in the country. Nepal's historic/contemporary processes of urban growth in the hills, in turn, are influenced by its agrarian structure, mountainous terrain, lack of transportation development, closed economy
of the country until the recent past (1951) and state policies.

1.2.1 Historic Processes of Growth of Small Towns in Nepal

As early as 10th century A.D., three major towns with urban characteristics had developed in the Kathmandu valley. They were the local Newar settlements of Kathmandu, Patan (Lalitpur) and Bhaktapur (Bhadgaon). Two factors seem to have contributed significantly to the growth of these towns. First, the fertile valley’s high agricultural productivity could support a high density of people some of whom diversified themselves into commerce and production of goods (such as metal work and textile). Second, the strategic location of Kathmandu valley as the trade link between Tibet and India further contributed to the development of these towns.

Prior to 1769, much of what is presently known as Nepal were independent petty feudal states ruled by different kings. However with the unification of the country by a Shah king from the western hills (Gorkha) in 1769, Kathmandu naturally became the capital of Nepal considering its most advanced economy and culture. Kathmandu grew in its importance as the seat of political, administrative and economic power in Nepal.
Historical Constraints to Hill Town Growth

Urban growth outside Kathmandu in the hill region was very limited because of (1) subsistence agriculture; (2) exploitative state policies; (2) limited development of hill trails; and (3) other reasons such as difficult terrain and distribution of different ethnic groups in isolated pockets. The limited urban growth that took place was the result of development of some central places along the main trail routes for administrative and political control and movement of Newar traders from Kathmandu to start up small markets in these central places.

1. Subsistence Agriculture: Historically, Nepal's hill region was characterized by subsistence agriculture where people produced for household consumption and had little market exchange. The only items for which the hills depended on the outside were kerosene and salt which could not be locally produced. The hill areas had been small fragmented "pocket economies" partly due to difficult terrain and little economic exchange between different areas. The agricultural technology used was primitive and agricultural production was low (Shrestha, 1990). The limited surpluses of the peasants were extracted by the aristocracy and landed group.

2. State Policies: There was also very little urban growth in the hills due to historically exploitative state policies at the cost of peasants thus contributing to agricultural
stagnation (Sharma, 1989). In a situation of low agricultural productivity, the state was still intent on extracting the agricultural surpluses from the peasants for supporting the growing administrative and military apparatus as well as for the wasteful consumption by the ruling class in Kathmandu. At the time of the territorial expansion by Prithvi Narayan Shah (the first ruler of unified Nepal) and his successors, under the jhara system, the peasants were forced to work for the state on a compulsory and unpaid basis for the transportation of goods, construction of trails and the like (Regmi, 1978). This forced labor policies had adverse impact on agriculture as peasants, instead of working on their farm, were forced to work elsewhere.

During the Rana period (1847 to 1951), under a political arrangement between the Britishers and the ruling Rana families, people from the hills of Nepal were sent to work as soldiers (mercenaries) in the British army to maintain Britain’s colonial status in South Asia/South East Asia. In return, the Ranas were assured of political stability by the Britishers. The Rana rulers also extracted the agricultural surpluses from the peasants with the help of landlords and used it for conspicuous consumption and unproductive activities such as construction of lavish palaces, and for the purchase and hoarding of precious metals and jewelry (Regmi, 1978). This combination of
export of important human labor necessary for agricultural development as well as the exploitation of the peasants for personal enrichment also contributed to the lack of agricultural development in the hills, which was a precondition for urban development. Under these circumstances there was very little impetus for urban growth in other areas besides the capital city. Agricultural productivity, exchange and specialization which were crucial for financing the urban growth was lacking in other areas.

3. Limited Development of Hill Trails: After the unification of the country in 1769, the Shah rulers of Nepal developed a major east-west trail through the hill region linking Kathmandu to different districts along the way for political and military control. This trail ran from Kathmandu through Banepa, Dhankuta and Ilam in the eastern region and Gorkha, Pyuthan and Silgarhi (in Doti) in the western region. It was the major transportational spine for the rulers for territorial expansion and control. From this major east-west spine, secondary trails were branched off on both north and south directions linking the mountain, hill and Terai regions. These north-south trails were important linking the hills to both India and Tibet.

With the lack of motorized transport, the hill trails were historically the major means of linkage between different pockets of settlements in the hills and valleys of the region. Although the hill trails were primitive, slow
and difficult for movement of goods and people, they were the only means for movement for the people in the hills. The primitive trails were primarily geared towards local movement of people in limited geographical areas, without greater economic interaction except to act as trade conduits between India and Tibet. (Shrestha suggests that hill trails are still geographically the most encompassing -- serving 55 percent of the hill population. The estimate for the length of mountain trails is about twice the length of modern roads). Thus, the low levels of urbanization and low spatial links between different hill regions has its historic roots in the neglect of transport development.

During the Rana period, there was deliberately no attempt to improve the transportation network of Nepal. Part of the reason was, the Rana rulers were concerned that the development of road network particularly in the south would facilitate the movement of British troops in India to enter Nepal. Regmi, an economic historian of Nepal, states that the accessibility of hill region from Kathmandu was about the same since the middle of nineteenth century to 1951, the year when the Rana rule ended (Regmi, 1988). Thus the important impetus of transportational linkages necessary for town growth was lacking in Nepal not only due to difficult terrain and stagnant agriculture but also historical state policies, particularly during the Rana
regime, which deliberately discouraged transportation and economic development in the country.

4. Other Historic Reasons for Limited Urban Growth in the Hills: Aside from the subsistent agriculture, lack of transport development and state policies contributing to agricultural stagnation, there were other reasons for the limited urban growth in the hills. One reason for the development of pocket economies and limited urban growth in the hills has been that historically Nepal’s many tiny settlements/rural areas were controlled by the local kingdoms, which were more or less self-sufficient. Although, the Shah rulers in the 19th century brought political unification of the country by militarily conquering many of these little kingdoms, many were given some autonomy as vassal states under the overall political control of the central rule. This was due to difficulty of absolute control. This resulted in the continuance of pocket economies without much economic integration between smaller kingdoms (rajyas), although the smaller states had political linkage with the Shah central rulers in Kathmandu. Some states may have deliberately taken the path of isolation to insure autonomy and survival (Shrestha, 1990).

Another reason for non-development of an integrated system of market centers in the hills has to do with different geographical areas being inhabited by different ethnic groups. While there may have been greater
social/economic linkage between similar ethnic groups, this
distribution pattern of diverse ethnic groups in different
geographic pockets may have contributed in little linkage
between different geographic settlements (Shrestha, 1990).

Thus many mutually-reinforcing factors contributed to
the lack of growth of integrated system of settlements in
the hills of Nepal. Although geographic terrain and
primitive transport network are major reasons for this
condition, the state policies (discouraging both economic
development and establishment of transport linkage to the
south), political fragmentation (autonomous rajyas) and
ethnic distribution in isolated pockets also played their
roles. The trails and central places were built more for
military and administrative purpose rather than for economic
integration and the breaking of pocket economies for a more
dynamic economic growth.

Historic Growth of Small Towns in the Hills

In spite of the constraints discussed above, nevertheless, small central places developed in the hills of
Nepal particularly due to the requirement of political
control by the rulers in Kathmandu, dependence of hill
communities for salt and kerosene from the outside, and
movement of Newar traders from Kathmandu to exploit the
limited demand for trading activities.

With the construction of the east-west hill trail
system and the need for administrative/political control, a
small number of central places/trade centers grew along major trail routes leading to Kathmandu valley. The development of central places were geared more towards military and political control than market interaction. "Many of the ‘urban’ centres now developing", according to Blaikie et. al. (1980; p 124) "were thus not only administrative centres and strategic garrisons but also staging posts along the trails and crucial nodes in the transport network whose major function was to move arms and munitions efficiently and as swiftly as possible in the difficult hill country to where they were needed". Most of the central places such as Dhulikhel, Dhankuta, Ilam (in eastern region), Bandipur, Gorkha, Tansen (in central region), Jajarkot (in mid western region), and Chainpur and Silgadhi (in far western region) were located on hilltops rather than valleys from the point of view of military considerations for greater control and security. Although the hilltop location may be ideal for military purposes, it has its constraints for development as market center for physical expansion of the market and trade linkage. The location along valleys and foothills, such as the case of Banepa, has more advantages for developing a market center due to its easier access and fertile soil for higher agricultural production. In the hill region, some of the bigger urban settlements grew not in the hilltop but in the valleys like Kathmandu and Pokhara.
The growth of trade in these towns was also because of migration of Newar traders from Kathmandu valley to these trade centers/central places for the expansion of their economic activities. Even prior to the unification of the country in 1769, the Newars of Kathmandu had had a long experience in trading activities both within the valley and long-distance trade to Tibet. Newars were traditionally urban dwellers and constituted a class of traders and craftsmen. Newar traders expanded their trading activities in the rural areas by the spread of the joint family to branch commercial establishments in smaller central places thus increasing their family resources (Messerschmidt, 1980). Further, they also established relationship with the local non-Newar trading groups such as Gurungs and Thakalis through the institution of 'mit' (a fictive brotherhood) to enhance their commercial interests (Okada, 1957). Even now, Newars control wholesale/retail activities in various major and minor trade centers in different parts of Nepal.

Urban Growth in the Terai and Economic Penetration from India

In the Terai, during the 19th century, a few trading marts had developed along the border between Nepal and India at the points of entry to India from Nepal through the existing rudimentary land routes. Biratnagar, Janakpur, Birgunj, Siddharnagar and Nepalgunj -- all border towns -- were the major trade marts of Nepal. Nepal exported rice,
grains, timber and medicinal herbs to India and in return obtained salt, sugar and tobacco from the latter.

Although during the earlier Shah and Rana periods, Nepal had followed a protective trade policy of controlling imports from foreign countries (India) and protecting the household/cottage industries, the later Rana rulers, with increased contact and pressure from British India abandoned this protective trade policies of the past and there was importation of cheap manufactured goods from India which hit hard the traditional craft/cottage industries. This process was further facilitated by the extension of the Indian railway network along the Nepalese borders in the later part of 19th century, thus increasing the accessibility of Nepalese markets and growth of the trade marts.

Historically, Nepal had trade surplus with India with respect to export of forest products, herbs and the like. However, gradually with this change in policy, Nepal began to have trade deficit with India which continues in the present context in a much greater scale. Similarly, the local Newar traders had historically controlled the commerce sector in Nepal. With the importation of Indian goods, the Indian merchants have now largely controlled the commerce sector in the Terai and adjoining foothills to Kathmandu valley. In the changed context, the Newar traders have still survived to a limited extent in some hill pockets by
handling the importation of Indian and other foreign goods supplied by Indian businessmen.

1.2.2 Contemporary Processes of Urban Growth in Nepal

The contemporary processes of urban growth in Nepal are closely linked to historic processes discussed earlier. Some of the past biases have persisted. Previous fort/administrative towns have been retained as district headquarters, further reinforcing the role of small towns as administrative centers in the hill regions. The state of agriculture, which has direct influence on urban growth, on the other hand, has not changed significantly from the historic period in terms of heavy dependence on human labor, low levels of agricultural technology, and dependence on subsistence crops.

In fact, with increasing population growth in the context of lack of modernization of agriculture and fragmentation of land, the agricultural production per unit arable land has gone down and hills have become areas of chronic food deficit. With increasing population pressure and societal inequalities in the hills, there has been increasing migration of hill population to Terai, which has contributed to rapid urban growth in Terai, and to a limited extent in some hill towns along the road. Thus, the new hill town growth needs to be seen in the light of lack of development of agriculture and other contemporary processes of change.
Recent Growth of Hill Towns

There are three major processes of change which have direct influence on the present context of urbanization in Nepal. These are: (1) expansion of central bureaucracy; (2) development of motorized transport; and (3) increased trading in foreign manufactured goods -- all of which resulting in greater monetization of the economy, penetration of the local economy by industrial capital from outside and political control by the center (Kathmandu).

1. Expansion of Bureaucracy: After 1951, bureaucratic expansion of the government was the key to the development of small towns in the hills. After the country opened up to the outside world, the government embarked on many developmental programs, largely financed by foreign aid, which has resulted in, among other things, expansion of educational, health and banking facilities, development of transport and communication, and agricultural innovations. All of these have affected small hill communities to a certain extent (Caplan, 1975).

Implementing a host of programs required a considerable expansion of bureaucracy/administrative system. Some analysts have also suggested that this expansion of bureaucracy is for coopting a growing number of educated people into a state system (Blaikie et. al., 1980). From a highly personalized Rana administration concerned with maintaining a system of law and order and collection of
revenues, the Nepalese bureaucracy has expanded into a large organization dealing with multifarious activities in different areas of the country and following bureaucratic procedures. The increase in administrative activities at district centers by channeling a large sum of money from Kathmandu, has contributed towards growth in opportunities for commerce in these small towns to serve the non-resident civil servants and their families. Also it increased the employment prospects for the local people in the district administration to a certain extent.

The establishment of regional development centers since the fourth five-year plan (1970-1975), in each of the five regions of Nepal (i.e, eastern, central, western, mid-western and far-western regions) is an example of further development of some hill towns as administrative centers. The recent growth of small towns such as Dhankuta in the eastern region, and Dipayal in the far western region can be attributed much to further expansion of bureaucracy in these towns after they were designated regional development centers.

Nevertheless, this designation of hill towns as regional development centers has more to do with administrative and strategic consideration than economic strength. While Terai towns have a larger economic base than designated regional development centers such as Dipayal and Dhankuta, they have been primarily chosen for greater
administrative control by virtue of their central location along the North-South corridor.

2. Development of Motorized Transportation Network: Another important impetus for growth/decline of some hill towns in Nepal is the development of motorized transportation networks linking major hill and Terai towns. These include: (A) Arniko Highway linking Kathmandu to the Chinese border and to Tibet; (B) Siddhartha Highway linking hill towns of Pokhara with Butwal and Siddharthanagar in the Terai; (C) Prithvi highway linking Pokhara with Kathmandu; and (D) Mahendra highway (East-West highway) linking major urban centers of Terai as well as north-south roads to Terai; (E) Tribhuvan highway linking Kathmandu with Hetauda and Birgunj in the Central Terai (Map 2).

With the development of these highways, there has been realignment of settlement systems in the hills with strong tendency toward development along new motorized transport veins. For instance, the headquarter of Tanahun district (in western region) shifted from Bandipur on the hill top to Damauli along Prithvi highway. Similarly, in Lamjung district (in western region), the headquarter was moved from Kuncha to Besisahar (See Maps 1, 2 and 3). The new hill town developments have taken place along valleys rather than hill tops, reflecting the changed focus on economic considerations. The locus of market development from the hill town Tansen, for instance, has shifted to foothill town
of Butwal (in western region) and from hill town Dhankuta to Dharan (in eastern region).

Another impact of these motorized transport systems, particularly the East-West highway in Terai, is that the traditional hill trails have lost their importance and there has been greater linkages between hills and Terai than between hill regions. As a result, some of the hill towns such as Chainpur and Bhojpur which are along traditional hill trails have declined due to their lack of linkage with the motorized transport networks.

Furthermore, the consequent bias in infrastructural and industrial development in the Terai after 1951 has negative effects on many old market centers in the hills. Many existing small towns lost their importance. Whatever urban growth took place in the hills is concentrated along new highways linking Kathmandu with other major urban centers (i.e., along Prithvi, Siddhartha and Arniko highways).

3. Development of Commerce/Trade: After opening up of Nepal’s closed economy particularly when the Rana oligarchy ended, there was a significant increase in imports from India and other foreign countries like China, Thailand and Hongkong. While the imported goods from India came from Terai border towns, those from other countries came from Kathmandu. In the contemporary context, much of the goods in the commercial outlets of small towns are imported items. With the lack of protectionist policy and general decline of
traditional industries, local businessmen have found it more profitable to engage in trading of goods from other countries than engaging in manufacturing activities. Whatever little modern industries exist in Nepal are oriented toward capital intensive ones like beer- and soft drink- making which are geared toward the tourist market.

With the development of motorized transport linking Terai border towns and Kathmandu with the hill regions, a number of new bazzars (markets) without any administrative functions developed rapidly along the new highways. Within a short span of ten years, a number of commercial establishments grew along the road. While commerce was the mainstay of these bazzars, some small-scale agroprocessing and repairing industries also developed in these towns.

The reasons of the growth of these markets are many. First, the volume of trade in these markets increased with the growth of hill population who had to increasingly depend on imported goods due to their inability to produce them. With the extended access to the hills through the motorized transport, it became more economical to move commercial activities nearer to the points of consumption in the hills (Blaikie et. al., 1980).

Secondly, with improved transport facilities, many of these market towns became nodes where travellers stop for food/overnight accommodation or to catch/change buses to other destinations. As a result, these small towns also
developed many of the facilities oriented towards travellers such as tea shops, restaurants and hotels. The towns of Muglin, Dumre and Walling developed primarily because of this phenomenon. Blaikie suggests that the rate of growth of small, new urban centers along the road is significantly greater than those off the road.

Thirdly, these new locations along the highways also became the new gateways to serve the hinterland as well as the collection centers for agricultural produce. The location on the road has both the advantage of integrating into one enterprise the purchase of hill exports for immediate bulking into truck loads and the sale of imported goods at the break-of-bulk point. (Blaikie et. al., 1980).

Some of the new towns along the road are new locations of major wholesalers in the region taking advantages of changes in the spatial linkages. Messerschmidt’s study shows how Dumre developed as the major wholesale center of the Marshyandi hinterland region after Bandipur declined with the shift of district headquarters to Damauli and its bypassing by Prithvi highway. In fact, the traditional Newar wholesalers from Bandipur shifted their locus of activities from Bandipur to Dumre and other areas like Narayanghat to take advantage of the changed context (Messerschmidt, 1980).

Fourthly, many of these new markets along the road became points where villagers from surrounding areas come in
search of wage labour as porters or servants/maids in the hotels/restaurants. Some come as vendors to sell their agricultural produce such as fruits, roasted corn and eggs for the travellers in the new markets.

Some small towns also developed along the road or the last point in a road from which tourists embark on hill/mountain trails for recreation and sightseeing. Much of the recent growth of towns such as Jomsom, Dhulikhel, Jiri and Namche can be attributed to tourism-related activities. Often these towns have curio shops, lodges, restaurants specifically catering to tourists and the local economy is dependent upon the demands of the tourist arrivals.

Contemporary Growth of Terai Towns

In contrast to the hill towns, towns in the Terai have grown more rapidly since 1951. Prior to 1951, the Terai was infested with malaria and there were no large settlements there except a few trade marts discussed earlier. Since the 1950s, massive malarial eradication programs initiated by the government made the fertile plains, the Terai, an attractive place for migrants from the hills with increasing population pressure on limited arable land.

The Terai also grew with the increased trade between Nepal and India after 1951. With increasing volume of imports from India, some of these border towns such as Birgunj and Biratnagar grew rapidly as important centers of
commerce supplying the manufactured goods to other parts of Nepal. This was further facilitated by the expansion of railway network of India along the Nepal-India border which made it convenient for movement of goods to Nepal. These border towns also became the location of a number of agro-processing industries taking advantage of improved transportation facilities and larger agricultural resource base of the hinterland. After 1951, the increased investments in transportation in the Terai have further increased urban growth in the Terai with the growth of small urban centers along national highways (east-west road).

The rapid growth of Terai towns, therefore, is a result of Nepal's increasing trading ties with India (after penetration of Nepalese markets by Indian manufactured goods), migration from the hills and biased transportational and industrial investments in Terai. The growth of Terai in recent years is also a spatial manifestation of Nepal's increasing economically dependent relationship with India and lack of development in the hills.

Demographic and Economic Characteristics of Towns in Nepal

In order to understand the characteristics of towns in Nepal, one has to largely depend on urban data published by the Bureau of Census. But urban data based on census records have some inherent problems in Nepal. Sharma (1989) identifies some of the problems as incomparability of urban data from different censuses due to changes in urban
boundaries in intercensal years, changes in the definition of urban areas, definition of urban area as a unit of local government (Panchayat) rather than as a settlement unit. Since 1976, municipalities (urban area) "Nagar Panchayat" have been defined as local administrative units with more than 9,000 population. However, criteria such as population density, occupational structure of population, infrastructure and revenues of the town were not used as a basis for identifying the municipal status. Many town panchayats are overbounded to include surrounding rural areas although there is only a small urban core.

In Nepal, data on urban areas are available only for those towns with the municipality status. For calculating the urban population, the census does not include smaller towns which do not have municipal status. Due to the nature of census data focussing on unit of local government rather than settlement unit, even exact number of small urban places could not be ascertained and only tentative estimates could be made. Another study has listed the names of important market places in Nepal (Nepal District Profile 1982 c.f. CEDA 1989). According to this list, there are 166 market towns in 32 hill districts of Nepal with an average of five market towns per district. While this list is not completely reliable, it provides some general idea about numbers of small towns in Nepal. Map 3 shows the location of towns in Nepal including all municipal towns and non-
Source: Modified from PADCO (1990)

MAP 3: TOWNS IN NEPAL
municipal towns which are important market or administrative centers in different districts of Nepal.

Although the published census data for 1991 has not yet given the information on Panchayats with less than 9,000 population at the time of the dissertation write up, the census data for 1981 gives a overall picture of distribution pattern of population in Nepal. In the whole of Nepal, about 41 percent of people live in 1,793 panchayats of less than 5,000 population and another 44 percent lived in 1,016 panchayats of between 5,000 to 9,999 population (Table 1). Although there were 101 localities with between 10,000 to 19,999 population, only 23 of them were accorded municipal status in 1981. There are only a few panchayats with larger population than 20,000 population.

Considering only the hill districts of Nepal (32 of the total 75 districts), it was found that the majority of the Panchayats have even smaller population. About 67 percent of the villagers live in Panchayats of less than 5,000 population (Table 2). The localities in the hills with population ranging from 5,000 to 9,999 population are most likely to have central places catering to hinterland villages and about 32 percent of rural population live in these type of localities.

Migration has been the major contributing factor for the growth of Terai and hill towns. Most of the migrants in the hill towns are from hill rural areas themselves. In
<table>
<thead>
<tr>
<th>TYPE OF LOCALITY (By Size of Population)</th>
<th>NUMBER OF LOCALITIES</th>
<th>% OF LOCALITIES</th>
<th>POPULATION SIZE</th>
<th>% OF POPULATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 5,000</td>
<td>1793</td>
<td>61.1</td>
<td>6,092,603</td>
<td>40.6</td>
</tr>
<tr>
<td>5,000-9,999</td>
<td>1016</td>
<td>34.6</td>
<td>6,604,790</td>
<td>44.0</td>
</tr>
<tr>
<td>10,000-19,999</td>
<td>101</td>
<td>3.4</td>
<td>1,250,428</td>
<td>8.3</td>
</tr>
<tr>
<td>20,000-49,000</td>
<td>22</td>
<td>0.7</td>
<td>666,439</td>
<td>4.4</td>
</tr>
<tr>
<td>50,000-99,000</td>
<td>2</td>
<td>0.07</td>
<td>173,419</td>
<td>1.2</td>
</tr>
<tr>
<td>100,000 or more</td>
<td>1</td>
<td>0.03</td>
<td>235,160</td>
<td>1.5</td>
</tr>
<tr>
<td>TOTAL</td>
<td>2935</td>
<td>100.0</td>
<td>15,022,839</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Calculated from the 1981 census of Nepal

<table>
<thead>
<tr>
<th>TYPE OF LOCALITY (By Size of Population)</th>
<th>NUMBER OF LOCALITIES</th>
<th>% OF LOCALITIES</th>
<th>POPULATION SIZE</th>
<th>% OF POPULATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 5,000</td>
<td>1178</td>
<td>78.6</td>
<td>4,117,181</td>
<td>66.9</td>
</tr>
<tr>
<td>5,000-9,999</td>
<td>309</td>
<td>20.6</td>
<td>1,866,132</td>
<td>30.3</td>
</tr>
<tr>
<td>10,000-19,999</td>
<td>10</td>
<td>0.7</td>
<td>123,404</td>
<td>2.0</td>
</tr>
<tr>
<td>20,000-40,000</td>
<td>1</td>
<td>0.1</td>
<td>46,642</td>
<td>0.8</td>
</tr>
<tr>
<td>TOTAL</td>
<td>1498</td>
<td>100.0</td>
<td>6,153,359</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Calculated from the 1981 census of Nepal

Note for Tables 1 and 2: The Bureau of Census calls the basic administrative unit of panchayats as localities. Generally, a village Panchayat or a locality would have at least 2,000 population.
hill towns, 52.1 percent of migrants originate from the hill region, 27.4 percent from mountain region and 20.1 percent from Terai region (Sharma, 1989). In comparison, the percentage of migrants originating from the hills are higher in Kathmandu and Terai thus indicating larger flows of hill migration to Terai and Kathmandu than smaller towns in the hills with limited potential for employment. Most of the hill migrants go to inner Terai towns such as Butwal, Bharatpur, Dharan, Hetauda, followed by more distant Terai towns and Kathmandu valley towns.

Based on the census data, between 1971 and 1991, the level of urbanization in Nepal has increased from 4.0 to 9.4 (Sharma, 1989; CBS, 1993). The number of designated urban areas increased from 16 in 1971 to 23 in 1981 and 36 at present. The total population of 36 municipalities is 1,758,931, which is little less than 10 percent of Nepal’s population (18,491,097). The largest municipality is Kathmandu with the population of 414,258 and smallest is Dhulikhel in the hills with a population of 9,912. Map 4 shows the location of all municipalities in Nepal indicating their comparative sizes.

The 1991 census lists 36 municipalities in Nepal of which there are only nine municipalities in the hills which constitute 12.1 percent of urban population. Kathmandu valley towns, on the other hand, have three major towns which constitute 34.0 percent of the total population of
MAP 4: MUNICIPALITIES IN NEPAL

Source: Modified from PADCO (1990)
Nepal. Lastly, the Terai has 25 municipalities with 53.9 percent of urban population.

Hill towns are also both few in number and small in size. Excluding the Kathmandu valley towns, there are nine hill towns with municipal status: Bidur, Banepa and Dhulikhel in the central development region; Ilam and Dhankuta in the eastern development region; Pokhara, Byas (Damauli) and Tansen in western development region; and Dipayal in the far western development region (Table 3). This follows a pattern that a greater number of urban centers exist in more developed hill regions of the country (central and eastern development regions). The hill towns with municipal status vary between 9,000 and 19,000 population. Some of the other smaller hill towns which do not have municipal status have populations between 2,000 and 9,000.

Although all the hill towns with municipal status (except Dipayal) have access to motorized transport, many of the smaller hill towns which are important central places in the region as administrative and trading centers do not have access to motorized transport. For example, many smaller hill towns such as Jomsom, Myaglung, Bhojpur, Chaipur and Khadbari are yet to have access to motorized transport.

The three Kathmandu valley towns (Kathmandu, Lalitpur and Bhaktapur) together make up the large part of urban population of Nepal. Due to their proximity with one
another, Kathmandu valley towns have emerged as one large metropolitan center with a combined population of 598,528 (Table 4).

**TABLE 3: HILL MUNICIPALITIES IN NEPAL**

<table>
<thead>
<tr>
<th>MUNICIPALITY</th>
<th>1981 POPULATION</th>
<th>1991 POPULATION</th>
<th>AVE. ANNUAL GROWTH RATE (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ilam</td>
<td>9,773</td>
<td>13,197</td>
<td>3.5</td>
</tr>
<tr>
<td>Dhankuta</td>
<td>13,836</td>
<td>17,073</td>
<td>2.3</td>
</tr>
<tr>
<td>Pokhara</td>
<td>46,642</td>
<td>95,286</td>
<td>10.4</td>
</tr>
<tr>
<td>Byas (Damauli)</td>
<td>Not available</td>
<td>20,124</td>
<td>N/A</td>
</tr>
<tr>
<td>Tansen</td>
<td>13,125</td>
<td>13,599</td>
<td>0.4</td>
</tr>
<tr>
<td>Banepa</td>
<td>10,446</td>
<td>12,537</td>
<td>2.0</td>
</tr>
<tr>
<td>Dhulikhel</td>
<td>9,761</td>
<td>9,812</td>
<td>0.1</td>
</tr>
<tr>
<td>Bidur</td>
<td>13,369</td>
<td>18,694</td>
<td>4.0</td>
</tr>
<tr>
<td>Dipayal</td>
<td>9,694</td>
<td>12,360</td>
<td>2.8</td>
</tr>
<tr>
<td><strong>HILL TOTAL</strong></td>
<td><strong>126,646</strong></td>
<td><strong>212,682</strong></td>
<td><strong>5.2</strong></td>
</tr>
</tbody>
</table>

Note: Byas (Damauli) population not included in total growth rate calculation

Sources: Sharma, 1989 (for 1981 population)  
CBS, 1993 (for 1991 population)

**TABLE 4: KATHMANDU VALLEY MUNICIPALITIES**

<table>
<thead>
<tr>
<th>MUNICIPALITY</th>
<th>1981 POPULATION</th>
<th>1991 POPULATION</th>
<th>AVE. ANNUAL GROWTH RATE (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kathmandu</td>
<td>235,160</td>
<td>421,258</td>
<td>7.9</td>
</tr>
<tr>
<td>Lalitpur</td>
<td>79,875</td>
<td>115,865</td>
<td>4.5</td>
</tr>
<tr>
<td>Bhaktapur</td>
<td>48,472</td>
<td>61,405</td>
<td>2.7</td>
</tr>
<tr>
<td><strong>VALLEY TOTAL</strong></td>
<td><strong>363,507</strong></td>
<td><strong>598,528</strong></td>
<td><strong>6.5</strong></td>
</tr>
</tbody>
</table>

Sources: Sharma, 1989 (for 1981 population)  
CBS, 1993 (for 1991 population)
Terai municipalities are of larger population than hill towns. Biratnagar, a border town with India, is the largest town in Terai with more than 100,000 population. Among Terai towns of municipal status, 11 out 25 towns are within the range of 40,000 to 100,000 many of which are border towns with India such as Birgunj, Siddartha nagar, Nepalgunj and Mahendranagar (Table 5). Part of the reason for border town's growth has to do with their location as entry points for Indian goods to enter Nepal. There are only 7 towns with less than 20,000 population and 6 towns with between 20,000 to 39,999 population. Smaller towns of population less than 20,000 are generally located at the foothills and along the major East-West Highway linking larger urban centers in Terai.

In terms of occupational structure of the urban areas in Nepal, it is estimated that 34.3 percent of the urban population in Nepal are still engaged in agriculture while 46.1 percent are engaged in tertiary activities (CBS, 1987). Only 15.6 percent of the population are engaged in manufacturing activities indicating low levels of industrial activities in Nepal. This data also shows the importance of tertiary activities in Nepalese towns. Out of the 46.1 percent in tertiary activities, 18.6 percent of the people are involved in sales activities while the remaining population are engaged in service and administrative/clerical work. Thus, there is high level of tertiarization
<table>
<thead>
<tr>
<th>MUNICIPALITY</th>
<th>1981 POPULATION</th>
<th>1991 POPULATION</th>
<th>AVE. ANNUAL GROWTH RATE (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bhadrapur</td>
<td>9,761</td>
<td>15,210</td>
<td>5.6</td>
</tr>
<tr>
<td>Biratnagar</td>
<td>93,544</td>
<td>129,388</td>
<td>3.8</td>
</tr>
<tr>
<td>Dharan</td>
<td>42,146</td>
<td>66,457</td>
<td>5.8</td>
</tr>
<tr>
<td>Rajbiraj</td>
<td>16,444</td>
<td>24,227</td>
<td>4.7</td>
</tr>
<tr>
<td>Lahan</td>
<td>13,775</td>
<td>19,018</td>
<td>3.8</td>
</tr>
<tr>
<td>Janakpur</td>
<td>34,840</td>
<td>54,710</td>
<td>5.7</td>
</tr>
<tr>
<td>Birgunj</td>
<td>43,642</td>
<td>69,005</td>
<td>5.8</td>
</tr>
<tr>
<td>Hetauda</td>
<td>34,792</td>
<td>53,836</td>
<td>5.5</td>
</tr>
<tr>
<td>Bharatpur</td>
<td>27,602</td>
<td>54,670</td>
<td>9.8</td>
</tr>
<tr>
<td>Sidhartha Nagar</td>
<td>31,119</td>
<td>39,473</td>
<td>2.7</td>
</tr>
<tr>
<td>Butwal</td>
<td>22,583</td>
<td>44,272</td>
<td>9.6</td>
</tr>
<tr>
<td>Tribhuvan Nagar</td>
<td>20,608</td>
<td>29,050</td>
<td>4.1</td>
</tr>
<tr>
<td>Nepalganj</td>
<td>34,015</td>
<td>47,819</td>
<td>4.1</td>
</tr>
<tr>
<td>Birendra Nagar</td>
<td>13,859</td>
<td>22,973</td>
<td>6.6</td>
</tr>
<tr>
<td>Dhangadi</td>
<td>27,274</td>
<td>44,753</td>
<td>6.4</td>
</tr>
<tr>
<td>Mahendra Nagar</td>
<td>43,834</td>
<td>62,050</td>
<td>4.2</td>
</tr>
<tr>
<td>Damak</td>
<td>20,285</td>
<td>41,321</td>
<td>10.4</td>
</tr>
<tr>
<td>Jaleswor</td>
<td>16,322</td>
<td>18,088</td>
<td>1.1</td>
</tr>
<tr>
<td>Kalaiya</td>
<td>15,006</td>
<td>18,498</td>
<td>2.3</td>
</tr>
<tr>
<td>Toulihawa</td>
<td>12,374</td>
<td>17,126</td>
<td>3.8</td>
</tr>
<tr>
<td>Inaruwa</td>
<td>16,463</td>
<td>18,547</td>
<td>1.3</td>
</tr>
<tr>
<td>Malangawa</td>
<td>14,642</td>
<td>14,142</td>
<td>-0.3</td>
</tr>
<tr>
<td>Gaur</td>
<td>Not Available</td>
<td>20,434</td>
<td>N/A</td>
</tr>
<tr>
<td>Tulsipur</td>
<td>Not Available</td>
<td>22,654</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>TERAI TOTAL</strong></td>
<td><strong>604,930</strong></td>
<td><strong>947,721</strong></td>
<td><strong>5.0</strong></td>
</tr>
</tbody>
</table>

Sources: Sharma, 1989 (for 1981 population)
CBS, 1993 (for 1991 population)
of Nepalese towns. Also the national urban system is heavily biased towards the Terai while large parts of the hills are relatively isolated from the urban centers.

After 1991 census, the government has classified the Nepalese urban system into metropolitan center, sub-metropolitan center and municipalities which completely ignores the smaller towns in the hill districts. Only those urban centers with a minimum population of 300,000 and Rupees 70 million in revenue can qualify to be a metropolitan center. Urban centers with a minimum population of 100,000 and Rs. 20 million income qualify to become sub-metropolitan centers. Municipalities require a population of 20,000 and minimum yearly income of Rs. 100,000.

In the present context only Kathmandu qualifies as a metropolitan center. Two other towns, Lalitpur (adjoining Kathmandu) and Biratnagar in the eastern Terai qualify as sub-metropolitan centers. Although this new classification will not apply to existing towns, this type of policy measure will make it unlikely that any new towns from the hills will attain municipal status in the near future except by political pressure to make exceptions to the rules. This is because most of the towns in the hill and mountain districts of Nepal are far too small to reach 20,000 population in the near future. Population thresholds for municipality status should be different for the Hill, Terai
and Mountain regions considering the different population concentrations in the three ecological areas. While a population of 20,000 may be a realistic population for the Terai municipality, hill districts need lower threshold populations to qualify for municipality (mountain districts would require an even smaller threshold). In view of its importance in the economic and social fabric of the rural hill areas, a fourth category of market towns and service centers with populations between 2,000 and 20,000 population need to be identified which could be a basis for complementary urban-rural development in the hill regions of Nepal.

Population size alone cannot be an adequate criterion for the definition of small towns, although it could be one of the considerations for selection of small towns. Other criteria would include how important the town is in terms of fulfilling some of the central functions of the small town, namely - as a market center, as provider for non-farm employment and as a service center. Other important elements could be the contiguity of built-up area, population density and the percentage of people in non-farm employment in the small town. In addition, an important criterion is the existence of region-serving functions of the small town so that the town not only serves the residents of the town but the hinterland villages, too.
Having discussed the nature of urban system in Nepal, government policies which have important impacts on the hill towns, and rural development are addressed below.

1.2.3 Government Policies Affecting Small Towns and Rural Development

The topics under discussion are agricultural development policies, decentralization and urban and regional development policies.

Agricultural Development Policies

In an agricultural country, such as Nepal, policies affecting landholdings are of critical significance for small towns and agricultural development. In the hills, the major problem is the very small size of fragmented holdings among the majority of peasants who are largely owner-cultivators. Landholdings are getting smaller and smaller. The size of a farm is too small for even subsistence living for the owner-cultivator. Since there is no floor as to the minimum size of holdings, the inheritance practices have led to the holdings becoming fragmented and very small. Nevertheless, while the majority of hill farmers have small landholdings, there is a small group of rural elite who own the best land in the village, have economic control over the villagers as money lenders and who have the most access to urban services in the rural towns.

The agrarian reform enacted by the previous Panchayat government in 1964 had fixed the ceilings on landholdings
per family and stipulated that excess land from the imposition of the ceiling will be distributed (sold) to the tenants and landless farmers. But agrarian reform was not strictly implemented and there was no fundamental change in rural land distribution.

The present government in its eighth plan (1992-1997) has emphasized on agricultural development with commercialization and diversification of agriculture based on comparative advantage and export potential. The government has also a policy of making agricultural markets more competitive so that producers get fair share and consumers benefit from efficient workings of the market. It is hoped with increased diversification and commercialization of agriculture, small towns will have a more important role to play in the agricultural marketing and provision of agricultural inputs.

Decentralization

The degree of decentralization of power and resources by the central government largely determine the role of local people in decision making. This also affects the development of small towns as they are often the local nodes in the rural areas where government investments are decentralized at local level.

In Nepal, under the "District Development Plan", the basic territorial unit for plan formulation, and implementation is the district. However, past experience
shows that the development budget of each of the line agencies is essentially determined by a central office of these line agencies (Bienen, et. al., 1990). The District Development Committees located in the rural towns have only a limited say in the allocation of budget in the district. Also there is poor horizontal linkage between different government agencies at the district level. In this situation, small towns have not been particularly instrumental in encouraging greater involvement of local people nor in coordinating the works of line agencies at the local level.

With the introduction of the multiparty system, district development committees have become more powerful than in the past and are in a better position to initiate greater participation of local people. There is a need for further delegation of financial and administrative authority at the local level so that local bodies can impose levies and collect funds at that level and use them for locally-prioritized development. Also the local government needs more power, resources and technical manpower to stimulate production in small towns and hinterland areas.

**Urban and Regional Development Policies**

The first regional approach to planning was undertaken in the fourth five year plan (1970-75). The approach was based on the concept of 'Growth axes' which were a series of north-south development corridors linking
diverse regions (Terai, Hills and Himalayas) to permit economic viability and generate greater complementary interregional exchange of goods and services (Map 5). Each growth axis, with major roads, links a series of growth centers where development efforts will be concentrated in order to achieve full economies of scale and encourage agglomeration economies (Gurung, 1969).

The whole country was divided into five development zones with a regional growth center in each development zone (Kathmandu, Pokhara, Surkhet, Dipayal and Dhankuta). Apart from these, small district centers were identified along each growth axis to create a hierarchy of large and small growth centers. The concept was based on the idea that development in Nepal should be through deliberate urbanization and through industrial investments in these growth centers.

In the context of Nepal, a regional approach to planning did provide some territorial framework for rural development. However, the five development regions identified are rather broad territorial units for planning. The regional division of the country and the creation of regional growth centers created a situation in which these growth points acted largely as administrative centers with administrative deconcentration of power at the regional level (Bajracharya, 1986). Devolution of power to small
MAP 5: GROWTH AXES OF NEPAL

Source: Blaikie (1981)
territorial levels was still lacking. Development programs, budgets and allocation were made on a regional basis. However, the sectoral investments were still heavily biased toward Terai and Kathmandu valley. Thus, this growth axis approach added a spatial dimension to planning on paper only without much change in the pattern of sectoral investments.

Towards the end of fifth plan (1975-80), many donor agencies, such as USAID and the World Bank, showed an interest in experiments in "integrated rural development" (IRD) projects covering a number of districts. Just after introducing the growth axis strategy as the development strategy, the donors' interest in these large-scale IRD projects changed the emphasis on rural regional development. The IRD projects attempt at a multi-sectoral development on an area basis. The focus of these IRD projects was to increase agricultural productivity in order to raise income. The use of improved varieties of seeds, the use of modern fertilizers and construction of irrigation networks were emphasized.

However, evaluation of IRD projects in Nepal indicate that without special focus on small and landless farmers, the rural rich have reaped the benefits of rural development in terms of higher agricultural productivity, greater access to inputs, rural infrastructure and marketing. No prior redistribution of land and other assets had been done before the implementation of IRD projects and hence the rural rich
have continued to exercise economic and political power. Many IRD projects lacked an urban component for the villagers to market agricultural produce and provide off-farm employment.

Under the Decentralization Act of 1984, each district in Nepal has been divided into nine areas (ilakas) and a service center was proposed in each of the nine areas of the district with an objective to provide better access to social/economic services to rural people (Shrestha, 1984). However, evaluation of this service center program found that the program has primarily focussed on acquiring public land and on construction of public buildings for providing government-sponsored services such as agricultural extension, credit and health services (Banskota, 1989). There has been little attempt at agricultural marketing and generating off-farm employment through these service centers. Although the service centers increased the accessibility of government services, there are criticisms regarding the quality of services offered. Often the service centers were designated without proper study of their service areas and linkages with the surrounding villages. In spite of its limitations, however, the service center concept was a necessary first step at decentralization of services in the rural areas.

After the political changes in 1991, new regional development policies have been proposed, which are still
sketchy. While the previous service center concept focussed primarily on government's provision of services, the new eighth plan (1991-1996) has a policy of developing small towns and market centers on the basis of open market economy. The present Congress government has an objective of promoting urban development in a manner complementary to rural development and contributing to the local economy. It has a policy of integrating urban and infrastructural development in order to increase the economic and employment opportunities in the industrial sector.

A Town Development Fund Board (TDFB) has been established for extending financial support (in the form of grants and loans) to the towns to build and improve municipal infrastructure and to expand income generating activities.

In 1985, the UNDP/World Bank’s ‘Management Support for Urban Development Project’ was initiated to mobilize local resources to finance and manage town infrastructure/services. It has prepared structure plans, infrastructure and finance assessments for all municipalities in the country. Similarly, the German project, ‘Urban Development Through Local Efforts’, was developed to provide advisory services and technical assistance to the municipalities. However, both of these projects primarily focussed on the improvement of town infrastructures without much emphasis on rural-urban linkages.
Lastly, aside from these urban and regional development policies/projects, many implicit policies of the government such as investments in highways, trade relationship with India, and expansion of government bureaucracy also have important bearings on hill towns in Nepal, as seen from the earlier discussion.
1.3 PAST STUDIES ON SMALL TOWNS IN NEPAL

A review of literature on Nepal shows that there are only a few major studies on small towns in the country. There are four types of studies on small towns in Nepal. The first type is the detailed study of a particular town with focus on its economy and polity (Mikesell, 1992; Mikesell, 1988; Caplan, 1975). The second type is oriented towards functional analysis of a group of towns in a particular district or region (New Era, 1986; GIC, 1984). The third is the comprehensive study of all major towns in Nepal providing the overall picture of different levels of towns and their hierarchy (Sharma, 1989; CEDA, 1989). The fourth type include other miscellaneous studies by economists, planners, geographers dealing directly or indirectly with urban-rural linkages (Banskota 1989; ICIMOD 1986a; ICIMOD 1986b; INFRAS 1991; CEDA, 1990). However, none of these past studies on Nepal have particularly studied both a small town and its hinterland villages in order to capture the nature of urban-rural relations both from the town and village level perspectives.

The first type of studies are primarily conducted by anthropologists. Mikesell’s study uses the dependency perspective to examine a small hill town of Bandipur in Western Nepal (Mikesell, 1988; Mikesell, 1992). He suggests that the growth of Bandipur as a merchant community represented expansion of global industrial capitalism under
which the merchants acted as agents for selling industrial goods produced in India and controlled the rural areas. By acting as major wholesale center in the area, Bandipur helped in the penetration of foreign industrial commodities such as imported textile/fabrics thus giving a death blow to local handloom industry and agricultural production of cotton.

Caplan’s work (1975) is another anthropological study on administration and politics in a traditional administrative center in far western Nepal (Belaspur Bazzar). It shows how the economy and politics of the administrative center is dependent on the infusion of cash from the center for the expansion of bureaucratic control over the area. This expansion of bureaucracy has expanded administrative jobs on the one hand and also stimulated the growth of marketing along with the competition of townspeople and villagers for the jobs.

The second and third type of studies have been primarily conducted by geographers. The NEW ERA Study examined three hill towns and a Terai town in the western region of Nepal (New Era, 1986). The study found that each of the hill towns acted merely as distribution points for agricultural and industrial products from Terai and India. The study also found that hill towns have a weak industrial base and generate little employment. The weak industrial sector and meagre employment generation are both due to a
The Terai town (Butwal) is comparatively better off than the hill towns because of its higher agricultural productivity and larger potential for supporting agro-processing industries. It also has better transportation linkages for easier access to markets.

The other study by the Geography Instruction Committee (GIC) in Kathmandu focussed on small towns in two districts (one hill and other Terai) of the central region of Nepal. They found that there are only a limited number of urban centers in the two study districts (Kavrepalanchowk and Bara), leaving larger rural areas without access to services located in urban centers (GIC, 1984). The study also suggested that due to low agricultural productivity in the hills, agriculture is not contributing to growth of small towns, while in Terai, the agricultural sector has contributed significantly to the growth of urban centers.

The third type of studies focussing on whole of Nepal include Sharma’s study on Urbanization in Nepal (1989) and CEDA’s report on Inter and Intra Regional Flows in Nepal (1989). Sharma’s study draws mainly on the census data of all officially-designated municipalities to analyze the patterns and processes of urbanization in Nepal. Since it only utilizes data for officially-designated towns, many of the small towns which do not have urban status are excluded from the study altogether. But it was one of the first in-depth work on urbanization in Nepal.
CEDA's report is the first comprehensive study on the status of all major towns (including 33 municipalities and 18 market towns without municipal status) in different ecological zones. Based on the number, types and range of functional units (business, industries and institutions), all towns have been classified into five hierarchial levels. Most of the hill towns are in the lower tier and most Terai towns in the upper tier based on the classification. In many hill towns, although they have less number of business establishments compared to Terai towns, they are more important as administrative centers.

Besides these three types of studies, there are other miscellaneous reports by different organizations. INFRAS's study is on urban-rural linkages in two settings (one in a hill area, Dolakha, and the other, an area between hill and Terai, Butwal). It found remarkable differences between the two areas. While the hill setting is passive with significant imports of consumer goods and without any significant exports, the other area appears more dynamic with the rural areas benefitting from urban areas such as Butwal (INFRAS, 1991).

The workshop report of the International Center for Mountain Area Development (ICIMOD) on "Towns in the Mountains" highlight the current weak data base on the topic and emphasizes the importance of evaluating critical urban functions of small towns for identifying appropriate
policies for a small town development program (ICIMOD, 1986a). Other research reports of ICIMOD also suggest the need for developing market towns, or small towns to generate off-farm employment in the hills in the context of increasing inability of farm-based activities to absorb growing labor force with rapid population growth (ICIMOD, 1986b; Banskota, 1989; Manandhar, 1986).

Past studies on small towns in Nepal have contributed towards understanding the internal structure of small towns in the country. However, these studies are not without limitations. First, previous studies focussed on the functional characteristics of small towns without examining in depth the towns’ relationships with the surrounding villages in terms of use of urban services, marketing, contribution to agricultural production and creation of off-farm employment. No attempt has been made to analyze the village socio-economic structure in the surrounding villages, which could have an effect on the growth of small towns.

Secondly, except for Mikesell’s work on Bandipur, the marketing structure in terms of the relationship between the peasant producers and urban merchants has been completely ignored. Third and most important, many past studies on small towns in Nepal suggest the need to promote small town growth without addressing the larger issue of whether it will automatically contribute to overall rural development.
1.4 LITERATURE REVIEW: IN SEARCH OF A FRAMEWORK TO STUDY URBAN-RURAL RELATIONS

This section has four parts. First is a general discussion on the role of cities and urban-rural relations. Second, there is a review on theoretical debate about the small towns’ role in rural development. Next is an examination of the expected and actual roles of small towns based on empirical evidence from case studies in different countries. The analysis focusses on why there is often a divergence between the expected and actual roles of small towns. Then in light of the implications of the studies, a theoretical framework for the study of urban-rural relations in Nepal is put forward.

1.4.1 Role of Cities and Urban-Rural Relations

One of the earliest works relating to the role of cities is the distinction between generative and parasitic cities made by Hoselitz (1957 cf. Dixon, 1987). According to the author, if cities contribute to the economic growth of its region by allocating the surplus back into the region to increase production, it can be considered generative. But if the city only accumulates the surpluses and does not invest back in the surrounding area, it can be considered parasitic. This differentiation between generative and parasitic cities parallels the debate between the ‘trickle down’ and ‘backwash effects’ of development. While proponents assume that cities create beneficial trickle-down
influences in the hinterland areas by diffusing new innovations, critics argued that, on the contrary, it creates 'backwash' effects on the hinterland, creating greater disparities between core and periphery.

In 1977, Lipton’s book, *Why Poor People Stay Poor* further sharpened the debate on linkages between urban and rural areas by arguing that there was an urban bias in the allocation of development resources in third world countries. Lipton points out that urban bias creates inequalities in rural areas by the mutually-beneficial alliance between the urban elite and rural rich -- as a result of which the urban areas get cheap food and labor, and the rural elite get most of rural investments. The rural poor get poorer in the process. He even argues that the most important class conflicts in developing countries are between rural and urban classes, and not between labor and capital nor between foreign and national interests. The criticism of Lipton’s argument is his overemphasis on urban bias and urban/rural classes without adequate explanation of social stratification within both rural and urban areas as well as the role of international linkages which impinge on relationships between rural and urban areas.

Similar to the urban-bias thesis of Lipton, Chambers (1983) highlights the anti-rural biases among the professionals working in developing countries because of their superficial views about rural areas based on brief
rural visits, which he calls "rural development tourism". He suggests the need to reorient the top-down development planning to begin focusing on the rural poor.

Preston (1978) first identified the five major areas of interaction between the urban and rural areas, namely: (1) people's movement, (2) flows of goods and services, (3) financial transfers such as trade, taxes, (4) transfer of assets (such as property rights), and (5) flows of information. Funnell (1988), however, argues that although such categories of urban-rural linkages are useful means for understanding geographic change in an economy, there are conceptual problems associated with the analysis of each of these transfers. According to Funnell, the usefulness of all these categories of linkages are dependent on an ability to adequately define rural and urban areas, as well as justify why this spatial division is an appropriate framework of analysis.

Indeed, some critics argue that it is not the 'urban' and 'rural' spaces that interact, rather spatial differentiation is a result of aspatial processes (Dixon, 1987). It is not so much the nature of urban and rural spaces that is the fundamental problem but these are spatial manifestations of deeper socio-political processes, which are of prime importance. They see the whole relationship between urban and rural areas as a part of the consequence of the uneven development of capitalist relations of
production. According to this viewpoint, urban areas are major conduits for "penetration of capitalist relations into the larger rural areas of the third world countries" (Dixon 1987, p vi). Armstrong and McGee (1985) in their book, Theatres of Accumulation argue that cities serve primarily as centers for accumulation of capital by multinational firms, while at the same time acting as centers for diffusion of global consumption norms such as lifestyles and the tastes of modern industrialized society. The global mobility of capital by multinational corporations result in greater inequalities between urban and rural areas and between different classes.

Other scholars have argued that political and economic processes are also profoundly shaped by the geographic dimensions of space as human action and social relations take place in specific locales/territories (Storper and Walker, 1989). According to them there are three main characteristics of uneven development of capitalism, namely; territorial expansionism, continuing differentiation of places, and instability in the relations between places.

Recently, there is also a growing body of literature, which argues that urban and rural change should be seen as interconnected and as products of deeper structural transformation in society. (Douglass, 1992; Dixon, 1987; Potter and Unwin, 1989). Funnel (1987) also argues for a
need to include the notion of political conflict in the analysis of urban-rural relations.

In retrospect, there is a need to look at urban and rural areas in an integrated manner rather than two separate and different areas and issues. A focus on linkages and flows between town and villages will give a more comprehensive picture of processes of social/economic change in developing countries. It is important to examine both relations of production in rural areas as well as relations of exchange between different people from both urban and rural areas, along with economic/political linkages with outside countries to have a greater understanding of urban-rural relations at local level. It is essential to include in the analysis the social differentiation in the rural areas rather than assuming a homogeneous rural populace. It is also relevant to see how different people benefit or lose from urban-rural relations and how flows between the two areas are part of the broader transformation of society. Flows between different areas are affected by different class interests, particular development ideologies, and social factors such as caste and ethnicity.

Having discussed the broad theoretical developments on urban-rural relations, the following section deals with the more specific theoretical debate on the role of small towns in rural development.
1.4.2 Theoretical Debate on the Role of Small Towns

Similar to the different perspectives on urban-rural relations, there has been a debate about whether the small towns are generative or parasitic (Gaile, 1992; Rondinelli, 1987; Schatzberg, 1979). A multitude of opinions about the role of small towns depend on the ideological orientation of different theories of development.

Parasitic Role of Small Towns

The theoretical basis of the argument that small towns are parasitic comes from dependency theory (Hinderick and Titus, 1988). Frank (1971) maintains that small cities are merely part of a larger system of exploitation resulting in the transfer of resources from the rural areas to large cities and metropolitan centers abroad. This is the nature of capitalist economic relations causing rural underdevelopment. Schatzberg (1979) also argues that small urban centers act as centers of extraction siphoning off the financial resources (in terms of taxes) and human resources (in terms of migration of young people causing brain drain) from the rural areas. Although towns absorb the surpluses from the agricultural sector, they do not contribute in developing the rural hinterland because they primarily serve the urban elite. Studies carried out on small towns in Kenya, Sudan and Zaire also emphasize weak productive functions of small towns and the essentially parasitic role of small towns (Funnel, 1976; Schatzberg, 1979). The
proponents of this paradigm suggest the need for radical changes in the existing political, economic and social order in underdeveloped countries.

**Generative Role of Small Towns**

Contrary to the position that small cities are parasitic, there are other theories which consider them generative and view them as potential agents for regionally balanced development. Among those who consider small cities as potentially generative, some justify their position along functional lines ("Urban Functions in Rural Development" by Rondinelli, 1987) while others on territorial basis ("Agropolitan Development" by Friedmann and Douglass, 1978) and free market orientation ("Market Based Regional Development" by Gaile, 1992). Each of these theories, however, suggest the need for changes in the existing role of small towns. We will discuss the ideas of each of these theories on small towns and rural development in more detail below.

1. **Urban Functions in Rural Development**: The Urban Function in Rural Development Strategy (Rondinelli, 1987; Rondinelli, 1985; Rondinelli and Ruddle, 1978) is also known as "Transformational Development Strategy". This approach, developing on the ideas of central place theory and the works of E.A.J. Johnson (1972), suggests that in many developing countries with highly polarized settlement systems, the failure of development to spread could at least
be partly attributed to lack of adequately integrated system of settlements through which innovation and economic growth could be diffused (Rondinelli, 1985). Therefore this theory suggests the need to integrate small towns in a spatially and functionally interlinked hierarchy of urban centers, with intermediate cities, small towns and villages. This, they believe, facilitates efficient exchange of goods and services between large cities and countryside so that rural areas can be integrated in the overall national growth and development. The emphasis here is clearly on intermediate cities where major industries are located for economy of scale.

2. Territorial Development: Agropolitan development is one of the first approaches advocating territorial development and it considers that small towns within a small self-reliant territorial unit can promote rural development based on the complementarities between agriculture (and village) and the rural town (Friedman and Douglass, 1978). It calls for both diversification of agriculture and rural industrialization at small territorial level so as to develop the rural areas. It emphasizes local control over the use of productive resources and collection of taxes at the local level. It also suggests the need for some structural reforms such as land reform and devolution of power at the local level.
To achieve these objectives, Friedmann and Douglass (1978) suggest the establishment of agropolitan districts of about 50,000 to 150,000 population with small towns of 10,000 to 25,000 people. The towns would be the location of urban services and non-farm employment. These spatial dimension has been chosen so that small towns are within a commuting distance of five to ten kilometers for greater accessibility to urban services by the rural hinterland population.

Linked to the idea of territorial development is the concept of ‘selective spatial closure’ of rural areas to check the leakages from rural to urban areas and encourage greater investment of rural resources in the local economy (Stohr and Todtling, 1977).

Recently, Douglass has proposed a new regional development strategy called "Regional Network Model" which has many elements from agropolitan development (Douglass, 1992). The model advocates the need to link all regional towns, both small and big, as a network providing rural-urban linkages to form a larger diversified regional economy. It is argued that this networking of towns is better than creating a single growth center founded on urban-based manufacturing. Like agropolitan development, it suggests the need for agricultural diversification, and decentralized planning with coordination of multi-sectoral and urban-rural activities at the local level.
3. Market Based Regional Development: This strategy assumes an important role of the private sector in the small town development program and changes the perspective of local authorities from that of service providers to one which is entrepreneurial (Gaile, 1992). It argues that the goal of small town development is to promote agricultural marketing in the hinterland area and generation of non-farm employment in the small town.

It suggests the need for government investment to improve the marketing system and to free market imperfections such as local spatial monopolies, simple lack of information and lack of marketing skills. The focus of the development strategy consists of provision of infrastructure (such as better power, water and transport) by the government to increase economic productivity in the town and its market area. Other programs that may be included are creating better access to credit, job training and local marketing skills and encouraging the farmers to produce for the market.

Comparison of the Theories

It is clear that opinions regarding small towns are divergent and often depend on the ideological stand taken by the authors. Distinction should be made between what roles existing towns are playing against what roles towns could play with changed circumstances. While Schatzberg (1979) essentially criticizes the existing roles of the towns, all
three theories (Urban Functions in Rural Development Theory, Territorial Development and Market Based Regional Development) suggest that with changes in spatial and economic policies, small towns could be made to play a more effective role in rural development.

"Urban Functions in Rural Development Strategy" provides the spatial focus in its development strategy and suggests the need for improving urban services in the small towns. However, one of the criticisms of this strategy is that it only emphasizes the improvement of physical access to services and markets for the rural people without suggesting any changes in the political economy of the rural areas. It also assumes that rural development takes place from integration of its economy with large urban centers without ascertaining if the benefits of production and exchange largely accrue to rural areas. Also, Rondinelli and Ruddle (1978) suggest the need for providing a hierarchy of facilities depending on the hierarchy of towns without going into the issues of whether the services provided will be largely used by the residential urban population or the larger populace from the rural hinterland.

The primary focus of "Market Based Regional Development", like "Urban Functions in Rural Development" is on the improvement of physical infrastructure in the small towns. But it also looks at the hinterland and has some positive elements such as the suggestion to remove certain
constraints in the rural areas by providing credit, job training/skill development for villagers, developing enterpreneurial skills, providing marketing information, and encouraging the farmers to produce for the market. However, it ignores the importance of investing in social services such as health and education facilities and primarily focuses on marketing activities of the rural people.

The "Territorial Development" paradigm criticizes the simplistic assumptions that the urban-industrial growth strategy would automatically create positive spread effects to rural areas. Regional disparities cannot be reduced by mere provision of services and physical infrastructure without consideration given to regional socio-political structures. But unlike the dependency analysts, who essentially see small towns as parasitic in nature, the proponents of agropolitan development also see generative aspects of small towns if major changes in socio-political structures are brought about.

This paradigm makes a number of important suggestions. In the first place, it emphasizes the need to diversify the rural economy, generate additional employment of the local people, and retain greater control of local resources in the rural areas themselves. However, the central governments in many developing countries may not be willing to make changes such as radical land reform, selective spatial closure and devolution of power at the local level. This is primarily
due to reduction of its own power and strong opposition by people who will be adversely affected by the changes which will reduce the central government's own power. Therefore, what may be possible is a strategy which provides participation by local people with sharing of power between the central government and the local district, but which at the same time has essential elements of the territorial development approach such as territorial focus in planning, rural industrialization, local participation, and small towns providing the necessary industrial and service infrastructure.

1.4.3 Role of Small Towns in Rural Development: Expectations and Realities

Extensive literature exists justifying the promotion of small towns (Douglass, 1992; Gaile, 1992; Leinbach, 1992; Potter and Unwin, 1989; Mathur, 1982; Taylor, 1981; Friedmann and Douglass, 1978; Stohr and Taylor, 1981; Rondinelli and Ruddle, 1978). In this section, the arguments made in a wide range of literature justifying the promotion of small towns are discussed and later compared with several empirical studies on small towns to see if they fulfill the important roles assigned to them.

The Small Town as Marketing Center for Goods and Services in Rural Areas

Justification: Small towns are frequently justified as centers providing goods and services from larger urban
centers and as local markets or collection points for the agricultural produce of local farmers (Gaile, 1992; Rondinelli, 1984; Taylor, 1981).

**Empirical Evidence:** Studies done in the Serayu Valley Region in Indonesia show that the rural small town has become primarily a market for the purchase of urban consumer goods rather than for the selling of rural produce (Titus, 1991). The originally important collecting function of small towns is being progressively eroded.

Studies done by Kaothien in Thailand (1979), Lian in Malaysia (1979), and Lundquist in Tanzania (in Funnell, 1976) also come to a similar conclusion about the important role of small towns as distribution centers of urban consumer goods. Rural produce, on the other hand, is directly marketed to larger cities from the rural areas, completely by-passing the small towns. Lian (1979) adds, in his Malaysian case analysis, that the locally-produced rubber and paddy are marketed to larger cities by the state marketing board independent of small towns.

While most of these studies indicate small towns are primarily markets for urban consumer goods, there are also few examples of small and intermediate urban centers which grew prosperous because they became the location for producer and consumer services, and processing industries linked to increased income from agricultural produce (Hardoy and Satterthwaite, 1986). One example is Sao Paulo which
first grew and diversified as an urban center from the stimulus of coffee production.

The Small Town as a Source of Industrial and Other Non-Farm Employment in Rural Areas

Justification: Small towns are seen as possible areas for industrial and other non-farm investments to minimize congestion and diseconomies in the large cities. If sufficient employment is created in small cities, they are also potential areas for redirecting the migration flows away from large cities (Mathur, 1982; Taylor, 1981).

Small town development can absorb a part of the growing labor force which cannot be absorbed in the agricultural sector and hence can be an important part of a labor employment strategy in developing countries (Gaile, 1992). Small towns provide viable sites of possible labor expansion without significant diseconomies to society and the national economy.

Empirical Evidence: Studies on small towns in Pakistan, Tanzania, Kenya, Sudan, Malaysia, Thailand, Bolivia and Peru (Siddiqi 1993; Funell, 1979; Kaothien, 1979; Preston, 1978; Lian, 1979) showed that the town has limited employment opportunities except for small manufacturing industries. Therefore they cannot redirect migration to other larger centers. A similar situation exists in the small towns of India, where there is only a small range of retail and service establishments which offer only a few jobs (Bhoosan,
Small towns are important as commercial service centers rather than as industrial centers (Siddiqi, 1993).

**The Small Town as a Center for Provision of Urban Services to Rural Areas**

**Justification:** Small towns are considered appropriate locations for concentrating various public services (such as health, education and agricultural development facilities) for the surrounding rural population. These urban centers cover a minimum threshold population that can increase the utility of such services. (Taylor, 1981, 1978).

Small towns are justified on the logic that it provides the necessary urban-rural linkages for expansion of the agricultural sector in many developing countries by providing access to agricultural inputs and other services (Gaile, 1992).

**Empirical Evidence:** However, some empirical researches prove such claims unfounded. With regard to social services, Utis Kaothien’s study (1979) of small towns in Thailand, De Jong, et al.’s work in Indonesia (1983) and Preston’s (1978) study in highland Bolivia show that educational, health and agricultural credit facilities provided in the towns are largely used by the urban residents of the towns themselves rather than the farmers in the rural hinterland.
Similarly, King and Portais (in Funnell, 1976) discuss how sharp distance-decay effects occur in the use of hospital and school facilities in Uganda’s small towns.

1.4.4 Reasons Why Small Towns Do Not Perform Their Roles

Based on the above case studies on small towns, one can conclude that many small towns fall short of the beneficial roles assigned to them by advocates of small town development. It would, therefore, be pertinent to discuss what are the particular reasons why some towns cannot play a more generative role in the development of their hinterland areas. Each of them will be discussed separately.

Skewed Agrarian Structure

In many developing countries, including those being covered in the case studies, there is an inequitable distribution of landholdings which leaves the majority of the people on subsistence agriculture. The low purchasing power among small farmers do not generate enough demand for goods and services for an enterprise to be able to exist in local urban centers. The demand for services required by a small group of rural elite is fulfilled by the more distant larger urban centers. In this situation, even with the growth in agricultural production, there may be no forward and backward linkages with the small urban centers if growth is captured by only a narrow stratum of farm households (Saint and Goldsmith, in Hardoy and Satterthwaite, 1986)
Hardoy and Satterthwaite (1986), for example, found that while inequitable land distribution in Uttar Pradesh (India) constrained local urban development, equitable agricultural land and government support for its utilization had a positive role for the growth of urban centers in the upper valley of Rio Negro, Argentina. Similarly, in Korea and Taiwan after land reform, there was increased income for a majority of peasants which created the demand for goods and services supporting local urban development.

**Subsistence-Level or Specialized Agricultural Production**

Although agriculture and the growth of small towns are closely linked in many developing countries (Douglass, 1986), agriculture lacks diversification and is either based on low levels of subsistence food production or specialized cash crop production for international markets. In the former case, the low productivity does not permit growth in agricultural processing in order to increase value-added in agricultural production for the benefit of the rural people. In the latter, the fluctuating international market prices of cash crops may eventually determine the growth and decline of the small towns and their agricultural hinterland. Also if there exists a vertically integrated monopolistic marketing board or agribusiness to market the agricultural produce, the growth of agricultural production may have very little impact on the local urban centers.

Saint and Goldsmith (1986) based on their experience in
Brazil, showed that introduction of certain commercial crops such as citrus production required large landholdings, higher capital investment thus encouraging higher land concentration among a few people.

Low Productive Base of Small Towns

Small towns cannot act as alternate destination points for potential migrants to large urban centers because of the low productive base of these towns and limited availability of employment opportunities. These small towns have mostly small trade, service, and manufacturing operations as their economic base. Misra’s (1986) and Bhoosan’s (1986) study of small towns in North and South India showed that most of the business establishments are small and are family operations employing mostly relatives. Similar studies of small towns in Sri Lanka found that the bulk of employees are drawn from the owners’ ethnic group and place of origin. The initial growth of some small centers is due to their roles as centers of administration or as military outposts, and not to the economic performance of their hinterlands.

Based on his studies on the Philippines, Gibb (1984) also found that consumer-related activities were considerably more important than production-related ones in the small towns. Activities related to agricultural production were only a small proportion in small towns, reflecting the slow agricultural growth in rural areas.
Elite-Biased Marketing Structure

Small towns do not benefit the local farmers either as markets for their produce or for purchasing consumer goods, because existing marketing structures favor a few landlords and merchants. Small farmers are forced to sell their agricultural produce at lower prices during harvest time due to lack of storage facilities and the need for cash for household consumption. The rural landlord and the newly emerging urban merchant group acquire the agricultural produce at less than competitive market prices and transfer them to large cities, appropriating huge surpluses in the process (Douglass, 1981).

Poor Spatial Linkage between Small towns and the Rural Hinterland

One of the often observed reasons for the limited service area of small towns is their poor spatial linkage with the surrounding hinterland, which limits the villagers’ accessibility to different services in the small towns. The spatial linkage between small towns and their rural hinterlands can also facilitate the marketing of agricultural produce by the small producers to the small towns, reducing their dependence on landlords and middlemen (Mckay, et. al. in Funnel, 1976).

Corollary to this, the spatial linkage of small towns with other regions, can also stimulate growth in local production to fulfill the demand from other regions. Hardoy
and Satterthwaite (1984) contend that in the upper valley of Rio Negro, Argentina, the establishment of transport network facilitated the growth in local production for sale outside the region. However, in areas with little potential in growth of local production, improved transport facilities may only contribute to the decline in local economy with the penetration of mass produced goods.

**Lack of Power and Resources with the Local Government**

Many local governments of small towns lack power and resources to play a greater role in encouraging a larger and more diversified economic base for the region. Otherwise, they could play a key role in planning and implementing development activities at the local level, and in articulating the needs and priorities of local people to higher levels of government. In order to address this issue, Douglass (1981) suggests the need for greater decentralization of power and resources at local level.

**Unfavourable Macro-economic and Sectoral Policies**

In many developing countries, certain macro-economic policies have negative effects on the growth of small towns and the rural hinterland. Agricultural pricing policies which artificially lower food prices, tax small farmers heavily cause decline in the local economies of rural regions. Import substitution policies may, likewise, encourage the growth of large capital-intensive industries in metropolitan centers at the cost of small towns. The
industrial products from these large industries may penetrate the local market in rural areas, destroying local industries.

1.4.5 Framework For Studying Urban-Rural Relations

The preceding discussion attempted to build a framework for studying urban-rural linkages between small towns and their surrounding hinterland. Based on the studies reviewed, small towns can perform generative functions when appropriate linkages occur between the towns and the nearby villages. These interactions can be viewed in terms of the three rural development roles of small towns and are shown diagrammatically in Figure 1.

The town provides urban (social and agricultural) services and, in return, creates increase in demand for the same -- justifying the concentration of services in the area. This demand expansion is also created by increase in income from improved agricultural practices. As Mellor (1976) suggests, increasing farm income from increased agricultural production raises the demand for consumer goods thus contributing to growth of non-farm activities in the small town. The villagers' involvement in non-farm activities act as insurance against the risks of farming and thus enables them to adopt new production methods and increase farm income (Evans and Ngau, 1991).

Secondly, the town facilitates the flow of consumer goods and services while the villages match this with their
FIGURE 1: EXPECTED URBAN-RURAL LINKAGES

BIG TOWN/ CITY

SMALL TOWN

MARKETING
Consumer Goods
Agricultural Produce

URBAN SERVICES
Agri Credit, Input,
Schools, Hospital

Finished Product of Industry, Jobs
INDUSTRY/EMPLOYMENT

HINTERLAND VILLAGES

vill.
agricultural produce. Thirdly, the villagers provide labour/skills for the local industries in the small town in exchange for cash income which flows into the villages through remittances.

The figure also shows that the small town plays an intermediary role between the larger town and the villages by absorbing consumer goods and both public and private investments, and transferring these to the rural areas.

The above interactions, however, are only hypothetical under the present socio-economic and political conditions in many developing countries. Figure 2 gives a picture of the existing urban-rural relations in rural areas based on the reviewed case studies. As the diagram shows, urban services cater mostly to the town’s residents themselves. If these rural development requirements reach the hinterland at all, they are availed of, usually, only by the rural elite. There is apparently a one-way flow of consumer goods, distributed from the larger towns to the villages, either through the small towns or directly from the larger centers. The return flow of agricultural produce, however, can by-pass the rural towns. Leakage also occurs as the rural villagers migrate to larger urban centers for employment opportunities. In whichever case, notwithstanding, the villages suffer.

Several factors, themselves inter-connected, account for the undesirable linkages. At the village level, these
FIGURE 2: EXISTING URBAN-RURAL LINKAGES
refer to the inequitable distribution of land (and consequently, of income or purchasing power) and the subsistence-level/specialized agricultural production. At the town level, factors include the low productive base of small towns, and the lack of resources and decision-making power that reside with the local government.

Between the town and the villages, the poor spatial linkage inhibits village residents from acquiring urban services and agricultural inputs, and from transporting their produce to the town markets. Lastly, beyond the town/village level, another factor has to do with the central government’s inappropriate macro-economic and sectoral policies. As long as unfavorable agricultural pricing or import substitution policies persist, a system that results in rural underdevelopment will prevail.

The breadth of literature used in constructing this framework make it a valuable tool in studying urban-rural relations in developing countries. However, in the context of Nepal, certain physical, historical and socio-cultural characteristics, which can also influence the inter-relationships between small towns and their hinterland, do exist but were not taken into account in the previous studies. Such particularities need to be considered in order to understand the urban-rural linkages within the country’s hill regions.
Nepal’s landlocked position between two giant countries -- India and China -- create political and economic disadvantages. Historically, Nepal was never colonized and was relatively isolated from 1816 to 1951. Most of the countries discussed earlier in the case studies were opened to export-oriented and commercial agriculture by colonial administrators, while Nepal’s long history of isolation had created self-reliant communities engaged in subsistence agriculture, particularly in the upland areas.

Topographically, except for the narrow strip of Terai plain along its southern borders, Nepal is largely mountainous and of rugged terrain. Due to the steep slopes and lack of natural irrigation facilities, the hill areas have a much lower resource base than the Terai. Likewise, the rough topography of the vast rural areas of the country preclude ease of mobility between the dispersed villages and rural towns. The small town literature discussed earlier generally dealt with lowland rural areas. However, the physiographic characteristics of Nepal may have different effects on the urban-rural linkages within its hill regions.

Nepal is a predominantly agricultural country with more than 93 percent of its people engaged in agriculture. Compared to other countries discussed in the case studies, industrial development in Nepal is negligible and therefore Nepal has to largely depend on agriculture for the growth of Gross Domestic Product, exports and employment. The data on
composition of Nepalese industries suggest that agro-processing (e.g. rice, jute and oil mills) is the dominant industry in the rural areas of Nepal.

Nepal has a population of about 18.49 million (as of 1991), and it has more than 36 ethno-linguistic groups. The major ethnic groups are Brahmins/Chhetris, Newars, Magars, Tamangs, Gurungs, Rais and Sherpas. Here the term "ethnicity" has been generally used to imply different social groups with their own language, cultural traditions and common ancestry. Besides ethnic grouping, there are also caste subdivisions within some ethnic groupings such as Newars and Brahmins/Chhetris. For instance, in the rural areas of Nepal, while Brahmins and Chhetris are considered "high-caste groups" (with Brahmins being even higher in social hierarchy than Chhetris), there are also other occupational groups such as Sarkis, Damais and Kamis who are considered "low-castes" with specific occupations as shoemakers, tailors and blacksmiths. Brahmins and Chhetris are generally the landed class in the rural areas, and Newars are traders who have established businesses in the urban centers. The other ethnic groups and occupational castes do not have the same access to land or trade as do the Brahmin/Chhetris and Newars. McAll (1990) suggests that ethnicity and economic class are both important concepts in discussion of any social inequality. Similarly, Murton (1982) suggests the importance of using indigenous
concepts such as caste rather than merely economic class to have a proper understanding of social reality in places like India. For Nepal, with caste and ethnic divisions as in India, the use of urban services may depend not only on economic status but also social groupings such as ethnic status.

Therefore, in the light of the framework built from the literature review and within the peculiarities of Nepal’s hill regions discussed in this section, the following research objectives are laid out.
1.5 RESEARCH OBJECTIVES

The major objective of the dissertation research was to examine the nature of urban-rural relations between a small town and its rural hinterland in the central hills of Nepal. The research focused on three primary functions of such towns: (1) acting as marketing centers for goods and services to and from larger cities and the surrounding villages; (2) serving as location for industries and generating non-farm employment in rural areas; and (3) providing access to urban services for the rural people.

The study examined urban-rural linkages from both the small town and village ends. Using both town-level and village-level data, the dissertation examined the marketing role of a small town both as a distribution center for urban consumer goods and collection center for rural produce. Then it addressed the question on whether such small town has been able to host rural industries and provide employment opportunities for people from hinterland villages. Lastly, it examined how the villagers use the four major services of the small town - i.e., agricultural credit, agricultural input, health services and educational facilities.

A functional analysis of the rural town was conducted in terms of its services and facilities, the users of the services and the flow patterns of goods and services in order to examine the small town's linkages with the
surrounding villages. A socio-economic study of two hinterland villages was also made to obtain a rural perspective on how villagers use the services and facilities in the small town. Some of the major problems in the use of services by the villagers were then identified.
1.6 RESEARCH QUESTIONS

In line with the objectives of the study, the following questions regarding the three major small-town functions and linkages of the small town with its hinterland villages were addressed.

With respect to the town’s role as a market center:
(a) How does the small town perform as marketing center both for distribution of urban consumer goods as well as for providing collection points (markets) for local produce?
(b) What are the constraints to marketing for villagers?

In terms of its industrial and employment functions:
(a) What type of industrial activities exist in a hill town?
(b) How are these industries linked to the villages in terms of the source of raw materials and destination of finished products? (c) How effective has the small town’s industries been in generating employment to the rural people? Aside from these industries, what other sources of non-farm employment are available to the people? (d) What are the problems and prospects in promoting local industries in the small town?

Regarding the provision of urban services:
(a) How are the urban services such as agricultural development and other health /educational services located in the small town used by the rural people in the hinterland? (b) What factors constrain the use of these urban services?
1.7 ORGANIZATION OF THE STUDY

This study is divided into four chapters. Chapter One has introduced the research problem in the context of historical and contemporary processes of urban development occurring in Nepal. The conceptual framework used for addressing the problem was derived from the review of past studies (both theoretical and empirical) related to the subject. The research objectives and questions addressed were then identified.

Chapter Two deals with the methodology for field research and general description of study area. First, an argument was made to use the case study approach to answer research questions pertaining to a small town and its two hinterland villages. The utility of the integrated field design for information gathering was also discussed. Secondly, a brief note on the regional context of study area has been made before explicitly focusing on the town and the villages. Third, the data collection methods used for fieldwork in the study area were spelled out. Lastly, a broad overview of changes taking place in the study area was presented in order to understand the present role of the small town in terms of its marketing, industrial/employment and service functions.

Chapter Three discusses each of the above mentioned functions and linkages of the small town being studied. For the marketing role of the small town, both distribution and
agricultural marketing activities of the study town were analyzed from the town-level as well as the village-level data. Both wholesale and retail commercial establishments in the town were examined in terms of the place of origin of goods sold, place of origin of customers, volume of trade and expansion of trade networks. For the industrial and employment functions, the general nature of industries and type of employment available in the small town were discussed. A separate section was devoted to the employment function to cover the extent of employment opportunities also provided by other sources. Regarding the service functions of the small town, agricultural credit, agricultural input, health and education services available in the small town were analyzed in terms of access to the services based on ethnicity and place of origin. For each of these functions of small town, constraints of the villagers to avail of the various rural development functions of the town were also examined.

Chapter Four presents the summary of findings, conclusions based on the results of the study, the recommended approach to develop urban-rural linkages in the hill areas of Nepal and the planning/policy implications of the study. Each of the functions, linkages and constraints of the small town are first summarized. Conclusions are then derived from the findings as they apply to other hill regions. Third, in the context of Nepal, a market oriented
territorial development approach is proposed for the development of the hills. Policy implications of both the findings and the advocated approach are drawn next. Lastly, contributions of the study and further areas of research on the subject of urban-rural relations are identified.
CHAPTER TWO

METHODOLOGY: FIELD RESEARCH AND STUDY AREA

2.1 INTRODUCTION: CASE STUDY APPROACH

A case study approach was used to study a small town and two of its hinterland villages to attain a comprehensive and in-depth understanding of the nature of urban-rural linkages. Such approach has often been criticized assuming that it is difficult to make generalizations based on a single case. But Yin (1984) argues that a case study can make generalizations based on a comprehensive understanding of the phenomenon rather than merely focussing on some notion of representativeness and statistical generalization. A case study utilizes many sources of data including key informant surveys, questionnaires, secondary information, mapping, participant observation which enrich the quality of understanding of a phenomenon and permits the drawing of theoretical conclusions (Mitchell, 1983).

As a justification for using the case study, Coolen et al. (1984) points out its many advantages such as holistic understanding of a process in a normal setting, active participation of the key actors involved and contribution to theory-building using inductive strategies. Furthermore, Chapman and Prothero (1983, p 607) believe that "findings from the case studies may be generalized to other cases for which the same contextual conditions hold".

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A case study also permits study of both macro socio-economic forces and local aspects of urban-rural linkages. This will facilitate the study of both ‘setting’ and ‘situation’ of urban-rural linkages as advocated by Mitchell (1985). (Mitchell defines ‘setting’ as a set of macro-economic, political and administrative context and ‘situation’ as concerned with the particular circumstances of the people in the local area).

To understand the local situation regarding urban-rural linkages, within the broader framework of the national/regional ‘setting’, detailed field work was carried out in the study area. An integrated field design which incorporates a combination of field instruments was used for this purpose to gather information on the individual, household, village community, and the small town. The field instruments included both structured questionnaire surveys and household censuses as well as non-structured informal discussions and participant observation.

This integrated field design approach was chosen for its many strengths. As Chapman (1987) points out, an integrated field design that focusses on a particular case has the advantage of making inquiries simultaneously at several levels from the individual and the family to the larger aggregates. It also facilitates merging of both cross-sectional data with longitudinal data. The evidences from various types of data at different levels can then be
integrated for a more comprehensive understanding of community-level processes. The integrated field design also makes it possible to check internal consistencies, ambiguities and contradictions in the data to understand the logic of given situations (Chapman, 1987).

For purpose of the study, Banepa, a hill town in the Kabhre Palanchok (Kabhre) district of Nepal’s central hill region was examined along with two of its hinterland villages, Opi and Devitar. Banepa was chosen for the study because its population size and functional characteristics enabled the researcher to formulate wider generalizations about small hill towns in Nepal. Banepa had many of the rural development functions suggested in the small-town literature. In addition, the International Center for Mountain Area Development (ICIMOD), which partly funded this dissertation research, was interested in a study of urban-rural linkages in Bagmati zone area which included the city of Kathmandu and smaller towns like Banepa, Bidur and Dhulikhel. It was worthwhile to understand the growth dynamics of Banepa and to examine if Banepa could play any role in controlling the growth of Kathmandu, besides fulfilling the rural-development functions assigned to small towns by advocates of small-town development. Furthermore, the researcher was well-versed in both Nepali and Newari languages spoken by the local people in the area which facilitated conducting research in the study site.
An integrated field design was prepared in which data were collected in both Banepa and the two villages. The community-level data at the town and village levels provided the context for the survey of commercial and industrial establishments in the town and detailed household surveys in the villages. As Bilsborrow (1984) suggested, by collecting data at both the household and community levels, one can avoid ecological fallacy of making inferences about individual behaviour and vice versa.
2.2 THE STUDY AREA

2.2.1 Regional Context: The Kabhre District

The town of Banepa lies within the district of Kabhre Palanchok (Kabhre), which in turn, is part of the Central Development Region of Nepal (Map 6).

Kabhre district is located just east of Kathmandu valley in Bagmati zone. It has a total area of 1,396 sq km and a 1991 population of 324,329. The majority of the people in the district are farmers and they plant maize in pakho (sloping areas) and rice and wheat in khet (paddy fields). The main vegetable crops raised for the market are potato, garlic and onion, and fruit crops include oranges and lemon.

There has been a major livestock development in Kabhre district as compared to other districts in the Bagmati zone. The emphasis is on generating revenues by selling milk. Kabhre district is reported to be one of the primary sources of raw milk for the government-run Dairy Development Corporation. The district supplies 9,500 liters and 3,000 liters of milk per day during the flush and lean seasons, respectively (APROSC, 1985). There are three milk-chilling centers in the district and they are located in the towns of Banepa, Panauti and Panchkhal. There are also a number of milk-collection points in different areas of the district.

Kabhre district has altogether 95 Village Panchayats (recently renamed Village Development Committees which are
MAP 6: CENTRAL DEVELOPMENT REGION SHOWING KABHRE PALANCHEK DISTRICT
the basic administrative units), and two municipalities (Banepa and Dhulikhel).

**Small Towns in the District**

Banepa and Dhulikhel are two major small towns in the district. Other smaller settlements include Panauti, Panchkhal, Khopasi, Nala, Dolaighat, Sanga, Dapcha, Lamidanda and Mangaltar (Map 7).

Due to the hill-top location of Dhulikhel, the town had developed as the administrative center for political and military control since the time of Shah rulers until the reign of the Ranas. Banepa, by virtue of its location along the foothills and junction of trails leading to other settlements has emerged as one of the major market centers in the district. Both in terms of population and number of urban functions, Banepa is a larger town than Dhulikhel. While Banepa has a population of 12,537, Dhulikhel has a population of 9,812 (CBS, 1993). A study by CEDA indicates that Dhulikhel has one wholesaler, 112 retail sellers and 51 institutions (CEDA, 1989). On the other hand, Banepa has about thrice the number of retail establishments in Dhulikhel. Although Banepa and Dhulikhel are two separate municipalities at present, in the near future, due to the fact that they are adjoining towns, it is most likely that urban growth in both towns will make these two contiguous urban areas into one larger urban area much like Kathmandu and Lalitpur in the Kathmandu valley.
MAP 7: KABHRE PALANCHOK DISTRICT

Source: HMG (1985)
Other towns in the district are comparatively smaller than Banepa and Dhulikhel. An earlier study carried out on small urban centers in Kabhre (GIC, 1985) showed that all other towns have less than 5,000 population and have only a few urban functions. For instance, Panauti had a population of 3,496, Khopasi had 1,365 and Nala had 3,432. Similarly, while Panauti had 174 urban functions, Khopasi and Nala had 79 and 70 respectively. While Dhulikhel, Panauti, Nala, Shrikhandapur and Sanga are the historical centers, Lamidanda and Dolalghat are the new centers along the road, surfacing after the opening of the Arniko highway.

Transport Development in the Area

The study area’s recent growth has been the result of construction of two major roads in the area, i.e., Arniko Highway and the Lamosangu-Jiri road. The Arniko highway -- connecting Kathmandu valley to Kodari, through Banepa -- was built with the Chinese Aid from 1961 to 1966, despite India’s security concerns. Most of the Nepal-Tibet trade now goes through the Arniko highway. The main items exported are foodgrains, sugar, jute bags, tobacco and leather. The items imported, on the other hand, include salt, wool, carpets, sheep, and cotton. The volume of trade between Nepal and Tibet, nonetheless, is much less than that between Nepal and India.

The 110-kilometers-long Lamosangu-Jiri Road, on the other hand, was constructed in 1984. The said road
originates from Lamosangu, which is along the Arniko Highway and is 78 km away from Kathmandu, and eventually leads to the Jiri valley. The opening of the Lamosangu - Jiri road in 1984 has enhanced Banepa’s access to the central hills and the service area of Banepa has been extended to primarily four districts (Kabhrepalanchok, Sindhupalanchok, Dolakha and Ramechhap). This road construction, on one hand, provided the basis for greater access to daily essential goods such as kerosene, salt and sugar from Kathmandu, and increased commercial activities along the road in terms of teashops and lodges for trekkers/tourists, on the other. The expansion of road network was accompanied by increased expansion of bureaucratic/developmental activities in the area with introduction of Integrated Hill Development Project in the Sindhu Palchowk and Dolakha districts.

There has been a proposal to build a Kathmandu-Banepa-Janakpur highway linking Banepa with eastern Terai. Although this idea came up about thirty years ago, it is believed that this has not materialized partly due to objections of the Indian government to build a road which facilitates greater access to the Indian border from the Chinese border. Recently, the Japanese government has shown interest in studying the feasibility of this road. If this road gets built, Banepa will emerge as an important transportation node in the east-central hills linking
Tibetan border on one side with Arniko highway and Indian border and eastern Terai on the other through the new road.

2.2.2 Banepa and Its Two Surrounding Villages

Banepa is one of the 36 urban centers designated as town Panchayats (municipalities) by the census of Nepal and had about 13,000 inhabitants in 1991. It is situated at an elevation of 1,438 meters (4,716 feet) and is a gateway town just outside Kathmandu valley for the east-central hills. Like many hill towns, it developed historically as a trade center serving the rural hinterland areas through traditional hill trails. It still is a major market center in the area which has been facilitated by its strategic location along the major highway connecting Kathmandu and east-central Nepal. At present it also acts as the service center for the surrounding villages with provision of a town hospital, a college, banks, agricultural inputs depots and other facilities. It has a concentration of many household and cottage industries including the handloom industry, rice mills, sweater knitting industry and dairy industry.

Besides the town, two of Banepa’s surrounding villages, Opi and Devtar, have also been chosen for the study to get a rural perspective on small towns (Map 8, Map 9). As is clear from the literature review on small towns in Nepal, past studies have focussed on study of the town itself without going into village-level studies. The two villages selected are at different distances from the small town and
MAP 8: STUDY AREA

Source: Modified from HMG (1985)
Source: Modified from Karki (1989)

MAP 9: BANEPA TOWN
are inhabited largely by two different ethnic groups. While Opi is near Banepa (thirty-minutes-walk from Banepa), Devitar is about a two-and-half-hour-walk from Banepa. Similarly, Opi is a Brahmin/Chhetri-dominated village whereas Devitar is a predominantly Tamang village. These selection criteria have been used to obtain information on differential relations of rural town with the villages depending on their distance from town, ethnic status and economic class.

The majority of the people in these villages are living on subsistence agriculture. While most villagers plant rice and corn as major crops, some villagers have diversified their agriculture by growing potato, yam and fruit for marketing purposes. The proximity of the study area with Kathmandu has facilitated the development of dairy industry in the area to fulfill the increasing demand for milk in urban Kathmandu. While the town is largely inhabited by the Newar ethnic group, the surrounding villages have two major ethnic groups namely Brahmin/Chhetris and Tamangs.
2.3 FIELD WORK

2.3.1 From Kathmandu to Banepa and Villages: A Visual Image

To go to Banepa from Kathmandu, most people take a minibus or bus at the central bus park in Kathmandu. The minibuses leave almost every twenty minutes and it takes between one to one-and-half hours, with stops in between. The buses/minibuses are generally crowded and many people also carry items such as urban consumer goods, and cotton and woolen yarn. In like manner, local people also transport milk, grain, vegetables, potatoes by the same minibus to Kathmandu.

While going towards Banepa, the road section between Kathmandu and Bhaktapur is fairly wide and straight and one notices many industries such as brick kilns, particularly when one reaches near Bhaktapur area. After crossing the Bhaktapur trolley bus stop, the road becomes more winding, following the hilly terrain and the setting becomes more rural, with more dispersed settlements and smaller market places along the way. The road passes through green rice fields on both sides of the road, with pockets of ribbon development particularly near the bus stops. In between the bus stops, rural settlements are visible in the sloping bari lands beyond.

Banepa is a bustling marketing town along the Arniko highway with rows of shops selling a wide range of goods.
such as clothing and general merchandise. Most of the wholesale shops in Banepa are located along the highway and there are many buses, minibuses and trucks parked along this area. The range of shops along this main road include some of the newer shops which include videorental shops, photography studios, newspaper stands, construction material supply stores and the like. A statue of King Tribhuvan at the junction of Arniko highway and the road going to the old part of Banepa and Panauti denotes the major bus stop in Banepa. (A new bus park was under construction a short distance from this area at the time of field survey). There are also many vendors trying to sell small items such as oranges and eggs to the travellers going toward the eastern hills.

A walk into the old part of the town from this main road brings a person into narrower streets and an area with less active marketing activities. Most houses along the main road (Arniko highway) are reinforced concrete structures of four storeys. Houses within the old part of the town are generally made of bricks with tile roofing. The town resembles in many ways Newar towns in Kathmandu valley (compact settlements, narrow streets opening to larger market squares, three-storeyed houses made of sundried bricks, sloped tile roofing, and marketing activities along major streets of the town). The size of the town is such that almost everybody knows everybody else
and a walk around the major streets of Banepa takes about forty five minutes. While most people in Banepa live in the nucleated settlement, the outskirts of the town has mostly fertile khet lands which are not densely populated. Some of the newer facilities such as the Banepa hospital and campus are located in the outskirts of the town.

To go from Banepa to Opi, one has to walk through a trail linking Banepa to Panchakhal. Recently the trail was widened to make it into a fair weather road for transporting village produce to Banepa. This trail leaves behind the compact nucleated Newar town, with rows of houses to open terraced lands (*khets*) on either side of the road and scattered rural settlements in the hilly terrain. From this main trail, the access to settlements in the Opi village is through narrow, winding foot trails. While the houses in Banepa are mostly three to four storeyed, the houses in the rural areas are generally two-storeyed. Also, the village settlements are generally located in sloping *bari* lands. Rice terraces are in the lower elevations close to the river. Most of the houses of relatively well-to-do villagers in Opi, particularly the Brahmins/Chhetris have tin roofs, while those of occupational castes are mostly thatched. A porch in front of the house, along with an open courtyard is an integral part of village house.

From this main trail, a side trail branches to Devitar. The foot trail linking Devitar to Opi is narrower and often
just wide enough for two people to pass each other through difficult hilly terrain. To reach some of the more remote settlements of the Devitar village, particularly those along higher elevations (lekh), it is necessary to climb up the hill for more than one hour.

In Opi, there are four or five tea shops along the main trail but Devitar has only one tea shop, next to which there is a milk collection center. The fact that much of the land in Devitar is unirrigated tar land without much access to water and that Devitar has a temple of a devi may have some connection with the name of the village being Devitar (devi means goddess and tar means unirrigated land). Like Opi, most houses in Devitar are two-storeyed but fewer houses in Devitar have tin roofs.

2.3.2 Field Experiences

The first two months of field work in Nepal were spent in Kathmandu reviewing the recent literature on urbanization in Nepal and developing personal networks for the field study. Secondary sources of data have been relied upon to put the study area in a national and regional setting. Library research was carried out in Kathmandu (and previously in Honolulu) in order to examine the relevant government documents and books pertaining to the political and economic setting of the country, which have a direct bearing on the local urban-rural linkages in the hill region. Extensive studies on Nepal carried out by Blaikie,
Cameron and Seddon (1980), Bhattarai (1986), Conway and Shrestha (1991), PADCO (1990) and Sharma (1989) were particularly useful for this research.

The document center of the International Center for Mountain Area Development (ICIMOD) and the Housing and Physical Planning Department in Kathmandu were of great help in obtaining relevant literature. During this time, the researcher also met with some senior urban geographers/planners in Nepal who provided helpful suggestions on organizing the fieldwork and comments on the research proposal. Principally among them was Dr. Harka Gurung who was also the field supervisor. The researcher likewise visited Banepa and met the mayor of the town who got quite interested in the dissertation topic and offered to provide necessary support in collecting data. The researcher's discussions with the mayor of the town was also helpful in obtaining preliminary information on Banepa.

At the time of arrival in Nepal for field work in 1989, the country was going through economic blockade from India. The trade and transit treaty between India and Nepal had expired and many of the goods including gasoline had stopped coming from India. The movement of people was highly restricted due to limited accessibility to public transport. At that time, making long-distance trips outside Kathmandu was quite difficult. This also indirectly made the researcher decide on selecting Banepa which is closer from
Kathmandu and to where transport service from Kathmandu was relatively better than in most other routes.

Initially, selecting research assistants took some time. Since the researcher didn’t know anybody in Banepa, enquiries were first made to friends and relatives to find out if they knew anybody from Banepa who could be a local resource person. Fortunately, the researcher’s sister had a graduate student from Banepa who had been working as a field assistant for a consulting firm in Kathmandu for many years. This student also happened to come from a well-connected Newar family in Banepa, her father being a local politician/social worker. Many of the businessmen in Banepa were even her relatives. She became the local resource person as well as the main field assistant for the research.

While doing the field work, the researcher had to often make clear to the local people that he is not a government official collecting data to use against them, but rather for the study purpose of understanding some of the problems they are facing. Having a local research assistant whom most people knew in Banepa was a big asset in confidence-building for the people to speak out. In the villages, too, the fact that the research assistant knew some local people who in turn told other villagers about my work helped in conducting the research. In Devitar, the researcher also used the services of a local Tamang to guide us to different areas in the village and in speaking to people there.
The fieldwork in Nepal was done within a span of about nine months between 1989 and 1990. Prior to collection of primary data, secondary data were collected in Kathmandu and Banepa. General town level data was first collected. Then the surveys of commercial and industrial establishments were made. Later data on the credit bank, offices, schools and hospital were gathered. In between, visits were also made to other small towns in the district such as Dhulikhel, Nala, Panauti, Khopasi and Panchkhal. This helped in seeing Banepa, not in isolation, but together with other towns for better understanding of the regional context.

Based on the information gathered from the town-level data, two villages were later selected. The survey of the town’s different services revealed that people from these villages also use the available services in Banepa, albeit in varying degrees. First, reconnaissance visits were made to the villages in the area. Samples of the questionnaire for household surveys and community-level surveys were pre-tested here with a few villagers to finalize the questionnaire for a larger sample group. Village-level data was first collected in Opi village. After completing the fieldwork in Opi, the locus of research shifted to Devitar, which was farther than Opi.

2.3.3 Surveys in Banepa

Three types of field instruments were used to gather information at the town level. These were: secondary data
search at local level, functional survey of the town, and meetings with local officials and community leaders (Table 6).

Secondary Data Search at Local Level

Secondary data on topics such as the local history, demography and economy of Banepa were collected by reading relevant books, project documents and government records at the local town Panchayat. Town-level statistics compiled by Banepa’s municipality was examined to have an understanding of socio-economic characteristics of the town.

Survey of Marketing Services

A shop-owner survey was conducted by interviewing 30 percent of shop owners in the area, based on the statistics obtained from the municipalities. An attempt was made to include different types of shops in the town. The interviews covered information on owner’s place of residence/ethnic status, date of establishment, types of local/non-local goods available in the shops, sources/destination of products and costumers, amount of transactions/month and employment. This information was used as a basis for determining the small town’s role both as distribution center for urban consumer goods as well as collection point for local produce.

Survey of Industrial Services and Employment

An employer survey was conducted among all owners/managers of major service, commercial and industrial
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<td>INDUSTRIAL &amp; EMPLOYMENT FUNCTIONS</td>
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enterprises based on a list obtained from the municipality office. Information with regard to size of establishment, nature of industry, number and type of employees, origin/destination of raw materials/finished products, assets, credit and infrastructure, were gathered from the entrepreneurs. Place of origin, economic background and ethnic status of workers were also determined from the interviews and office records. Lastly, the owners of industries were asked about the major problems they are facing in running the industries and their own suggestions, if any, to improve the situation.

**Survey of Urban Services**

Three types of services namely health, educational and agricultural services were examined to understand how these services are being used by the rural people. For the health services, the local 36-bed missionary hospital (Shri Memorial Hospital) was selected. For educational services, two schools (namely Azad School and Himalaya School) were examined. Similarly, the Agricultural Development Bank located in Banepa was selected to study its agricultural credit services. For each of the services, information was collected on the profile of the users in terms of ethnic background, economic status and place of residence.

(a) **Agricultural services:** Profiles of credit beneficiaries of Agricultural Development Bank was established from the official credit records for the two
years 1989 and 1985 and an interview with the branch manager and loan officer of the credit institution. Details as to how the loans had been used was also ascertained from the records and the interview.

The use of agricultural inputs, i.e., fertilizer, insecticide and improved varieties of seeds by the villagers were collected from the dealers and cooperative society distributing them.

(b) **Health Services**: A profile of users of the local hospital was obtained from a review of the hospital records during two previous years available (1989, 1985). The data was confirmed by personal interview with the hospital's medical officer. From the interview, the type, cost and quality of services was also identified to examine the affordability and importance of the health services to the villagers.

(c) **Educational Services**: A profile of students in terms of place of residence and their ethnicities in one high school and one secondary school, was obtained from student records in the schools surveyed.

**Key Informant Survey:**

Apart from the structured formal questionnaires, informal interviews and discussions were made with the mayor, deputy mayor, businessmen, industrialists and community leaders in the area.
2.3.4 Village Surveys

Studies at the village level consisted of four parts. They were: village household census, village household surveys, key informant survey and participant observation (Table 7).

Household Census:

From the villages household census records, and discussion with the village Panchayat chairman, information was gathered on the two villages regarding total number of people, number of households and ethnic composition. This was used as a basis for the selection of 30 percent of the total households in each village (77 sample households in Opi and 96 households in Devitar) for an in-depth investigation.

Village Household Survey

A detailed village household survey which asked questions on demographic information, movement pattern and socio-economic condition of the households was conducted in the sample households, as a point of reference for inquiries into the villages’ linkages with the town. Household heads were interviewed for this purpose. Sample households were selected to cover all ethnic groups and economic classes in the village. The village key informants were helpful in selecting the households to get a representative sample of households in the village. Samples selected contained
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<td>C. KEY INFORMANT SURVEY</td>
<td>Community Level Information</td>
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<td>D. PARTICIPANT OBSERVATION</td>
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adequate variation in ethnicity and economic classes. The three parts of the survey were:

(a) **Demographic survey**: The demographic survey yielded basic data on all members of the households, their ages, gender, marital status, education, occupation and residential character.

(b) **Survey on Movement Patterns**: A movement survey was carried out in each of the sample households to study the daily, weekly and seasonal commuting patterns of the households in relationship to the use of urban services, marketing and off-farm employment. Details on frequency of visits, transportation mode, distances travelled for purchasing and selling various items, and obtaining various services was also recorded.

The movement survey of these 173 households (77 in Opi and 96 in Devitar) also included interviews to obtain information on problems in the use of urban services, buying/selling of goods, and employment in the town.

(c) **Survey of Household Economy**

A household economic survey was conducted among the sample of 173 households to obtain information on types of crop grown, their yield, land tenure status, sources of family income, types of non-farm employment, livestock owned and material condition of the housing. This survey also contained retrospective questions on how the household economy had changed in last fifteen years.
Key Informant Survey of Two Villages

Studies of village socio-economic structure provided the context for changing rural-urban relations in the hills as reflected in the movement patterns. The village household survey at the village level was supplemented by a key informant survey with the village and ward chairmen and elderly people concerning changes taking place over time with respect to villagers’ access to urban services, marketing and non-farm employment. Oral histories and personal testimonies of elderly people and community leaders also provided valuable information on the transformation of rural areas. The village Panchayat chairman and local leaders also gave overall insights about the village and its general economy as well as the problems villagers are facing. The key informant survey was mainly an informal open-ended discussion.

Participant Observation

While conducting the field work, the researcher stayed in the study area and observed various village activities such as farm work, village tea shop meetings and other informal gatherings. This participant observation by the researcher also helped to gain understanding of the village way of life, villager’s perspective of towns and their services, as well as important local cultural and historical factors influencing community behavior.
2.4 BANEPA: CHARACTERISTICS OVER TIME

The case study of Banepa and its surrounding villages is essentially a cross-sectional study at a point in time. It is equally important to have a longitudinal examination of both Banepa and its surrounding villages over time and to identify the major socio-economic forces behind those changes. It was important to see the growth of town and villages in the context of national social and economic change. Since there was a dearth of secondary data on this topic in Banepa, key informants from the town/village such as village elders and knowledgeable people in the town were heavily relied upon.

2.4.1 Origins and Early History

Banepa began as a petty kingdom during the reign of the Mallas in the earlier part of the eighteenth century. After the unification of Nepal in the late 1760s, the major east-west trail linking Kathmandu with the eastern part of the country passed through Banepa and Dhulikel in the study area. While Dhulikhel became an important military outpost in the area due to its elevated location, Banepa on the foothills developed as a market center because of its strategic position at the cross-junction of the so-called 'seven villages' (Panauti, Dhulikhel, Nala, Sanga, Khadpu, Chaukot and Banepa -- all in the Kabhre district). Even the town's name meant trade town in the local Newari language (bane means trade and pa means town).
Moreover, as Banepa was situated along the old trail route that lead to the central/eastern hills (i.e., Bhojpur, Charikot, Dhankuta and Ilam) and to Tibet, Banepa was a gateway town for people from the central and eastern hills to come and buy primary commodities like clothes, salt and kerosene. The villagers often sold agricultural produce (e.g. grain, ghee) for purchasing these materials.

Historically, foodgrains and other commodities were also supplied to Tibet from a trail route passing through Banepa. The route passed through Kuti (in Tibet) and was considered to be the easiest/shortest route from Kathmandu to Tibet. It had existed since the eleventh century. (The distance between Kathmandu and Kuti was 131 km, and from Kathmandu to Lhasa, 462 km, taking one some 25 days by walking to reach the latter). Another newer route via Rasuwa, to the northwestern border, and Keyrong in Tibet developed from the 17th century. When the trade route to Tibet opened from India viaKalimpong through the Chumbi valley in 1905, however, the importance of these routes from Nepal declined.

In 1966, the Arniko highway was built largely following the old Kathmandu-Tibet trail and much of the trade with Tibet goes through this route. This highway along with the Lamosangu-Jiri road have enhanced Banepa’s role as market center in the area.
2.4.2 Changing Market Functions

To understand Banepa’s role as a market center, it is imperative to understand first the changes that has taken place in Banepa as a market center.

With the construction of Arniko highway (1961-1966) and Lamosangu-Jiri road (1984), the following major changes relating to marketing have taken place in Banepa. These include: (1) increase in number of commercial establishments; (2) more trading in imported goods; (3) increase in the scale of wholesaling activity; (4) increase in the number of consumption-oriented shops/services and transport-related shops/services; (5) movement of wholesale traders from the old part of the town to location along the highways; and (6) the increasing shift in mode of transport from portering to motorized transport.

A study carried out around 1968 suggests that Banepa had a population of 6,500 and 291 functional units (Shrestha, 1972). Currently, it has population of 12,622 (1991 census) and 519 functional units (Banepa Municipality Records, 1988), which indicates a dramatic increase in the number of functional units. Although part of this growth in population is because of inclusion of another village (Chandeshwori village) to give municipal status to Banepa in 1985, there has indeed been an increase in number of commercial establishments.
Prior to 1951, more locally produced goods were sold in Banepa’s market than foreign goods as Nepal was still a closed economy. Banepa was an important center with many household handloom industries producing handspun cotton cloths which had a big market in the surrounding villages.

Due to the opening of Nepalese markets for foreign goods particularly after 1951, retail shops in Banepa received a wide range of products from India and China. Compared to the past, more cloth shops began selling imported polyster/cotton cloth than locally produced cotton cloth. Similarly, traditional pots/pans of copper and brass have been slowly giving way to stainless steel and aluminium pots/pans in the shops. Likewise, kirana (general-merchandise) shops are providing a more diversified range of urban consumer goods like canned foods, candy, battery and biscuits. Apart from Indian and Chinese goods, increasing quantities of goods from other foreign countries (e.g. Japanese textiles, Japanese/Taiwanese electric goods) or goods produced in Nepal linked to transnational corporations (e.g. soft drinks and beer) are sold in these retail shops.

With increased access to larger areas of the region with motorized transport and greater demand for goods for growing local population, Banepa’s wholesaling activities have increased in volume from the past. The increased tourism-related activities and expansion of bureaucracy in
the region have further contributed to the expansion of wholesaling activities of Banepa.

Also in keeping with urban influence from Kathmandu, new types of retail shops and services have emerged in Banepa. Photocopying and video rental shops are of relatively recent origin (less than eight years). However, most of these shops cater primarily to people from Banepa itself.

Another area of retail service activity which has seen recent growth is the transport-related shops like vehicle-spare parts shops. This growth is directly related to the better transport linkage of Banepa with Kathmandu and the east-central hills, and the heavy investments made by Banepa’s merchants in transport business.

After the construction of the highways, many wholesalers moved their activities from the old part of the town to locations along the highways to take advantage of greater access to motorized transport and ease in loading/unloading.

Prior to the construction of the highways, goods were primarily transported by porters. The first motorized transport service to Banepa started only in 1949, after the road from Kathmandu (Bhaktapur) to Banepa was paved. Banepa became the first break-of-bulk point for goods shipped from Kathmandu and Terai by virtue of its having the first motorized transport in the area and being the place of
residence of Newar traders who were the wholesalers for the region. With the construction of the highways, a number of smaller break-of-bulk points along the highways have emerged from where porters carry the goods to the final destination points (villages). Some of the important break-of-bulk points along the road are Dolalghat, Lamosangu, Jiri, Barabise, and Lamidanda.

Lastly, Banepa has become a more diversified town in terms of range of products sold, types of services performed and distances it serves. However, it has also been at the expense of local production and penetration by outside economy.

2.4.3 Changing Employment and Industrial Functions

One of the major changes in the employment structure of Banepa has been the decline in the cotton handloom industry in the last forty years due to growing competition with imported fabric. There has been an increase in the number of rice mills, with more businessmen processing the grains before selling them to Kathmandu. With the national government’s expansion of bureaucracy for service provision, there has been an increase in administrative jobs in Banepa in the last forty years. Local-level offices of various government and semi-government offices such as the Nepal Electricity Office, Nepal Telecommunication Office, Agricultural Development Bank, Nepal Bank Ltd, and Town Panchayat provide a number of administrative jobs to the
local people. This is significant considering that the retail shops and rice mills employ even fewer people.

With better regular transport service between Banepa and Kathmandu, many more people from Banepa and surrounding villages have been able to commute to work in Kathmandu (one-hour bus ride). Many of them are again employed in government and semi-government jobs as teachers, office workers, and the like.

In recent years, while the handloom industry has declined, the sweater-weaving industry and carpet industry are on the rise. The reason for this is that the sweater-weaving industry is organized on a sub-contracting basis with the merchants from Kathmandu supplying raw materials and buying the finished product. In Kathmandu, these sweaters fetch good prices in the local market but are still cheaper than those imported from other countries. Thus it seems that while local industry such as handloom industry has suffered due to the competition, the sweater-weaving industry has done relatively well as it works on a sub-contracting system. This has major implication in the promotion of selective industries in small towns like Banepa.

Another more recent phenomenon is the growth of the carpet industry. This is partly a reflection of increased cost of production in Kathmandu (with higher rent, increased taxation and environmental concerns/regulations) and
increased interest of the government in export industries like the carpet industry. The local entrepreneurs have built up alliances with other well-linked businessmen in Kathmandu to start up carpet industries under the system of sub-contracting to take advantage of this situation.

2.4.4 Changing Service Function

One of the services in Banepa that would directly affect the village economy is agricultural-development-related services. In the last twenty years, Banepa and its surrounding villages have seen the growth of Agricultural Inputs Depots, Agricultural Credit Bank (through Small Farmers Development Project), and agricultural extension services (in Nala and Dhulikhel).

The first agricultural inputs distribution center was established in Banepa about twenty years ago. It was around this time (1969) that the people in Banepa and villages first used fertilizers in their agricultural land. Discussion with villagers indicated that use of fertilizers have increased agricultural production in the surrounding villages. Although there was still a lack of adequate information on proper use of fertilizers and other agricultural inputs, this has affected the villages favorably.

As to the commercialization of agriculture with increase in marketing services in Banepa, some improvements have been made. While certain villages like Sankhu, and
Janagal have developed orange orchids and vegetables, respectively, the two study villages have not made much improvements in commercialization of agriculture. The village of Opi markets potatoes while Devitar markets yams in limited quantities. The village economies, nevertheless, are still primarily focussed on production of grains and many villagers sell grain more as a symptom of 'distress sale' than sale of surplus for the market.

With regard to educational facilities, there seem to have been a dramatic increase in the number of schools in Banepa since 1951. While the first school was established by a social worker in 1949, at present there are eleven schools in Banepa. There has been an emphasis on development of schools with private sector initiative. In 1979, a commerce campus was established in Banepa. In 1992, a technical college in computers and electronics was set up.

Although there has been a growth of schools in Banepa, it has not radically altered the literacy level of surrounding villages since most of the children studying in these schools are from Banepa itself. There has been a limited growth of primary schools in the study villages too. But the quality of physical infrastructure is much to be desired.

2.4.5 Banepa Today

At present the town has 55 cottage industries (primarily handloom/sweater weaving, rice/oil mills), 24
wholesalers, 263 retail establishments, 150 service establishments, 15 government offices/institutions, one campus, one small hospital and several schools (BNP, 1988).

Two major activities dominate Banepa’s economy now. First, Banepa’s historic importance as the major wholesale center for daily essential goods such as rice, salt, kerosene, oil and clothes catering to people from eastern hills continues. Second, an activity which has increasingly gained importance in recent years is transport-related businesses, taking advantage of Banepa’s important access to the eastern hills. Many of the well-off businessmen own buses and minibuses running along the local regional routes including Arniko highway and Lamosangu-Jiri road.

Banepa is predominantly inhabited by local Newars. Although Newars constitute about 12 percent of the total population of the district, Newars account for 78.4 percent of the total population of Banepa thus indicating higher concentration of Newars in the urban areas (CBS, 1993; BNP, 1988). Brahmins and Chhetris who account for about 53 percent of the total population of the district constitute only 13.96 percent of Banepa’s population. Tamangs comprising of 32 percent of the district population account for less than one percent of the population in the town. As will be seen later this uneven distribution of the ethnic groups in the town and the district has major impacts on the use of urban services in Banepa.
Although Newars are predominantly located in Kathmandu valley, they are also found in small urban centers such as Banepa as tradesmen and often own land. With the profits made in trade, some Newars in Banepa have invested in land and control some of the most productive khet lands in Banepa. According to Bista (1973 cf. Blaikie 1980), despite their dispersion in virtually every market town, Newars have retained a social-cultural identity, with strong ties to their origins in Kathmandu valley, and keep traditional ritual practices and festivals.

Newars are not a homogeneous group and have internal caste subdivisions indicated by their last names. In Banepa, only the dominant sub-caste groups, Bade Shresthas and Palanchokes, control trade. Other Newar sub-castes such as the Shakyas are engaged in highly profitable goldsmithing and in pawnning/money lending activities. On the other hand, people from comparatively lower castes are often engaged in manual labor jobs such as working in the brick kilns of Kathmandu.
2.5 HINTERLAND VILLAGES: OPI AND DEVITAR

2.5.1 Settlements and Facilities

Opi is part of the larger village panchayat Rabi-opi. Out of the nine wards in Rabi-opi, Opi has five wards and Rabi has four wards. Opi has a number of settlements within it - namely Thumko, Thada Gaon, Simaldanda, Basnet gaon and Bhitte gaon.

In Devitar Panchayat, major settlements within the village are Deurali, Syanthantole, Chhahare, Lotol, Micchinchhap, Tin Ghare and Gurung gaon. Within Devitar certain settlements are dominated by particular ethnic groups. For example, Micchinchhap has predominantly "Ghorsaine" Brahmins and Gurung gaon has local gurungs. Similarly, certain settlements are comparatively better off than others. For example, people from certain settlements such as Tinghare and Gurung gaon are economically better off due to their longer tradition of selling milk in Nala, a nearby village Panchayat where private daires have long been active in collecting milk. On the other hand, settlements such as Syanthantole are relatively isolated and are economically depressed and they have only begun to sell milk in the dairy collection center in Devitar in recent years. Tin ghare is located in a higher altitude. Within Devitar, there are also few families belonging to occupational castes but their population in Devitar is not as big as in the Opi village.
Both Opi and Devitar are located in a hilly terrain and the houses in both villages are largely dispersed. Often houses belonging to the same ethnic and caste group are near one another. The occupational caste groups usually live in the most difficult terrain and have comparatively less productive land. There is no electricity in the two villages.

Both villages have no motorable access to Banepa or any other town. (At the time of field survey, villagers from Opi were widening the main trail linking it to Banepa to permit vehicle access during the dry season). People from both villages have to walk along the hill trails to come to Banepa. To bring goods from Banepa, people have to carry these on their backs.

There are very few service facilities in both Opi and Devitar. Opi has two primary schools (established in 1977 and 1983), one lower secondary school (established in 1977), three tea shops, one milk collection center and the one Small Farmer’s Development Project (under the Agricultural Development Bank in Banepa). For all activities such as the use of the high school, hospital, post office, and market, the villagers have to depend on Banepa, which is between 20- to 45-minute walk from the village.

Devitar has even fewer facilities than Opi. It has only one primary school (grade 1-5), one first grade school, one tea shop and one milk collection center. For lower
secondary school and high school, the children have to go to Opi and Banepa.

2.5.2 Ethnic Characteristics

Opi is primarily a Brahmin/Chhetri village whereas Devitar is a Tamang village. Opi has 250 households and Devitar has 323 households.

Of the 250 households in Opi, Brahmins/Chhetris account for 82 percent of the households with Chhetris alone constituting 68 percent (Figure 3). Occupational caste groups like Sarki (leather workers), Kami (blacksmith) and Damai (tailors) comprise the next largest group, accounting for 22 percent of the households in Opi (The Sarkis alone account for 16 percent of the total households in the village). There are only a few households from other caste and ethnic groups such as Newars and Magar.

Devitar Village Panchayat, on the other hand, has 73 percent Tamang households, 16 percent Brahmin/Chhetri households, three percent occupational households, and seven percent households from other ethnic groups such as Gurungs and Magars.

Brahmins and Chhetris are of Aryan stock, speak Nepali (the national language) and consider themselves Hindus. Tamangs, on the other hand, are of Mongoloid stock, speak a Tibeto-Burmese language, practice Buddhism or traditional nature worship. However, in the study area, most of the young people can also speak Nepali language. In the rural
FIGURE 3: ETHNIC COMPOSITION OF OPI AND DEVITAR VILLAGE
areas, Brahmin and Chhetris, both belonging to high-caste groups in Hindu society have dominance in terms of access to better lands, government service and political power.

The occupational castes who are in the lowest ladder of social hierarchy are Sarkis, Damais and Kamis. These three occupational castes are even lower in social status than Tamangs. Traditionally, each of these low-caste groups have patrons for whom they work (stitching clothes, making farm implements) and in return get payment in kind (grain) per number of household members. Due to the poor economic status of these occupational castes, they incur debt from the patrons and often their service is demanded in return for inability to repay the loans. Although each of these subcastes have particular hereditary occupation, all caste groups practice agriculture in some form or the other, however small their landholdings may be.

Caste and ethnicity are important part of village life and hence are important considerations in understanding the villagers links to the town. Past studies on village social structures in other parts of Nepal have focussed on both social relations between high-caste Brahmins and low-caste occupational groups as well as relations between Brahmins and ethnic groups such as Limbus (Caplan 1970; Caplan 1972; Poffenburger, 1970). One common issue that emerges from these studies is that high-caste groups have a dominant position in the village social structure versus the low-
caste ones and ethnic groups such as Tamangs, Rais and Magars. Levine (1987) argues that the present relations between Brahmins/Chhetris and other ethnic groups should be seen as a result of historic incorporation and accommodation of local ethnic groups with the dominant control by the central government in Kathmandu. Another study carried out by Mikesell (1988) in western Nepal (Bandipur) suggests that the merchant groups, Newars, in the small towns have exploitative relationship with the ethnic groups living in the villages.

Much of this dominance comes through the money-lending practices of the Newars and Brahmins, who charge exorbitant interest rates in lending, and take the land of other poorer ethnic groups and occupational castes when they can not pay back loans. By this process, the two dominant groups Brahmins and Newars control most of the larger and more productive landholdings in the local area.

In the study villages, the villagers, particularly from Devitar were found to depend much on village money lenders, particularly Brahmins. Some villagers received occasional credit from Newar shopkeepers in Banepa, from whom the villagers purchase most of the daily essential goods such as grain, kerosene, salt and cigarette.

2.5.3 Village Demography

Analysis of demographic data from both study villages show that a large proportion of village population belong to
very young age group (0-14 years) as is commonly found in most developing countries. For Opi village, the children in 0-14 years age group constitute about 37.4 percent of population while the old age group (60 and over) comprise only 5.3 percent of population. The corresponding figures for Devitar is 44.6 percent and 5.4 percent respectively (Table 8).

For both villages, particularly the Devitar village, the dependency ratio is very high (74.5 for Opi and 100 for Devitar). This means that every 100 person in the productive age group (15-59 years) would have to support 74.5 people in Opi and 100 people in Devitar, respectively (Table 9).

**TABLE 8: PERCENTAGE DISTRIBUTION OF AGE GROUPS IN OPI AND DEVITAR**

<table>
<thead>
<tr>
<th>AGE GROUP</th>
<th>OPI (%)</th>
<th>DEVITAR (%)</th>
<th>NEPAL (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-14 years</td>
<td>37.4</td>
<td>44.6</td>
<td>42.4</td>
</tr>
<tr>
<td>15-59 years</td>
<td>57.3</td>
<td>50.0</td>
<td>51.8</td>
</tr>
<tr>
<td>60 and Over</td>
<td>5.3</td>
<td>5.4</td>
<td>5.8</td>
</tr>
</tbody>
</table>

Sources: Field Survey, 1989-90, for Opi and Devitar 1991 National Census for Nepal

**TABLE 9: DEPENDENCY RATIOS**

<table>
<thead>
<tr>
<th>AREA</th>
<th>CHILDHOOD</th>
<th>OLD AGE</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opi</td>
<td>65.2</td>
<td>9.3</td>
<td>74.5</td>
</tr>
<tr>
<td>Devitar</td>
<td>89.1</td>
<td>10.9</td>
<td>100.0</td>
</tr>
<tr>
<td>Nepal</td>
<td>81.9</td>
<td>11.2</td>
<td>92.1</td>
</tr>
</tbody>
</table>

Sources: Field Survey 1989-90 (for Opi and Devitar) CBS, 1991 (for Nepal)
The average household size in Devitar is also slightly bigger than in Opi (Average household size in Devitar is 5.9 while that in Opi is only 5.6). The average mean age of population in Opi and Devitar is 23.8 years and 22.3 years, both indicating a youthful population. Similarly, the median age of population for Opi and Devitar is 19 and 18 years, respectively. The data on median age compare well with recent village studies in other parts of Nepal. For example, in eastern Nepal, Subedi (1993) found that median age of population for a Brahmin village is 21 and that of Yakha (ethnic group like Tamang, Rai) village is 20.0.

Devitar has thus a higher dependency ratio, a younger population and larger family size. Comparing these dependency ratio with those of whole of Nepal, it is found that Devitar has even higher dependency ratio than that for whole of Nepal. This high dependency ratios suggests that there are economic pressures on able-bodied adults to support the very young population and adult population. Also the large percentage of very young population in both village suggest built-in potential for rapid increase in population in the near future.

2.5.4 Village Economy

Agriculture is the major economic base of both the villages. Although there are no landless people in the study villages, most people in the area are near-landless due to small size of land holdings. The average size of
cultivated land holding (including both khet and pakho land) in Opi and Devitar is only 15 ropanis (20 ropanis of land is equal to one hectare) (Tables 10 and 11). Most of the agricultural land are pakho (sloping land) which are not as productive as khet land. (The average size of khet land is 2.9 ropanis in Opi and 5.2 in Devitar but khet land in Devitar are tar land with low productivity). In fact 36 percent of the people in Opi don’t even have any khet land. Almost all lands are owner-cultivated although a few households in Opi and Devitar use wage workers during planting season. (In Devitar, some households till the land owned by temple trusts (Guthi) in Kathmandu, but villagers are the de facto land owners as they don’t pay the taxes to the temple trusts in practice).

Based on a 30 percent sample survey of households in Opi and Devitar, it is found that about 58.4 percent of the households in Opi and 64.6 percent of the households in Devitar have less than 15 ropanis of land, indicating the high near-landlessness in the village. There are no major landowners owning more than 100 ropanis of land in both the villages, either. The sample survey found the maximum landholding of 55 ropanis in Opi and 96 ropanis in Devitar, both of which are not large landholdings as compared to the size of landholdings in Terai region of Nepal.
### TABLE 10: LAND DISTRIBUTION IN OPI  
(Sample N = 77 Households)

<table>
<thead>
<tr>
<th>SIZE OF LANDHOLDING (Ropanis)</th>
<th>NO. OF HHs/ (PERCENT)</th>
<th>SIZE OF LAND (Ropanis)/ (PERCENT)</th>
<th>AVERAGE LANDHOLDING (Ropanis)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-15</td>
<td>45 (58.4%)</td>
<td>376 (32.5%)</td>
<td>8.3</td>
</tr>
<tr>
<td>16-30</td>
<td>29 (37.7%)</td>
<td>632 (54.6%)</td>
<td>21.8</td>
</tr>
<tr>
<td>31 and above</td>
<td>3 (3.9%)</td>
<td>150 (13.0%)</td>
<td>50.0</td>
</tr>
<tr>
<td>TOTAL</td>
<td>77 (100.0%)</td>
<td>1158 (100.0%)</td>
<td>15.3</td>
</tr>
</tbody>
</table>

Note: 20 Ropanis = 1 Hectare  
Source: Field Survey, 1989-90

### TABLE 11: LAND DISTRIBUTION IN DEVITAR  
(Sample N = 96 Households)

<table>
<thead>
<tr>
<th>SIZE OF LANDHOLDING (Ropanis)</th>
<th>NO. OF HHs/ (PERCENT)</th>
<th>SIZE OF LAND (Ropanis)/ (PERCENT)</th>
<th>AVERAGE LANDHOLDING (Ropanis)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-15</td>
<td>62 (64.6%)</td>
<td>533 (35.9%)</td>
<td>8.6</td>
</tr>
<tr>
<td>16-30</td>
<td>26 (27.1%)</td>
<td>578 (38.9%)</td>
<td>22.2</td>
</tr>
<tr>
<td>31 and above</td>
<td>8 (8.3%)</td>
<td>375 (25.2%)</td>
<td>46.8</td>
</tr>
<tr>
<td>TOTAL</td>
<td>96 (100.0%)</td>
<td>1486 (100.0%)</td>
<td>15.5</td>
</tr>
</tbody>
</table>

Note: 20 Ropanis = 1 Hectare  
Source: Field Survey, 1989-90
The villages grow primarily corn, rice and potatoes, a small portion of which are marketed to Banepa. The vegetables are grown primarily for home consumption. While people from Opi sell potatoes, the people from Devitar sell yams in the market.

Many households in both Opi and Devitar are engaged in livestock development activities to raise buffaloes and cows to sell milk in Banepa and Kathmandu. About 25 percent of the households in Opi and 49.5 percent of the households in Devitar supplement their agricultural income by selling milk.

The close-by village of Opi has more number of people working in Banepa and Kathmandu and has higher income from service-related jobs (e.g., peon, guard). On the other hand, the village of Devitar does not have many people employed in service/administrative jobs but have higher income from livestock development activities.

The general breakdown of average income of households in Opi and Devitar is given in Table 12.

The field study of the villages also showed the multiplicity of income sources for the villagers. A larger percentage of households in Opi have income from more than one source as compared to the households in Devitar, thus indicating higher multiplicity of income in the village proximate to the town.
TABLE 12: AVERAGE INCOME OF HOUSEHOLDS IN OPI AND DEVITAR

<table>
<thead>
<tr>
<th>INCOME SOURCE</th>
<th>OPI VILLAGE</th>
<th>DEVITAR VILLAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>Rs 8,757 (47.9%)</td>
<td>Rs 9,801 (62.6%)</td>
</tr>
<tr>
<td>Livestock</td>
<td>Rs 2,563 (14.0%)</td>
<td>Rs 4,165 (26.6%)</td>
</tr>
<tr>
<td>Serv./Admin. Job</td>
<td>Rs 4,140 (22.6%)</td>
<td>Rs 601 (3.8%)</td>
</tr>
<tr>
<td>Wage Labour</td>
<td>Rs 2,289 (12.5%)</td>
<td>Rs 929 (5.9%)</td>
</tr>
<tr>
<td>Business</td>
<td>Rs 216 (1.2%)</td>
<td>Rs 164 (1.1%)</td>
</tr>
<tr>
<td>Pension</td>
<td>Rs 341 (1.9%)</td>
<td>Rs 0 (0.0%)</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>Rs 18,306 (100.0%)</td>
<td>Rs 15,660 (100.0%)</td>
</tr>
</tbody>
</table>

Source: Field Survey, 1989-90

People from both Opi and Devitar have to depend on Banepa for virtually everything -- marketing, agriculturerelated services and non-farm work. They buy their daily essential goods, clothes, salt, kerosene from Banepa. Similarly, Banepa is the major place where the villagers sell limited amount of agricultural produce and milk. Banepa is where they obtain fertilizers and agricultural credit. Banepa is also the location for limited non-farm work such as wage labor, and government/semigovernment jobs.

2.5.5 Changes in the Villages

The village economy has been more diversified than before. While grain is the most important crop in the villages, many of the people with larger holdings have introduced marketable products such as potato, onion, and yam to a limited extent.

There has not been any significant change in farming technology except for the wide use of fertilizers and...
limited use of insecticide and improved varieties of seeds. Most villagers confirm that there has been an increased agricultural production after the use of fertilizers. But this has been more than offset by population growth.

In earlier periods, while many of the poorer households (especially Tamang groups) used to collect fuelwood from forests and sell it in Banepa and Bhaktapur, this activity is declining due to the diminishing forests, greater distances to reach them, and stricter forest regulations.

There has been increased livestock development activities in the surrounding villages of Banepa. The establishment of milk-collection centers in the villages have facilitated marketing of the milk and many villagers even in distant villages have invested in raising a cow/buffalo. Poorer households even enter into the Adya (sharing of benefits) system of leasing cows/buffaloes from the owners for selling milk. The field work in the villages revealed that more people from the village of Devitar have been engaged in this activity than Opi (where more people are involved in service occupations).

In terms of employment, there has been an increase in service jobs and wage labor. Wage labor could be in the form of agricultural labor in farming season, porterage in Banepa, work in brick kilns of Kathmandu, construction work in village and work in the carpet industry.
Some of the villagers from Opi go to work in brick kilns of Kathmandu and Patan during winter season. But there is an increasing competition for wage labour in brick kilns of Kathmandu due to large number of wage labourers from Terai coming to these kilns and willing to work longer periods for lower wages. Some of the poorer Tamang households are now also going to carpet industries in Kathmandu for cash income (mostly women and children).

Among Brahmin and Chhetri households in Opi, there is increasing shift towards service occupation and administrative jobs. Range of occupation and distances travelled vary but clearly their geographic mobility is greater than Tamang households. Some examples of the range of work done are: being a peon in Banepa Hospital, watchman in a hotel in Kathmandu, a constable in Police, a cook in Kuwait. Another important characteristic of Brahmin and Chhetri households is their greater emphasis on education as compared to Tamang households for comparable economic groups. This indicates greater mobility of Brahmin/Chhetri groups which also brings them to Banepa and Kathmandu for education which is much less among Tamang households.

Besides the diversity of economic activities of households, a household member may be playing a multiplicity of roles. A village boy may be wage laborer in agricultural season, porter in non-agricultural season, milk seller and
farmer at other times. Compared to 30 years ago, wage work/non-farm work have been more important in recent years.

Parallel to the multiplicity of roles played by villagers, the townspeople in Banepa have been playing many roles at the same time -- a retail shop keeper, a mill owner and bus operator. In Banepa, one hardly sees one businessman focusing in any one particular activity. Partly, this may be because of growing opportunities with changes in functions of the town, and partly, it may also be a risk averting strategy on the part of entrepreneurs.
2.6 UNDERLYING DIMENSIONS OF CHANGE

What are the major forces behind these changes in Banepa and surrounding villages? Clearly, Banepa’s emergence as a transportation and wholesale center can be attributed to its historic location along an important trail linking Kathmandu to Tibet and the eastern hill region, and the more recent construction of Arniko highway and Lamosangu-Jiri road. The construction of Arniko highway temporarily contributed to decline of Banepa as businessmen from remote areas started buying directly from Kathmandu. However, with the greater inconvenience of getting goods from Kathmandu (due to increased congestion) and traffic restrictions for trucks carrying goods to enter Kathmandu, the wholesalers in Banepa started getting foodgrains and other food products directly from Terai. Banepa’s merchants sell the products at almost the same prices and business in Banepa picked up again within about five years. The construction of Lamosangu-Jiri road further increased the accessibility of remote areas.

Closely linked to construction of the highways, Banepa’s businessmen invested in trucking and minibus business. The proximity of Banepa with Kathmandu also helped in its growth.

Another element of change in Banepa and surrounding villages has to do with penetration of industrial capitalism from India which contributed to the decline of craft
industries in Banepa. In fact, the local mercantile group in Banepa themselves have been instrumental in facilitating this penetration by acting as middlemen in the process. It is ironic that the growth of Banepa as a trading center parallels and is the reason for the decline of Banepa as industrial center particularly in handloom cottage industries. Historically, Banepa was also important as a center for cottage industries. The surplus generated by the Banepa mercantile class was invested in urban land speculation and house-building and transport business. Similarly, the goldsmiths of Banepa have been responsible for transfer of rural savings and savings of the urban poor in terms of making ornaments, pawning ornaments, giving credit to the villagers, who also have invested in urban speculation, and transport business.

Another element of change is the monetization of village economy with increasing dependence of the village for its daily-necessity goods. Modernization influences such as agricultural inputs which made the villagers more dependent on Banepa without much reciprocal returns. Land in the village is slowly becoming a commodity to sell, reciprocal relationship between villagers are slowly breaking away to relationship based on cash. While patron-client relationship existed to a larger degree between the Brahmins/Chhetris and occupational castes such as blacksmiths and tailors, now this relationship has changed
and occupational castes prefer cash to grains. Likewise, although perma (labor exchange) exists in some form in the study villages for reciprocal land tilling among same-economic-status groups, people with larger landholdings hire wage labour and pay cash for the agricultural work done in the field. Instead of working on the land, the lower-income groups also prefer to work as wage laborers due to the need for cash for their daily necessities. The Brahmin/Chhetris with larger surplus have invested little in acquiring more land but invested in the education for their children, raising buffaloes and investing in opening small tea shops and rice mills.

Another element of change that is related to changing structure and relationship between urban centers like Banepa and villages is the expansion of bureaucracy and increasing number of people from nearby village and town working in different government and semi-government offices in Banepa, Dhulikhel and Kathmandu. While much of the benefit has gone to the residents of the small town itself, the people from nearby villages such as Rabiopi have benefitted more than the people from distant village like Devitar who are doubly disadvantaged in terms of poor literacy, increased physical distance and less social/political linkage with people in the bureaucracy.

Another process of rural change in the villages is the growing land fragmentation with increasing population growth
and division of land under subsequent generations. In the earlier past, studies from other parts of Nepal indicated that villagers extended their landholdings by encroaching on forest lands. But increasingly, this possibility of expansion is getting limited and land parcels are getting smaller and smaller. This population pressure on limited land has forced the villagers to depend more on the use of fertilizers to increase the agricultural production. Overall population growth and increasing fragmentation of land in a situation of small landholdings have aggravated the economic situation in the villages and there has been increased search for off-farm jobs in terms of carpet weaving in Kathmandu, working in brick kilns, working as domestic servant, and similar activities.

Having given the general picture of the town of Banepa and its two surrounding villages, and the changes they have undergone in the recent past, the dissertation will discuss in the following Chapter, each of the roles of the town as: (1) market center; (2) industrial and employment center; and (3) service center.
CHAPTER THREE

BANEP A: FUNCTIONS AND LINKAGES

3.1 INTRODUCTION

This chapter addresses the three major questions raised about the role of small towns in the development of the hill regions in Nepal.

One of the theoretical justifications for developing small towns is that they provide markets for urban consumer goods from higher-level towns and act as trading centers for agricultural goods from rural areas (Gaile, 1992). While villages are locations for agricultural (both basic and cash crop) production, small towns provide markets for those agricultural produce from the villages (Taylor, 1981). Small towns are also considered important nodes in interregional marketing network. It is believed that urban population growth and agglomeration in small towns create increased demand for agricultural products from nearby rural areas. Agricultural development in hinterland village provides an important stimulus for growth of small towns. Conversely, the growth of small towns contribute to agricultural development in hinterland villages, both by providing avenues for marketing and processing of agricultural produce, and providing necessary agricultural inputs at decreased costs.
Secondly, proponents of small town development also suggest that these towns could be locations for industrial and other non-farm investments that provide employment to the growing rural populace who can not be absorbed in the agricultural sector in the villages (Gaile, 1992). The presence of a vibrant small town nearby facilitates creating opportunities for rural households to earn nonfarm income (Evans and Ngau, 1991). Small towns also act as alternate destinations for potential migrants to large cities/capitals with already large populations.

Small towns, in addition, are also considered appropriate locations for processing locally-produced agricultural goods. While this will, on one hand, retain the value added from processing the product within the local region itself, it also creates opportunities for creation of jobs in the local industries in the town (Anderson and Leiserson, 1980; Chuta and Liedholm, 1990). It is argued that focus needs to be given to linking farm activities in rural areas with non-farm activities in small towns. Although this seems more likely in a growing agricultural market environment (Mellor 1976 c.f. Leinbach 1992), the question is whether creating this kind of linkage will be easy in resource-poor areas like the hills in Nepal. Can industries in small towns of Nepal produce some of the urban consumer goods or process local agricultural products as a way to generate income and employment in the local area? In
the context of high population growth in the rural areas of Nepal, it is pertinent to examine whether small towns have absorbed part of increasing pool of labor which can not be absorbed in agriculture alone. To address these questions, there is a need to look into the production structure of the small town and its linkages with the rural hinterland. (Titus, 1991).

The third question this research addresses is how Banepa provides urban services, not only to its residents but, more importantly, to its surrounding villages. Proponents of small towns consider them appropriate locations for concentrating public services such as agricultural development services, health services and education facilities (Gaile, 1992; Taylor, 1981).

It is assumed that credit and extension services can be located at the small-town level to introduce farming innovations at the lowest level, rather than allowing them to filter inefficiently down the hierarchy of urban centers and transportation routes causing time- and distance- decay effects (Taylor, 1981; Johnson, 1972). Furthermore, small towns are justified on the logic that it expands the agricultural sector in many developing countries by providing access to markets for agricultural inputs and outlets for agricultural goods (Gaile, 1992). Rondinelli suggests that extension of urban services, facilities, and infrastructures in the towns' surrounding rural areas lowers
the costs of production and distribution for farmers (Rondinelli, 1984). Because small towns play an important role in providing both inputs for production and outlets for distribution of agricultural outputs, these towns play an important role in agricultural development of the region.

Besides agriculture-related services, small towns are also considered appropriate locations for basic public services such as health and education for improving the quality of life in rural areas. With the limited resources of developing countries, these services need to be concentrated in small towns to give rural people access to them.
3.2 MARKET FUNCTIONS AND LINKAGES

This section examines the role of Banepa in the distribution of consumer goods as well as serving as markets for agricultural produce. It also attempts to identify the constraints in marketing for the villagers.

Banepa’s role as a market center has been appraised by analyzing its linkages in terms of the nature of existing wholesale and retail shops, place of origin of the goods sold in those outlets, place of origin of costumers, and volume of trade, expansion of trade and its networks. Each of these are important manifestations of urban-rural linkages. Also they provide important indication as to whether a small town such as Banepa plays a more important role as distribution center for urban consumer goods or collection center for local products. The following discussion looks first at Banepa as a distribution center for wholesale and retail merchandise, and later as a locus for collection of agricultural produce.

3.2.1 Distribution Activities

Municipality records show that there are 438 commercial establishments of which about 5 percent are wholesale establishments, 60 percent are retail establishments and 35 percent are service establishments (Figure 4). While wholesale establishments cater primarily to residents outside Banepa, the retail and service establishments serve mostly residents of the town and a few proximate villages.
FIGURE 4: COMMERCIAL ESTABLISHMENTS IN BANEPA
Retail establishments catering to urban residents have a wide range of urban consumer goods, but wholesale establishments catering to the villages have a much limited range of goods primarily, foodgrains, salt, kerosene and clothes.

The marketing structure of Banepa is marked by monopolization by few dominant mercantile groups of Newars who are the major wholesalers of the area and who control the business not only in Banepa but also in the surrounding villages and remote eastern hills along the Arniko highway and Lamosangu-Jiri road. The wholesale merchants have traditionally controlled business in the area by providing credit/preferential treatment to businessmen from the smaller towns/settlements and giving some discounts to regular buyers in bulk, thus making them dependent. The Newar wholesalers, being the long established traders of the area, have the advantage of having financial capital, networks with the bureaucracy in Kathmandu to obtain dealership in items such as kerosene, salt and sugar, and linkages with the small retailers along the Arniko and Lamosangu-Jiri roads.

There are many reasons for the development of Banepa as the principal distribution center in the Kabhre district. As indicated earlier in the discussion of Banepa’s historical growth, the town is centrally located at the crossroads of many surrounding villages like Nala, Panauti, Sanga, Chaukot and Rabiopi. It has excellent transportation
access to Kathmandu. It is also a gateway to the central and eastern hills through the Arniko Highway. Banepa, likewise, has a comparative advantage as an old trading post, as a result of which there are many entrepreneur families who have both the capital and experience to continue developing Banepa as a marketing center.

**Wholesale Establishments**

Majority of the wholesalers in Banepa deal with foodgrains and food products (22 foodgrains and 2 cloth wholesalers). The field survey indicates that 86 percent of the wholesalers are from Banepa and are the local Newar businessmen. The survey of seven major wholesalers distributing foodgrains and food products indicate that the major items marketed are rice, chyura (beaten rice), mustard oil, biscuits, cigarettes, sugar, soap, tea and spices.

The place of origin of goods and costumers provides a good basis for understanding the economic structure of the town and its hinterland (Harris and Harris, 1984). In Banepa, the hill town’s dependence on Kathmandu and Terai can be gauged by the place of origin of the products sold.

Except for the pokhareli (upland) rice, chyura and roasted mustard oil which are processed in the oil mills of Banepa, the rest of the goods -- sugar, biscuits, cigarettes, soap, and the like -- directly come from Kathmandu or Terai towns like Birgunj, Biratnagar and
Bhairahawa. Out of the seven shops interviewed, four did not have any locally-produced goods.

The place of origin of customers gives an indication of the distribution network of Banepa’s wholesale outlets. Based on interviews with the wholesalers, majority of their customers are from surrounding (43.4 percent) and distant villages (37.8 percent) rather than from Banepa (18.7 percent) itself, thus highlighting their role as a major distribution center for the region. As will be seen later, the retail shops’ customers, on the other hand, are primarily from Banepa itself (Figure 5). Surrounding villages are those which are hinterland villages within a three-hour walk from Banepa. These include the settlements of Panauti, Nala, Dapcha and Khadpu. The distant areas include places in the east-central hills such as Charikot, Melamchi, Lamosangu and Barabise, which are farther than the surrounding villages and which are often the break-of-bulk point along the Arniko and Lamosangu highways.

The average transaction of wholesale establishments in food products have a daily transaction of Rs 11,714 in the rainy (summer) season, Rs 14,142 in the winter season and Rs 21,420 in the festival season.

Banepa’s role as distribution center can be further ascertained by analysis of survey data on retail shops in Banepa.
FIGURE 5: PLACE OF ORIGIN OF CUSTOMERS IN SHOPS OF BANEPA

Percentage Distribution

<table>
<thead>
<tr>
<th></th>
<th>Wholesale</th>
<th>Retail (Kirana)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banepa</td>
<td>43</td>
<td>47</td>
</tr>
<tr>
<td>Surrounding Village</td>
<td>38</td>
<td></td>
</tr>
<tr>
<td>Distant Areas</td>
<td>19</td>
<td>8</td>
</tr>
</tbody>
</table>

(Based on Estimates of Shopowners)

Source: Field Survey 1989-90
Major Retail Establishments in Banepa

Banepa has a diverse mix of retail establishments, considering the small population of the town. The municipality record shows that it has 263 retail and 150 service establishments (Table 13), of which the two major types are the kirana and the fabric/garment shops. Kirana shops are general merchandise stores providing daily necessity goods, alone accounting for about 50 percent of the retail establishments in Banepa (Figure 6). Other retail shops include those dealing with sale of utensils, readymade garments, electric goods, drug stores and motor parts. Service establishments are comprised of tea shops, tailoring shops, watch repair, motor repair workshops, goldsmiths.

Retail shops such as those selling motor parts, readymade garments and utensils cater primarily to residents of the town themselves. Similarly, costumers for service establishments such as tailoring shops, watch repair shops and video rental shops also are from Banepa itself. Since these services are not widely used by the rural people, they have not been discussed in greater detail here. Only kirana shops and clothes shops are further discussed in detail.

1. Kirana Shops: Kirana shops hold a wide variety of items from different areas. Beaten rice, husked rice and mustard oil come from the local Banepa mills. However, most of the items sold are not produced in Banepa nor in surrounding
### TABLE 13. RETAIL AND SERVICE ESTABLISHMENTS IN BANEPA

<table>
<thead>
<tr>
<th>TYPE OF ESTABLISHMENT</th>
<th>WHOLESALE</th>
<th>RETAIL</th>
<th>SERVICE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foodgrain and Food Products</td>
<td>22</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kirana (Foodstuff)</td>
<td></td>
<td>129</td>
<td></td>
</tr>
<tr>
<td>Cloth Shop (Fabric)</td>
<td>2</td>
<td>29</td>
<td></td>
</tr>
<tr>
<td>Readymade Garment Shops</td>
<td></td>
<td>14</td>
<td></td>
</tr>
<tr>
<td>Utensils</td>
<td></td>
<td>12</td>
<td></td>
</tr>
<tr>
<td>Motor Parts</td>
<td></td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Vegetable Shop</td>
<td></td>
<td>14</td>
<td></td>
</tr>
<tr>
<td>Drug Store</td>
<td></td>
<td>13</td>
<td></td>
</tr>
<tr>
<td>Electric Goods/Radio Shop</td>
<td></td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>Other Retail Establishments</td>
<td></td>
<td>40</td>
<td></td>
</tr>
<tr>
<td>Tea Shops/Lodges</td>
<td></td>
<td></td>
<td>70</td>
</tr>
<tr>
<td>Goldsmith/Silversmiths</td>
<td></td>
<td></td>
<td>28</td>
</tr>
<tr>
<td>Tailoring</td>
<td></td>
<td></td>
<td>15</td>
</tr>
<tr>
<td>Watch Repair</td>
<td></td>
<td></td>
<td>10</td>
</tr>
<tr>
<td>Workshops</td>
<td></td>
<td></td>
<td>5</td>
</tr>
<tr>
<td>Other Service Establishments</td>
<td></td>
<td></td>
<td>22</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>24</strong></td>
<td><strong>263</strong></td>
<td><strong>151</strong></td>
</tr>
</tbody>
</table>

Source: Municipality Records, 1988
**FIGURE 6: RETAIL ESTABLISHMENTS IN BANEPA**

Source: Municipality Records (1988)
villages. Biscuits, soap, cigarette, matches and the bulk of husked rice are from dealers and wholesalers in the town. On the other hand, spices, batteries, kismis (mixed nuts) and gedagudi (dry beans) are acquired from Kathmandu. Limited quantities of goods that come from surrounding villages are grains, potato, beans and eggs.

The villagers (over 95 percent) sell their agricultural produce (e.g., grains, beans, eggs, potato, corn and turmeric) to retailers in Banepa because the quantities produced are too small for the wholesalers to be interested in purchasing them.

In terms of the place origin of customers, majority are only from Banepa and its hinterland villages. The average transaction in kirana shops during the rainy, winter and festival seasons are Rs 592, Rs 792 and Rs 1,619 per day, respectively. This indicates the low levels of transactions in commercial establishments in the small town.

With the construction of the Arniko highway and Lamosangu-Jiri road, Banepa has been better linked to central hill villages by means of motorable road. Prior to construction of these roads, people from the central hills had to go to Janakpur via Sindhuli for marketing purposes (by walking, which is a much longer route). The construction of these roads have particularly benefitted the wholesale shops in Banepa rather than the retail shops. According to the researcher’s local informants, some of the
retail shops in the old Banepa bazaar have actually reduced their volume of transaction while new shops (particularly wholesale shops) along Arniko highway have positively benefitted by increased volume of transaction. While 100 percent of the wholesalers informed that construction of the highways has positive impact on their business, only 23 percent of kirana-shop owners indicated that their business transactions increased -- in comparison to 60.8 percent who said it decreased the volume of their business, and 21.7 percent who said there was no difference.

2. Cloth Shops: Banepa is a major distributor of fabric material for the central hills. The fact that some of the cloth stores and handloom industries date back to more than 30 years indicates Banepa’s historic importance in this business.

The cloth stores sell both cotton products produced in handloom industries in the local area as well as other imported products. The locally produced clothes are cotton sari, kora cotton, cotton quilts and mattresses which the shopowners obtain from handloom industries in Banepa. These are also acquired through supply arrangements with farmers from surrounding areas.

Imported Indian products such as fancy saris, suitings, polyster and terricotton are either brought in from dealers in Kathmandu or directly purchased in the Indian towns of Kanpur and Meerut. Suitings and polyster are also produced
in Kathmandu and Terai, and brought to Banepa as samples. The quantity of locally-produced and imported clothes sold in the shops surveyed are about the same.

With the penetration of urban industrial manufacturing, the shopowners have indeed diversified their stock by selling both local and imported fabric/clothing. However, the major problem with the cloth stores is that locally-produced textile are of poorer quality compared to imported products and hence cannot be competitive. The cloth stores primarily cater to costumers from the surrounding villages (46 percent) and remote central hills (42.5 percent). Customers from Banepa account for only 11.5 percent. Clearly, with respect to the surrounding areas, Banepa plays an important role as marketing center for purchasing cloth material.

The average transaction per day for surveyed cloth shops are Rs 820 in the rainy season, Rs 1,900 in the winter season and Rs 4,300 in the festival season (Table 14).

As for the impact of highways on sales volume, the cloth stores have generally benefitted from better transport linkage and greater access to more number of places. Only one cloth store located in the old market indicated lower sales volume after the new Arniko highway bypassed the old streets of Banepa where this particular shop was located.
Other Retail Establishments

1. Readymade Garment Shops: The readymade-garment shops in Banepa obtain most of their stock from wholesalers in Kathmandu, who import the garments from foreign countries. Only two or three retailers buy about 20 percent of their garments from local tailoring shops in Banepa, which also make shirts and pants for sale as readymade items. The retailers also buy the woolen sweaters from the local knitting industries in Banepa. The majority of the costumers are from Banepa (27.5 percent) and surrounding villages (50.0 percent). There are also three street vendors for readymade clothes of a cheaper quality, 90 percent of whose costumers come from the surrounding villages.

<table>
<thead>
<tr>
<th>TYPE OF BUSINESS/SHOP</th>
<th>AVERAGE TRANSACTION PER DAY (Rs.)</th>
<th>AVERAGE TRANSACTION PER DAY (Rs.)</th>
<th>AVERAGE TRANSACTION PER DAY (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rainy Season</td>
<td>Winter Season</td>
<td>Festival Season</td>
</tr>
<tr>
<td>Wholesale Estab.</td>
<td>11,714</td>
<td>14,142</td>
<td>21,420</td>
</tr>
<tr>
<td>Kirana Shops</td>
<td>592</td>
<td>792</td>
<td>1,619</td>
</tr>
<tr>
<td>Cloth Shops</td>
<td>820</td>
<td>1,900</td>
<td>4,300</td>
</tr>
<tr>
<td>Readymade Clothes</td>
<td>500</td>
<td>900</td>
<td>1,350</td>
</tr>
<tr>
<td>Utensils</td>
<td>1,400</td>
<td>1,550</td>
<td>2,500</td>
</tr>
<tr>
<td>Motor Parts</td>
<td>1,400</td>
<td>2,500</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Source: Field Survey, 1989-90

163
The average daily transactions of readymade garment shops in Banepa during the rainy season, winter season and festival season are Rs 500, Rs 900 and Rs 1,350 respectively.

2. Utensil Shops: Banepa is likewise acting as a distribution center for utensils produced by Nepalese and Indian manufacturers. Most shopowners obtain the aluminum, plastic and stainless steel utensils from the agents of the companies making these utensils, who themselves bring the products to Banepa. A few shops also sell traditional utensils made of copper and brass, which are made by the local craftsmen in Panauti and Kathmandu. But these copper and brass utensils are not much in demand except during marriage seasons. Majority of the costumers of these shops are from surrounding villages (55 percent) and from east-central hills (20 percent).

3. Motor Parts Shops: The motor parts shops, on the other hand, obtain their sale items (like mobil, brakeoil) either from dealers in Kathmandu or directly from India. For importing goods from India (like breakshoe, breaklining, etc.), middlemen from India come to take the orders and accordingly sent to Delhi (India). The transport cost and custom tax need to be borne by the retailers. There is a higher profit if goods are directly bought from India rather than from dealers in Kathmandu (a difference of 12 percent
in profit), but this would entail greater time and efforts on the part of shop owner.

**Village Perspective on Retailing**

The range of products the villagers buy from Banepa is quite limited. The villagers use the town for basic-necessity goods such as foodgrains, salt, oil, cigarettes, clothes and fertilizers. The more affluent among the villagers do not have to purchase the foodgrain, but instead buy a relatively wider range of products. For buying the daily essential goods, most villagers use the money they earn from selling milk and working as wage laborers.

The frequency of the villagers' use of the town depends on items to be purchased. While foodgrains and groceries are purchased on a more frequent basis (about three to four times a week), clothes are generally purchased twice a year by most people. It is interesting to note that for both goods which are frequently purchased and those less frequently used, villagers in the area go to Banepa itself. Virtually nobody goes to the next higher-level town of Bhaktapur or Kathmandu for any of the consumer goods because the price differential of consumer goods in Banepa and Kathmandu is very little or nonexistent (besides one has to pay for the transport). Some villagers near the smaller town of Nala purchase their foodgrain/groceries from Nala but buy clothes from Banepa as the latter is the major distribution center for clothes in the area. The villagers
indicate that the primary reason for their use of Banepa for marketing purpose is it being the nearest town. Besides, the villagers’ selection of Banepa for purchasing goods is reinforced by the shopkeepers in Banepa who occasionally give credit to them, making them further dependent on the shops and forcing the villagers to sell their produce to the shops at the time of harvest.

The high dependence of villagers for purchasing foodgrain from Banepa is due to the fact that many of the households have only small landholdings. Between 55 to 65 percent of the households in Opi and Devitar have less than 15 ropanis (20 ropanis = 1 hectare) of land. Village-level data show that there is a net transfer of financial resources from the villages to the town for buying daily-necessity goods, agricultural inputs, while very little money is coming into the villages from the town in terms of agricultural marketing, as will be seen in the following section.

3.2.2 Collection Activities

Rural Produce Collection in Banepa

Banepa does not act as a collection center for local produce as significantly as it is a distribution center for consumer items. The town functions as a collection center for grains, potato, soybeans, peas and oilseed from surrounding villages.
With regard to grains, small rice mills collect rice and corn from nearby villages, then process it and sell it in Kathmandu. But the larger wholesalers and rice mill owners in fact get the paddy/rice from the Terai and distribute them in the villages of the east-central hills/mountains.

As for potatoes, there are about 25 wholesalers in Nala, Banepa, Panchkhal and Panauti (which are major settlements in Kabhre district and have transportational access) who collect these potatoes (about four truck-loads per day in the three-month season of June to August (at 130 bags per truck) and send the produce directly to Kathmandu and Terai bypassing Banepa altogether. About two-thirds of the potatoes are destined for Kathmandu and one third to Terai areas like Narayanghat, Birgunj, Pokhara, Butwal. Only about 5 percent of the total amount is collected in Banepa and is destined for Kathmandu.

According to key informants, wholesalers in Banepa buy potato for Rs 6 per kilo and sell it for as high as Rs 9 per kilo. On the average they make a profit of Rs 3500 per minibus-load of potatoes. Apart from the local wholesalers sending the potatoes to Kathmandu, a few merchants from Kathmandu purchase the produce from the area itself.

Some of the potatoes are also sent to Bhaktapur and Kathmandu for cold storage, later to be retrieved and sold as seed stock during the planting season. About 300 metric
tons (roughly 3500 bags, each 60 kilos) out of the total volume collected are accounted for by the seed potatoes.

Concerning beans, the wholesalers in Banepa primarily act as middlemen. They obtain the gedagudi (dry beans) from villages such as Tinpiple, Sarsukhola and Mangaltar with the help of porters (a seven-hour walking distance). The beans are then sold to merchants from Thimi who grade the produce based on quality and eventually sell them in Kathmandu.

Regarding fresh vegetables and fruits, on the other hand, Banepa’s central location in the Kabhre district does not help much in making the town act as a collection center. For instance, fruits (mostly oranges) from nearby Panauti or Khopasi go directly to Kathmandu bypassing Banepa because Panauti is a break-of-bulk point and last road head. Similarly, Panchkhal has a road access which makes it a collection point for agricultural produce. As a result, except for potato, there are no major wholesalers of fruits and vegetables in Banepa.

The retail fruit/vegetable shopowners in Banepa, in consequence, often have to get their supply of vegetables from the Kathmandu wholesale market because of the irregularity in supply of vegetables from local areas. Producers from surrounding villages are not properly organized, selling vegetables only when they need the money. In addition, there is no major market for fruits and
vegetables in Banepa unlike Dhulikhel where there are hotels requiring regular supply of these crops.

Therefore, quantities sold are small. The average transaction per day in those shops are Rs 308 in the rainy season, Rs 500 in winter and Rs 783 in the festival season. The profit margin is between 10 to 20 percent. There is also problem of storage due to the perishable nature of the product and temporary nature of shops.

Agricultural Marketing From Villages

Although the villages are in close proximity to Banepa and Kathmandu, as yet there is no significant commercialization of agriculture. Most villages grow food grain crops such as corn and rice, and there is little attempt to diversify into vegetable and fruit crops. A large number of households in the village do not sell anything but have to purchase foodgrains from Banepa. Most villagers plant small quantities of vegetables like string beans, cucumber and raddish essentially for home consumption.

Due to the small size of farms, there is only small-scale production and many farmers from surrounding villages like Opi and Devitar do not even grow enough for the subsistence needs of their families. The average landholding in the villages is 0.75 hectare. According to an estimate, the minimum land required for subsistence
requirement for a hill family with four members in Nepal is 0.75 hectare (Blaikie et. al., 1980).

In Opi village, only 20 percent of the sample households sell corn, which is the most important crop in the hills. Among those who sell, the average amount sold is worth Rs 1,548 per year. Considering both sellers and nonsellers, the average amount of corn sold by the entire village comes out to be only Rs 321 per year, thus suggesting that majority of the households don’t have anything to sell. The amount sold by the households in Opi range from Rs 300 to Rs 4,500 per year, giving an indication of low amounts of sale. Another important item sold is potato, which is essentially grown for the market. Among those who sell potatoes, the average amount sold is Rs 2,236 per year, and range from Rs 150 to Rs 10,000 per year. It is estimated that about 93 percent of the potatoes grown in Opi are sold in the market while only 12.8 percent of the corn produced in the village are sold. Only 6 percent of the people from Opi sell rice with an average of Rs 2,760 per year. The amount of rice sold by the households range from Rs 1,800 to Rs 4,000. The quantities of vegetables and fruits sold are insignificant.

Agricultural marketing from the village of Devitar is not significantly different from that of Opi except that, overall, it has slightly higher levels of production and agricultural marketing (the main reason being there are more
people with large landholdings in Devitar than in Opi). In Devitar, about 15 percent of the sample households sell rice. The average amount of rice sold per household selling rice is worth Rs 3,966/year with a minimum of Rs 1,000 and maximum of Rs 10,000. If all the households in the village are considered (including nonsellers), the average amount of rice sold comes out to be only Rs 619. Similarly, only 7 percent of the households sell corn and 22 percent sell potatoes. The amount of corn sold ranges from Rs 750 to Rs 4,000, whereas the amount of potatoes sold range from Rs Rs 100 to Rs 6,000. Among those who sell, the average sales for corn and potatoes are Rs 2,835 and Rs 1,870, respectively. The average sale of corn and potato for the whole village comes out to be only Rs 742 and Rs 1131 per year.

Due to the limited amount of agricultural surpluses, villagers sell their produce directly to the retail shop owners in Banepa. Thus, there are not many middlemen within the marketing structure of subsistence hill economies like Opi and Devitar. Locally-grown produce is marketed by the farmers individually. The marketing chain for village produce is relatively simple, unlike in Terai with higher marketable surplus and a greater role of middlemen. In the study villages, even if there is a middleman in selling agricultural produce, he would be a small farmer himself
trying to supplement his meager income through small-scale trading.

Although the villagers do not produce adequate grain, they still have to sell it for many different reasons. First, they need to purchase items not found in the village such as kerosene and salt. The villagers often take loan from village moneylenders and retail merchants at high interest rate to fulfill their consumption needs. Secondly, they need to sell grain to repay debts or buy fertilizers -- all of which need cash. Lastly, they are forced to sell the grain to cover expenses for social ceremonies and illnesses. However, the retail merchants are in a more powerful position vis-a-vis the village producers and they purchase the items below the market price. Often many villagers sell the grain immediately after harvest when there is glut in the market in order to fulfill immediate consumption requirements (e.g., festivals, social obligations). Only the richer households can afford not to sell their produce immediately after the harvest but wait for the price to go up.

Since there is no motorized transport to bring the produce to Banepa, people have to carry these on their backs which is time consuming and particularly difficult in the rainy season. In addition, due to the absence of regular storage space in Banepa, villagers have to sell the produce to retailers in Banepa at the price quoted by the retail
owner rather than carrying it back to village again. Thus villagers are in less bargaining position with the retail shops owners.

The farmers lack market information on existing prices in different areas and often sell at relatively cheap prices. Similarly, the farmers do little grading and sorting of produce before selling in the market. The smaller farmers do not engage in group marketing so that they can bargain for better prices. Nor do they have enough quantities to send the agricultural produce to Kathmandu directly where they are able to get higher prices. Only a few richer households from Opi get together to sell potatoes directly to Kathmandu for making higher profits.

Besides the grain, many villagers from the area also sell milk to the dairy industries in Banepa and Kathmandu. This has been discussed in greater detail under the heading 'Industrial Activities' within the section on 'Industrial Functions and Linkages'.

3.2.3 Problems in Marketing

The literature points clearly to one of the main grounds for developing small towns, that is, to act as collection points for agricultural produce from the rural hinterland. This is also based on the premise that the growth of such towns is contingent upon the expansion of agricultural production in surrounding villages. This proved unfounded in Banepa.
The reasons for this discrepancy can be seen from the viewpoint of both the town and the villages. At the town level, the most obvious reason is the lack of interest of local businessmen in agricultural marketing. There is a strong mercantile class in Banepa that can promote agricultural marketing in the area through private sector initiatives. But Banepa’s mercantile class is not interested in trading the local produce due to small levels of profit in it and the irregularity in receiving village produce. They prefer to get dealership of urban consumer goods from Kathmandu and distribute it to surrounding/distant villages as this has become a much larger business with potentials of high profit. The younger generation of Banepa’s businessmen, in addition, prefer to get involved in high-return investments such as owning/operating minibuses/buses whose importance has increased after the construction of Arniko highway and Lamosangu-Jiri road for long-distance trade.

Banepa’s mercantile class, being Newars, often have better social/economic links with Kathmandu Newars than the people from surrounding villages, which are dominated by Brahmins/Chhetris and Tamangs. This also indirectly orients/facilitates these entrepreneurs in Banepa to do business in urban consumer goods from Kathmandu.

Majority of the problems seem to lie in the village conditions themselves. First, data from both villages show
that the hilly terrain is itself a problem limiting the possibilities for agricultural production. Although some parts of villages are in river basins making them more fertile, most parcels of land in both villages don't have irrigation facilities and are dependent on rainfed agriculture. Likewise, agricultural technology used is highly labor intensive with almost exclusive use of human labor (not even much animal power). In terms of agricultural inputs, only fertilizer is used. There is very little use of insecticide and improved varieties of seeds to increase production. This is partly due to lack of information about these inputs and also lack of financial resources to buy them.

Second, majority of the hill farmers have small landholdings which make it very difficult for them to produce enough surplus to sell in the market in Banepa. Even for those who sell in the market, the amount sold is very little and sellers often do marketing on an individual basis. Unlike in Terai, where there is considerable land inequality and landlord/tenant relationships, the problem in the hills is the absolutely small size of landholdings and land belonging to owner-cultivators. The small size of landholdings is due to the fragmentation of land among family members in a situation of large families.

Third, due to their limited economic resources, many farmers are not willing to take risks to try new innovations
because these may bring tremendous financial hardships if they do not work. Thus they are less likely to engage in new productive activities in terms of switching to cash crops from subsistence crops.

Fourth, even among those farmers who have marketable surpluses there are cultural constraints to marketing. One Brahmin elder in Opi village said that since they did not have a culture of selling for market, it is embarrassing for him to carry the vegetables to the market and sell them. Instead, he just gives them away to neighbours. Another Tamang family in Devitar had the best collection of fruit trees in the village but after the death of the household head, the wife and daughter did not maintain the fruit trees because it is considered the job of men. Many villagers are also afraid of experimenting with planting marketable products such as potato, vegetables because of the risk involved in trying out something different not knowing for sure if it would be profitable.

Fifth, even those villagers with marketable surplus are forced to sell them in Banepa as there is no proper collection mechanism for agricultural marketing on a group basis to other places like Patan and Bhaktapur which have higher demand for vegetables/fruits. If there are collection/storage points in Banepa or other conveniently-located place, then villagers could do more long-distance marketing of village produce. Since the villagers bring the
produce by themselves and don’t have any storage facilities, they have to sell it to retail shops in Banepa before they go back to the villages.

Sixth, although Banepa is well linked to distant market centers along Arniko highway and Lamosangu-Jiri road, there are many villages near Banepa and many more in Kabhre district, where the only way to reach them is by walking through hill trails. Devitar village is not accessible to Banepa except by walking and Opi only recently built kuchhi (feeder) road at the time of field survey through voluntary labour by villagers. In the hill areas, only way to transport the agricultural produce is by carrying in dokos (bamboo baskets) behind a man’s back.

The poor spatial linkage between the town and surrounding rural areas inhibit rural residents from availing of agricultural development services (like credit, improved seeds) as well as from transporting their products to the town.

In retrospect, Banepa’s urban-rural linkages as a market center can be presented in the schematic diagram in Figure 7.
KATHMANDU

Food Products, Soap, fabric,
Hill Rice, Potato

TERAI

MARKETING CONSTRAINTS
- Poor Transportation in Villages
- Limited Agri. Production
- Poor Collection Mechanism
- Cultural Constraints
- Limited Exposure to Cash Cropping

FIGURE 7: SCHEMATIC DIAGRAM OF BANEPA'S URBAN-RURAL LINKAGES AS A MARKET CENTER
3.3 INDUSTRIAL FUNCTIONS AND LINKAGES

This section addresses the key research question on the industrial functions of Banepa, the town’s linkages with the villages both in terms of the industries’ sources of raw materials and markets for their finished products, and the general nature of problems facing the range of industries.

Banepa, aside from being a market center, is a location for a number of household/cottage industries, principal among which are weaving (handloom, sweater and carpets), rice/oil milling, dairy processing and operating minibuses/buses. There are eight handloom industries, twelve rice/oil mills, three dairies, three carpet industries, twelve furniture industries, seven sweater knitting industries and eleven other minor industries in the town. The minor industries include three bakeries, one noodle industry, and one aluminum-utensil industry.

All industries in Banepa are controlled by the town’s local Newar businessmen. A few prominent Newar families have virtual local monopoly on the ownership of businesses and industries in the area. Often the same Newar families own the commercial establishments, industrial establishments and buses and minibuses which complement their different business activities.

Industries in Banepa are dominated by craft/household industries (e.g. cotton fabrics, sweater making) and primary agroprocessing (e.g. rice/oil mills). They can largely be
categorized as petty commodity production operations, without much linkage with larger enterprises in Kathmandu (except the carpet industry). All the industries in Banepa are based on simple technology, and most are family-run enterprises.

In the following sections, each of the industries are discussed in greater detail particularly handloom, sweater weaving, carpet weaving, rice mills, dairy processing and transport industry considering their economic importance in Banepa.

3.3.1 Industrial Activities
Handloom Industries

The handloom industry has been an important local industry in Banepa. Out of the eight handloom industries, two are major fabric wholesalers and one is a government-owned industry.

The raw material, cotton yarn, is obtained from dealers in Kathmandu, who in turn import it from India. On the average, each handloom industry produces 200-250 pieces of cotton sari, 200-400 pieces of kasto (shawl), 250-500 meters of Dhaka (fine cotton) clothes and 2000-7000 meters of cotton cloth per month. These products are sold primarily to people from surrounding villages (30 percent) and the eastern hills (60 percent). Only about 10 percent is consumed in Banepa itself indicating higher demand in rural areas. While the larger-scale industries have a bigger
share of the market in remote eastern hills, the smaller industries essentially cater to the local market. The government-owned cottage industry produces only cotton cloth and distributes it throughout the country through its own central distribution system in Kathmandu.

The average monthly transaction is Rs 63,000 for private handloom industries. The Sharmila Cloth Udyog, one of the fabric wholesalers has the highest transaction of Rs 200,000 per month but some of the smaller industries have as transaction as low as Rs 20,000.

Interviews with entrepreneurs reveal that the major problems of the industry include irregular supply and high cost of cotton yarn from India. The handloom industry has difficulty in competing with cotton fabric from India and China which at times are cheaper than locally-produced fabric.

**Sweater-Weaving Industry**

One of the new industries which emerged in Banepa about a decade ago is the sweater knitting-industry. The industry works on a sub-contracting basis. Businessmen from Kathmandu give woolen yarn and design patterns for the sweaters to middlemen (employers) in Banepa who, in turn, both knit by themselves and hire other people from Banepa for much of the work. The larger Bhakti Maya Sweater Knitting Industry purchases the wool itself from Kathmandu and gives the wool to the workers.
The finished product is destined for the market in Kathmandu (95 percent). Only about 5 percent of the finished product is retained in Banepa for local sale. The largest industry, Bhakti Maya Woolen Sweater Industry, produces 500 sweaters per month but smaller industries make about 50 sweaters per month. Many of the workers are working in their own homes at their own flexible working hours. The cost of a sweater in Kathmandu is about Rs 350 but the Banepa sweater weaving entrepreneurs sells it for Rs 250. Thus the shopowner in Kathmandu makes a profit of Rs 100 per sweater. As for the workers, they get wage of Rs 30-35 per sweater. Some enterprising workers eliminate the middlemen by directly dealing with businessmen in Kathmandu. However, most lack management skill and capital to have access to new designs/new technology and finances.

According to the employers, poor workmanship, spoilage of work and manipulation by the workers in the quantity of yarn used in making the sweater are some of the constraints of the industry. The wage workers complain of the large profits made by the middlemen and the low wage level.

**Carpet Industry**

Another emerging industry that has potential for growth in Banepa is carpet weaving. There are three carpet industries in Banepa all of which are of very recent origin (one was established at the time of survey). All the owners are from Banepa and they subcontract the work from the
businessmen in Kathmandu who export carpets to foreign countries. Woolen yarn is obtained from suppliers in Kathmandu and the carpets are sent to exporters in Kathmandu for sale to foreign countries.

The carpet industry brings much needed foreign exchange to the country. Until recently, most carpet industries have been located in Kathmandu and are run by big carpet houses such as Brighter, Sedai and Karki Industries. Recently there has been increasing government regulations and concern about the environmental impact of these industries because producers dump industrial waste (e.g. dyes) directly into the rivers, thus polluting them. In this situation of rising rents and environmental regulation in Kathmandu, Banepa is an attractive place for relocation of the carpet industry due to its close proximity to Kathmandu and its excellent transportation linkages. Moreover, the owners of the carpet industries say that workers in Banepa tend to stay longer in the job than in Kathmandu due to less job mobility in Banepa.

The carpet industry is an example of how an industry in Banepa is linked to formal sector carpet houses and businessmen in Kathmandu who are engaged in the final marketing of the carpets in western countries like Germany and the USA with substantial profits for themselves. Carpet industries in Kathmandu are increasingly dependent on subcontracting to smaller informal firms like those in
Banepa for weaving carpets in order to reduce the high cost of rent in Kathmandu and the difficulty of managing a large pool of labor in its own premises.

One major problem of the carpet industry in Banepa is that, since it is a new venture, Banepa still does not have dyeing and cutting facilities and the employers have to get these activities done in Kathmandu. Another problem is that the wool from New Zealand and Tibet are said to be adulterated by the local importers in Kathmandu which adversely affect the quality of carpet.

The global export market for carpets is very competitive. To remain competitive, it is important to have strong quality control. However, local workers often lack adequate skills. Furthermore, fluctuations in the western market for carpets affect the local carpet industries in Banepa.

Rice Mills

Rice mills and handloom industries are some of the oldest industries in Banepa. The oldest rice mill was established about 20 years ago.

Some of the smaller rice mills purchase paddy (high quality Pokhareli rice) from Banepa and surrounding villages and market the rice to Kathmandu. There is a demand for rice produced in the hills by higher-income urban dwellers in Kathmandu due to the better taste of hill rice. However, many factors such as the difficult topography, lack of
irrigation and proper agricultural inputs and small landholdings have constrained the high productivity of agriculture in the hills. Most of the paddy that comes to Banepa rice mills are from valley areas (Banepa, Panchkhal) and river basins (Dhadkhola, Sipaghat). The larger mills obtain the paddy directly from the Terai to sell it to surrounding villages and the eastern hills (targeted to the lower income groups). The rice coming from Terai are the 'Mota' and 'Mansuli' varieties which are of lower quality. They come from as far as Narayanghat, Biratnagar, Birgunj, Hetauda, Simra and Belbas (Sarlahi) in Terai.

On the whole, 37.5 percent of the paddy for rice mills in Banepa comes from Banepa and surrounding villages while 62.5 percent comes from the Terai.

As for the destination of the finished product, husked rice from small mills are destined to surrounding villages and Kathmandu. Among the larger rice mills, about 40 percent of the rice is consumed in Banepa and surrounding villages, 40 percent in other east-central hills and 20 percent in Kathmandu.

The average monthly production of the rice mills is about 150-bags (100kg each) of rice, 150 bags of chyura (70 kg each) and 120 tins of mustard oil (18kg/tin). One of the largest rice mills, Siddhi Sewa Mill, processes 250 bags of chyura, 300 bags of rice, 100 tins of oil per month. The smaller Chandeshwori Rice Mill processes 40 muri of paddy,
40 muri of wheat and 40 muri of corn (1 muri of grain is about 50 kg).

The main problem of the rice mills in Banepa is that because of the small agricultural production in the hills, many of the larger rice mills have to obtain paddy from distant areas in the Terai. With increasing transportation costs (transport cost from Terai to Banepa is Rs 32 per bag) and double taxation by the municipality for both bringing the paddy to Banepa and taking out the processed rice to Kathmandu, the mill operators from Banepa find it difficult to compete with those from the Terai and Kathmandu. Many rice mill owners strongly oppose this double taxation. Moreover, due to the larger volume of agricultural processing in the Terai, the cost of processing the rice in the Terai is cheaper.

Furthermore, the irregular supply of electricity and lack of adequate water supply for running chyura mills were cited as other major problems.

**Dairy Industry**

In terms of urban-rural linkages, dairy is one of the major industries supporting livestock development activities and creating opportunities for marketing milk produced in the hinterland villages. There is one government-owned chilling center and two other private dairies in Banepa.

There is competition between the government dairy and private dairies in the area. Private dairies collect milk
from nearby villages through middlemen (contractors).
Unlike the government chilling center, the private dairies
do not bother to collect the milk from distant areas where
the overhead costs of getting the milk are higher.

The private dairies are willing to pay higher price
than the government for buying milk from the farmers
particularly during the lean season. But in the flush
season, the private dairies do not buy it from all the
clients, while the government dairy is obliged to buy from
farmers irrespective of whether it is the flush or lean
season. Thus, although the government dairy pays less,
farmers have greater security in terms of regular marketing
of milk.

The government chilling center essentially collects the
milk from ten different collection centers around Banepa,
chills it and sends it to Kathmandu where it is processed.
The chilling center collects about 1,200 liters of milk per
day. The two private dairies together produce about 700
liters of milk, 30 liters of yogurt and 10 kilograms of ghee
butter daily. The private dairies are family-owned and
small, and sell most of the milk to Banepa hotels but the
other products in Kathmandu.

The milk collection centers of the government chilling
center in Banepa are located in villages whose distances
from Banepa range from half-hour to four-and-a-half-hour
walk. (These villages are Rabi, Opi, Devitar, Ghorsaine,
Nala/Tukucha, Golma Thumka, Kabhre, Mathurapati, Badalgaon, Larkaine, Hanumankharka). The nearest collection centers are Opi and Nala and farthest are Devitar and Mathurapati. The amount of milk brought from each of the collection centers ranges from 46 liters to 230 liters per day. The center serves areas without motor transport, and the milk is carried by porters. Milk from some collection centers such as Mathurapati and Badalgaun are brought by porters to the nearest roadlink (Dhulikhel) and from there to Banepa by minibus.

Villagers' Perspective: In order to corroborate data from the town, milk production patterns have also been studied in both Opi village and Devitar village.

Raising buffaloes seems to be an attractive proposition in the villages studied. According to the villagers, if a family of five can purchase a buffalo (cost Rs 15,000 - 18,000) giving about 7 liters of milk per day, the whole family can survive from the sole income from the milk. Surveys in the villages, particularly in Devitar showed that there is a high level of desire among the villagers to own a buffalo for selling milk.

Forty families in Opi village supply about 300 liters of milk per day (The adjoining Rabi supplies 700 liters of milk.). Out of them only three to four families do not have their own buffaloes. There is a clear ethnic bias in who
sells the milk. The milk sellers are mostly Brahmin-Chhetris, not Sarkis nor Damais.

Although milk is sold both to government and private dairies, there is a clear preference to sell them to private dairies due to the higher price the private dairies are willing to pay for the milk.

Devitar, on the other hand, has a milk collection center where 22 households from the village area sell about 100 liters of milk per day on a regular basis. Another 29 households (in wards five and six) sell 120 liters of milk per day to a private dairy in Naldung Panchayat. About 30 percent of the milk sellers in Devitar rent cows and buffaloes from Brahmins in Tusal and Nala area.

In Devitar, the collection center started operating in 1988. When it started, only six to seven families provided about 35 liters per day. The number has grown to 34 households in a span of two years and milk collection has increased to 100 liters a day.

Many villagers think that the government milk centers pay much less than the market price. Therefore those villagers from places like Opi, which are near urban centers prefer to sell the milk to private dairies or middlemen for private diaries.

Although the government chilling center is providing a vital source of income for the villages, expanding the number of milk centers in remote areas is a problem if the
collection amount is less than 50 liters (considering that the dairy has to hire a person at the field and pay for the porter).

The dairy industry lacks proper transportation facilities (motorable roads) between villages and Banepa. The chilling center has to depend on the porters to bring milk to Banepa, which limits the area it can serve. With proper provision of motorable roads, milk from farther areas could be brought to Banepa.

Some parcels of land in the surrounding villages belong to *guthi* organizations (land trusts for the temples in Kathmandu) and farmers who have been tilling the land cannot use this land as collateral on loans for purchasing buffaloes. For example, large parcels of the land in Nala, Tukuche and Rabi villages belong to the *Pashupati* and *Rambhakteshwori guthi* and villagers are supposed to pay part of their produce to the *guthi*. With the recent changes in the government, the new Congress government has now a policy for transferring the ownership of the *guthi* land to the farmers. This is expected to help the farmers.

Private dairies are primarily engaged in collecting the milk and selling it at a profit in Kathmandu. There is still a huge unmet demand for milk in Kathmandu particularly during the lean season. There has only been limited processing of the milk to produce butter and cheese particularly during the flush season.
The government dairy at Kathmandu faces problems of higher costs of production due to overstaffing, indifference, poor maintenance and repair as a result of which its overhead is high and consumers end up paying more for the milk although the government dairy buys the milk from farmers at a cheaper price (Sapkota, 1990). The New Congress Government is taking steps to privatize the government dairy to address this problem (NPC, 1992).

Problems of Villagers in Marketing Milk: First, owning buffaloes for a majority of villagers is an expensive proposition. Only rich farmers can raise a buffalo as it requires a regular supply of straw and feed. Besides it entails costs such as veterinary services to prevent diseases in the livestock. There is an additional risk of sickness and death among livestock which poor farmers have to worry about.

Those who rent the livestock from the owner have to face constant harrassment by the latter in terms of demand for higher share of milk, and insecurity from the fact that the owner may simply decide to take the buffalo back particularly when the buffalo starts giving milk.

When farmers get a loan from the Agricultural Development Bank in Banepa, they have no choice but to purchase buffaloes from the government-appointed dealer in the area. Many villagers feel that it is cheaper to get buffaloes from private dealers in Sikhapur, a one-day walk.
In addition, low-caste groups such as Sarkis, Damais and Kamis are pressured by high caste groups not to sell their surplus milk.

**Transport Industry**

Transport industry is increasingly playing an important role in Banepa’s economy. Due to Banepa’s strategic location as entrepot to east-central hills (Kabrepalanchok, Sindhupalchowk, Dolakha and Ramechhap districts), the local businessmen have invested in the minibus/bus business since last two decades, particularly after construction of the Arniko highway and the Lamosangu-Jiri road. Many of the minibuses and buses plying these routes are mostly controlled by the businessmen of Banepa.

Out of the 136 buses/minibuses plying the area, 86 are owned by the businessmen of Banepa which is about 63.5 percent of the transport business in the area. Besides these, Banepa’s businessmen also have about 20-30 night buses going to other parts of Nepal (e.g., Kakarbhita, Gaur, Birgunj, Janakpur). And they own about 15-20 trucks on a group basis. Considering that Banepa is a small town of about 1600 households, this control on transport business is substantial. The investment of Banepa’s merchants in the transport sector further reinforces the wholesale activities of Banepa in supplying urban consumer goods to other hill areas.
Many businessmen invested in the minibus/bus service because there is a higher profit margin and it does not require much effort to run the operation (compared to, for example, rice mills in which one has to get the raw material, process it and then send it to destination points). Besides, the owner does not have to worry about labor problem, and could get the returns more quickly. It is estimated that profit is as high as Rs 10,000 to 15,000 per month in this business (most of the profit comes from transporting goods -- minibuses charge Rs 400 per trip for goods brought from Kathmandu to Banepa). In interviews, some businessmen even indicated that it is a kind of status symbol for local Banepa businessmen to own a minibus or bus.

Road access and improved transport services has an impact on population mobility, especially in connection with employment (Leinbach, 1992). It also has impact on flows of goods in the region. In the context of Banepa, the improved transport services have undoubtedly increased the population mobility particularly for the use of services like agricultural inputs and purchasing urban consumer goods. The improved transport has facilitated greater movement to Kathmandu from Banepa and surrounding villages for work in government/semi-government jobs and work in brick kilns. In addition, more goods are brought from the eastern hills to Kathmandu (like milk, carpets, agricultural produce).
Banepa’s development as transportation center does not necessarily mean better access of Banepa with surrounding villages. Rather it has facilitated Banepa’s wholesale trade to more remote areas in the eastern hills and penetrating the local market there. Banepa’s development as transportation center primarily benefits the wholesalers, transport businesses, allied motor service businesses and not directly the surrounding villages. In other words, Banepa’s development as a transport center complements its growth as wholesale center for distributing urban consumer goods and daily essential goods (such as kerosene and salt) from Kathmandu and the Terai. In fact, Banepa’s growth can be attributed to its external linkages as entreport and diversification of economic activity from marketing to transport sector by local businessmen rather than to internal dynamism and agricultural development in the surrounding villages.

The investment in minibuses and transport sector has only to a limited extent been beneficial to the rural areas in terms of facilitating movement of people and transporting marketable surplus such as milk, rice, potato, tomato from surrounding villages and remote hills to Kathmandu. Also it has facilitated transporting construction materials such as cement, iron rods, sand from Kathmandu.

There is a considerable debate about the impact of roads on the hill economy. Past studies by Blaikie (Blaikie
et. al., 1980) have highlighted the negative effects of roads. However, there are other recent works which focus on the positive effects of roads on the hill economy (Fox, 1993). Based on the study of the effects of roads in west-central Nepal, Blaikie and others argue that provision of roads in the hills have contributed to the decline of the hill economy through greater penetration of the market economy from Terai and Kathmandu. This has adversely affected cottage industries, because local products become uncompetitive as the road makes cheap manufactured goods from outside more readily available in the hills.

Fox (1993), on the other hand, revisited his study village after ten years and found considerable improvements in village agriculture after the introduction of a road. He found that the new road was an important factor in greater access to chemical fertilizers, as a result of which there was greater agricultural production, higher value livestock (buffalo) development, and greater opportunities of the villagers to migrate to Terai and Kathmandu for seasonal job opportunities and education. Another important factor responsible for positive change in the village was attributed to the new tenure regime in forest lands, which gave management rights to the local community rather than the central government. Based on these conflicting results about the impact of roads, two observations can be made. First, introduction of a road in an hill area by itself is
not adequate for village development. To attain positive results, institutional changes such as greater control of community resources by villagers should occur along with the construction of the road. Second, since the trunk roads connecting hill towns with larger cities alone may not directly benefit the villagers, feeder roads linking the small town and surrounding villages are important to facilitate the latter’s access to services in the town. Such feeder roads do not even have to be motorable roads but would have to be wide enough to bring goods from the village to the town by people, mule and the like.

Other Industries

Other industries in Banepa include furniture, bakery, aluminium and noodle industries which are all family run enterprises. All these industries get their raw materials from Kathmandu and finished products are sold in Banepa and surrounding villages.

There are eleven furniture making establishments in Banepa. Collectively, they produce 56 cupboards, 160 tables, 956 chairs, 82 beds, 625 wooden door/window frames and 498 wooden shutters per month. The wood materials comes from Kathmandu, Bhaktapur and Thimi. The furniture produced is sold in Banepa and surrounding villages.

The aluminum-utensil industry produces aluminum pots and pans. About 50 percent of the products are sold within the Kabhre district (Dolalghat, Dhulikhel, Panauti, Dapcha,
Dharkhola), 20 percent in Patan and Bhaktapur, and the remaining 30 percent in Charikot, Lamosangu and Barabise. According to the owner, the local industry has not been doing well because of the difficulty in procuring raw material from India, the lack of adequate capital and the competition of aluminum products produced in other parts of Nepal and India. To penetrate the Nepalese market, the pricing system of Indian products are such that it is cheaper to buy the finished aluminum product than purchasing the raw aluminum metal.

The three bakeries in Banepa obtain their raw material, flour, from the local wholesaler in Banepa. Other items such as sugar and wood are obtained from Kathmandu. All three are largely family-run.

3.3.2 Linkages with the Villages

The linkages of Banepa’s industries are discussed in terms of the sources of raw materials, markets for finished products and employment. While the first two will be described here, employment aspects of industries will be discussed in the next section on Banepa’s role in providing employment.

Source of Raw Materials for Banepa’s Industries

With respect to urban-rural linkages, the dairy industry is important as it is a major source of cash income for farmers in the surrounding villages. Although there are only two private dairies and one government chilling center
in Banepa, together they have supported the growth of livestock industry in the area and provided avenues for the villagers to sell milk. The growth of the dairy industry in Banepa and Kathmandu has positively affected about 600 households in the surrounding villages. Although the three dairy industries employ about 18 people, the multiplier effect generates income-earning opportunities for a large number of households in the hinterland villages.

With respect to rice milling, only the small rice mills in Banepa obtain grain from hinterland villages. Smaller rice mills producing less than 150 bags of rice per month obtain between 75 to 100 percent of their paddy and mustard from the surrounding areas of Banepa itself (such as Panchkhal, Dapcha, Dharkhola, Panauti and Subbagaon). This has benefitted people with larger marketable surpluses but majority of the villagers have very little surplus to market. The larger rice mill owners who produce more than 150 bags of rice per month procure the grain directly from the Terai and thus have very little linkage with the surrounding villages in terms of procurement of village produce. Larger rice mills obtain as much as 75 percent of their paddy and mustard from Terai.

The handloom, carpet, furniture and sweater-weaving industries have no linkages with hinterland villages in terms of raw material sources as they all depend on Kathmandu for raw material. The cotton yarn for the
handloom industries comes from India and the woolen yarn for the carpet and sweater weaving industries are imported from New Zealand.

The furniture industries use small quantities of wood from villages like Panauti and Dapcha, but most of the wood comes via Kathmandu and Bhaktapur from the Terai.

Markets for Finished Products Produced in Banepa’s Industries

Banepa’s linkage with Kathmandu and its hinterland villages in terms of the destination of finished products depends on the type and nature of industries. Finished products from the carpet, sweater-weaving and dairy industries are sent primarily to Kathmandu (carpets for export to foreign countries). As much as 95 percent of the sweaters produced in Banepa go to Kathmandu, while the remaining 5 percent are retained for sale in Banepa. Similarly about 90 percent of the milk collected in Banepa goes to Kathmandu to fulfill its high demand for milk. About 10 percent is retained in Banepa for consumption in the local hotel and tea shops.

The cotton handloom industries and rice mills have greater linkages with the villages in terms of the latter’s being the destination of cotton fabric and processed rice produced in Banepa. The larger handloom industries like the Jai Bhim Udyog and the Sharmila Textile Udyog plus the government-owned handloom industry have a high percentage of
their products sold in distant rural areas. The smaller handloom industries have higher percentage of products sold at the local level itself. On the whole, the handloom products cater primarily to people from surrounding villages (30 percent) and eastern hills (60 percent). Only about 10 percent are consumed in Banepa itself indicating higher demand in rural areas.

As for the destination of the finished product of the rice mills, those from small mills are destined to surrounding villages and Kathmandu. Those from larger rice mills in Banepa go primarily to surrounding and distant villages in the central hills.

3.3.3 Problems of Industries

Although proponents of small towns suggest the importance of small towns as agricultural processing centers linking farm activities in the village with nonfarm activities in the town, this does not seem to be the case with Banepa. The experience of rice mills and the dairy industry in Banepa show the difficulties of agro-processing industries in small town. The major problem of rice mills in Banepa is that due to the small volume of agricultural production in the hills, many of the larger rice mills have to obtain paddy from distant areas in the Terai.

Many of the household industries (handloom and aluminum-utensil industry) are experiencing increasing competition from industries in the Terai and Kathmandu and

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from outside Nepal which mass produce goods at cheaper prices. The fate of the industries in Banepa is dependent on external forces beyond the confines of the local or national economy as Nepal is increasingly incorporated into the global economy. With the increased penetration of industrial goods from outside Banepa, the number of handloom industries are dwindling. In contrast, the carpet and sweater-making industries may remain viable as they are not in direct competition with the larger entreprises. While majority of industries like handloom industries are oriented towards local consumption in the area, industries like carpets and sweater weaving depend on export to foreign countries and on sale to tourists in Kathmandu.

All the industries depend on the outside (Kathmandu, Terai and foreign countries) for raw materials. Only the rice mills and dairy industry use local produce from the surrounding villages to run the industries. Therefore although development literature on rural areas argue for the need to link nonfarm activities in small town with farm activities in the villages (Leinbach, 1992), little of these linkage activities are taking place in Banepa.

This situation in the hills of Nepal, with limited agricultural surpluses is rather different from case studies of other countries in South and South East Asia where more agricultural surpluses are available and where small towns
can depend on local produce for processing activities to generate non-farm income for local people.

Another problem associated with some industries in Banepa is the lack of transportation facilities (motorable roads) between villages and Banepa. Due to this lack of motorable road to many milk collection centers in the villages, the Banepa chilling center has to depend on porters to bring milk to Banepa, which limits the area it can serve and which increases the possibility of milk spoilage on the way. With proper provision of motorable roads, milk from farther areas could be brought to Banepa. Although the government chilling center is providing a vital source of income for the villages, expanding the number of milk centers in remote areas is a problem due to lack of proper roads.

For industries such as handloom industry and sweater-weaving industry, another major constraint is the difficulty in competing with products from India and China which at times are cheaper than locally-produced goods. The owners of the handloom industries reveal that they have to constantly face the problem of irregular supply and high cost of raw materials (cotton yarn, woolen yarn) from India. Frequent power failure in Banepa also adversely affects the running of power looms and rice mills.
Lastly, owners of industries in Banepa also reveal that they lack skilled manpower and finance to expand their industry and compete with outside industries.

Banepa’s role as an industrial center has been summed up in the schematic diagram in Figure 8.
INDUSTRIAL CONSTRAINTS

- Competition with outside industries
- Lack of skilled manpower, finance
- Limited infrastructure
- Difficulty in Transportation

KATHMANDU
- Handloom, Carpet, Sweater
- Dairy, Transport

BANEPAA
- Milk, Carpet, Fabric, sweater
- Traditional yarn

EASTERN HILLS
- Handloom Fabric, Processed Mota Rice

TERAI
- Devitar
- Mota Rice

FIGURE 8: SCHEMATIC DIAGRAM OF BANEPA'S URBAN-RURAL LINKAGES AS AN INDUSTRIAL CENTER
3.4 EMPLOYMENT

In order to examine whether small towns such as Banepa provide important source of employment for hinterland population (as suggested by the proponents of small town development), the employment structure of Banepa has been analyzed both in terms of types and number of jobs created and the beneficiaries of the jobs based on ethnic status and place of residence.

Banepa provides employment to the people in the area through about 50 cottage/household industries, 438 commercial establishments, and 13 government/semigovernment institutions. The employment data on industries also include those working in the transport sector (i.e., in the running of buses and minibuses in the area). Similarly, commercial establishments include all wholesale, retail and service establishments providing marketing services in Banepa. Lastly, employment in institutions include those in hospitals, banks, schools, government/semigovernment offices in Banepa.

The analysis of the employment data from the commercial, industrial and institutional establishments show that although there are many commercial establishments in Banepa, it is the industrial and transport-related establishments which provide the maximum number of jobs. For all non-farm jobs created in Banepa, 52.5 percent of them are in industries and transport sector, 27.7 percent in
commercial establishments and 19.8 percent in institutional establishments (Figure 9). It is estimated that Banepa's establishments employs about 959 workers in the household craft industries, 350 workers in the transport sector, 690 largely self employed people in the shops and 495 employees in the institutional establishments (Table 15). The industries which provide maximum number of jobs in Banepa and surrounding village are cotton handloom industry, sweater weaving industry and transport industry in Banepa (Table 16). Other industries such as rice mills and furniture industry generate very few jobs for the local people. The commerce sector being family run also provide little employment beyond the family members.

TABLE 15. NUMBER AND TYPES OF EMPLOYMENT IN BANEPA

<table>
<thead>
<tr>
<th>TYPE OF EMPLOYMENT</th>
<th>NUMBER OF INSTITUTIONS</th>
<th>NO. OF PEOPLE EMPLOYED</th>
<th>NO. OF WORKERS PER INSTITUTION</th>
<th>PER-CENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industries</td>
<td>49</td>
<td>959</td>
<td>19.6</td>
<td>38.5</td>
</tr>
<tr>
<td>Shops</td>
<td>437</td>
<td>690</td>
<td>1.6</td>
<td>27.7</td>
</tr>
<tr>
<td>Service (Ofc., sch., hosp.)</td>
<td>26</td>
<td>495</td>
<td>26.0</td>
<td>19.9</td>
</tr>
<tr>
<td>Transport (Bus/minibus/ truck)</td>
<td>100</td>
<td>350</td>
<td>3.5</td>
<td>14.0</td>
</tr>
<tr>
<td>TOTAL</td>
<td>612</td>
<td>2,494</td>
<td>4.1</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Field Survey, 1989-90
FIGURE 9: EMPLOYMENT STRUCTURE OF BANEPA

Source: Field Survey, 1989-90
TABLE 16. HIRED AND FAMILY WORKERS IN BANEPA’S INDUSTRIES

<table>
<thead>
<tr>
<th>TYPE OF INDUSTRY</th>
<th>NO. OF INDUSTRY</th>
<th>TOTAL NO. OF WORKERS</th>
<th>NO. OF WORKERS/INDUSTRY</th>
<th>NO. OF HIRED WORKERS</th>
<th>NO. OF FAMILY WORKERS</th>
<th>HIRED TO FAMILY WORKER RATIO</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Cotton Handloom</td>
<td>8</td>
<td>471</td>
<td>58.9</td>
<td>442</td>
<td>29</td>
<td>15:1</td>
</tr>
<tr>
<td>2. Sweater Knitting</td>
<td>7</td>
<td>190</td>
<td>27.1</td>
<td>171</td>
<td>19</td>
<td>9:1</td>
</tr>
<tr>
<td>3. Carpet</td>
<td>3</td>
<td>104</td>
<td>34.7</td>
<td>96</td>
<td>8</td>
<td>12:1</td>
</tr>
<tr>
<td>4. Rice Mill</td>
<td>12</td>
<td>84</td>
<td>7.0</td>
<td>53</td>
<td>31</td>
<td>5:3</td>
</tr>
<tr>
<td>5. Dairy Processing</td>
<td>3</td>
<td>21</td>
<td>7.0</td>
<td>18</td>
<td>3</td>
<td>6:1</td>
</tr>
<tr>
<td>6. Furniture</td>
<td>12</td>
<td>48</td>
<td>4.0</td>
<td>28</td>
<td>20</td>
<td>3:2</td>
</tr>
<tr>
<td>7. Noodles</td>
<td>1</td>
<td>13</td>
<td>13.0</td>
<td>10</td>
<td>3</td>
<td>3:1</td>
</tr>
<tr>
<td>8. Aluminium Utensil</td>
<td>1</td>
<td>3</td>
<td>3.0</td>
<td>2</td>
<td>1</td>
<td>2:1</td>
</tr>
<tr>
<td>9. Bakery</td>
<td>3</td>
<td>25</td>
<td>8.3</td>
<td>14</td>
<td>11</td>
<td>4:3</td>
</tr>
<tr>
<td>TOTAL</td>
<td>50</td>
<td>959</td>
<td>19.2</td>
<td>834</td>
<td>125</td>
<td>7:1</td>
</tr>
</tbody>
</table>

Source: Field Survey, 1989-90
Administrative/tertiary sector employment in branch offices of government and semi-government organizations, schools and hospital are also limited. The reason for the low employment in administrative jobs is due to the fact that Banepa is not an administrative headquarter unlike many other small hill towns in Nepal. The employment generated by each of the industries, retail shops and administrative/service offices often cater to different people based on ethnic status and place of residence.

3.4.1 Employment in Industry

Aggregating the employment data on all industries in Banepa, it was found that Newars constitute 79.5 percent of the employees in the industries, followed by Brahmins/Chhetris (10.4 percent), Tamangs (8.0 percent) and other groups (2 percent). Spatially, 49.5 percent of employees in Banepa’s industries are from Banepa itself, while people from surrounding villages and distant villages constitute only 38.0 percent and 12.5 percent of total employees (Figure 10).

This clearly shows under-representation of people from surrounding villages in Banepa’s industries, particularly when the above data is compared with the town-level and district-level population data. Banepa’s population (12,537) constitute only 3.9 percent of the Kabhre district population (324,329) but constitute 49.5 percent of employees in Banepa’s industries are from residents of
By Place of Origin

- Surrounding villages: 38.0%
- Other Areas: 12.5%
- Banepa: 49.5%

By Ethnic Status

- Newars: 79.5%
- Other 2.0%
- Tamang: 8.0%
- Brahmin/Chhetri: 10.4%

Other areas include Kathmandu and Distant Villages in Eastern Hills

Source: Field Survey, 1989-90

FIGURE 10: OVERALL DISTRIBUTION OF HIRED WORKERS IN BANEPA'S INDUSTRIES
Banepa. Similarly, Newars account for only 12 percent of the district population but 79.5 percent of employees in Banepa’s industries belong to that ethnic group. (According to 1991 census, out of 324,329 people in Kabhre district, 39,756 speak Newari language). Thus, although proponents of small towns argue that the services/employment available in the town cater to both the town residents and hinterland villagers, the employment data in Banepa show that there are clear ethnic and spatial biases in the employment patterns in Banepa’s industries, favoring the local Newars from the town itself.

Tables 17 and 18 gives the general breakdown of ethnicity and place of origin of hired workes in individual industries of Banepa. The handloom and sweater-weaving industries particularly have Newar women as hired workers and they are mostly from Banepa and other nearby Newar settlements like Panauti, Bhaktapur, Nala, Sankhu.

Handloom industries in Banepa are labor intensive and employ a considerably higher number of people than other industries located in the town. The eight handloom industries surveyed alone employ about 442 hired workers with an average of 55 workers per industry. The two largest industries, Keshab Palanchoke’s Jai Bhim Industry and Shiva Ram Bhail’s Sharmila Textile Industry, employ more than 100 people each. But not all the weaving work is done at the owner’s home. For example, Jai Bhim Industry employs 100
TABLE 17. ETHNIC DISTRIBUTION OF HIRED WORKERS IN BANEPA'S INDUSTRIES

<table>
<thead>
<tr>
<th>TYPE OF INDUSTRY</th>
<th>NUMBER OF HIRED WORKERS</th>
<th>ETHNICITY OF WORKERS [N (% WORKERS)]</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Newar</td>
</tr>
<tr>
<td>1. Cotton Handloom</td>
<td>442</td>
<td>419 (94.8%)</td>
</tr>
<tr>
<td>2. Sweater Knitting</td>
<td>171</td>
<td>171 (100%)</td>
</tr>
<tr>
<td>3. Carpet</td>
<td>96</td>
<td>30 (31.3%)</td>
</tr>
<tr>
<td>2. Rice/Chyura/Oil Mill</td>
<td>53</td>
<td>18 (34.0%)</td>
</tr>
<tr>
<td>4. Dairy Processing</td>
<td>18</td>
<td>3 (16.7%)</td>
</tr>
<tr>
<td>6. Furniture Making</td>
<td>28</td>
<td>17 (60.7%)</td>
</tr>
<tr>
<td>7. Noodle Factory</td>
<td>10</td>
<td>2 (20.0%)</td>
</tr>
<tr>
<td>8. Aluminium Utensil</td>
<td>2</td>
<td>0 (0.0%)</td>
</tr>
<tr>
<td>9. Bakery</td>
<td>14</td>
<td>3 (21.4%)</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>834</td>
<td>663 (79.5%)</td>
</tr>
</tbody>
</table>

Source: Field Survey, 1989-90
TABLE 18. PLACE OF ORIGIN OF HIRED WORKERS IN BANEPA'S INDUSTRIES

<table>
<thead>
<tr>
<th>TYPE OF INDUSTRY</th>
<th>PLACE OF ORIGIN [N ( % Hired Workers)]</th>
<th>TOTAL HIRED [N (% Workers)]</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Banepa</td>
<td>Surrounding Villages</td>
</tr>
<tr>
<td>1. Cotton Handloom</td>
<td>206 (46.7%)</td>
<td>214 (48.4%)</td>
</tr>
<tr>
<td>2. Sweater Knitting</td>
<td>159 (93.0%)</td>
<td>9 (5.3%)</td>
</tr>
<tr>
<td>3. Carpet</td>
<td>26 (27.1%)</td>
<td>53 (55.2%)</td>
</tr>
<tr>
<td>4. Rice/Chyura/Oil Mill</td>
<td>13 (24.5%)</td>
<td>9 (17.0%)</td>
</tr>
<tr>
<td>5. Dairy Processing</td>
<td>1 (5.6%)</td>
<td>17 (94.0%)</td>
</tr>
<tr>
<td>6. Furniture Making</td>
<td>5 (17.9%)</td>
<td>7 (25.0%)</td>
</tr>
<tr>
<td>7. Noodle Factory</td>
<td>0 (0.0%)</td>
<td>0 (0.0%)</td>
</tr>
<tr>
<td>8. Aluminium Utensil</td>
<td>1 (50.0%)</td>
<td>1 (50.0%)</td>
</tr>
<tr>
<td>9. Bakery</td>
<td>2 (14.3%)</td>
<td>7 (50.0%)</td>
</tr>
<tr>
<td>TOTAL</td>
<td>413 (49.5%)</td>
<td>317 (38.0%)</td>
</tr>
</tbody>
</table>

people and has 40 handlooms and 10 electric looms, but the owner has only kept 10 electric looms at his place and the rest are at the workers' own homes. Many workers take the yarn home and bring the finished product. This way, the owners can manage to run the industry in small premises while the workers can also work at their convenient time. The workers are paid on a piece-rate basis (Rs 1- Rs 1.5 per meter of cloth, Rs 6 per meters of Dhaka Cloth). On the average, workers earn about Rs. 20-25 per day.

Although the handloom industry provides employment to a large number of workers, the work is of casual nature and are often done by workers in their own looms at home and are just paid for the finished product. The workers are predominantly from Newar settlements. For example, 46.7 percent of workers are from Banepa alone and another from 48.4 percent from surrounding Newar settlements such as Panauti, Nala, Sanga, Bhaktapur. Newars account for 94.8 percent of the workers in the handloom industry.

With the heavy investments by Banepa businessmen in minibus and bus service, jobs have been created for (1) running the buses - drivers, helpers) and (2) allied services such as repair workshops.

In terms of employment, considering that there are 100 vehicles owned by Banepa businessmen and each vehicle provides jobs to 3.5 people to run them (one owner, one driver, and 1.5 helpers), it provides employment to about
350 people. Most of the hired people for this purpose are from Banepa and surrounding village (except for drivers, who could be from other parts of Nepal, too). The drivers are paid about Rs 1,500 per month and helpers about 500 per month.

Also it has generated some employment in repair workshops (about 15-25 people). The workshops are owned by entrepreneurs from Kathmandu and India (Kashmir) as Banepa lacks local skills in the maintenance of vehicles.

The sweater-weaving industry, on the other hand, employs about 190 workers (19 family members and 171 hired workers). While larger industries, such as Bhakti Maya Woolen Sweater Industry, can hire 80 workers, smaller ones employ about 10 workers. Many of the workers are working in their own homes at their own flexible working hours.

The study of the employment pattern in the sweater-weaving industry indicated that this industry provides employment to primarily Newars (100 percent) and those living in Banepa (93 percent). Like the handloom industry, mostly women are employed in this industry and they often work at home and are paid on the basis of number of sweaters they weave.

The dairy industry does not generate much employment in Banepa itself but it provides income earning opportunities in surrounding villages. Banepa’s milk industry has created the backward linkage of buffalo raising which provides
opportunities to sell milk to about 600 villagers. In terms of ethnic status, this industry benefits primarily non-Newars (Brahmins/Chhetris and Tamangs) in hinterland villages. Most Newars in Banepa do not engage in livestock activities. Thus, the dairy industry in Banepa benefits the surrounding villages more than Banepa itself and this has major implication in terms of urban-rural linkages of Banepa in generating income opportunities in surrounding villages.

In terms of employment, the dairy industry employs only 18 people on a regular basis. All the owners of private dairies in Banepa are Brahmin/Chhetris, an indication of this group’s dominance.

Like handloom and sweater weaving industries, the carpet industry is also a labor-intensive industry. Field survey of carpet industries showed that it hired about 96 workers, a high figure for an industry located in a small town. The majority of the workers are Tamangs and all of them work in the premises of the industry itself unlike handloom industry. The workers are paid on a piece-rate basis and make about Rs 1,800 per month for twelve hours of work per day, which is a better salary than workers make for similar work in the cotton handloom industry.

In terms of employment, the rice mills cannot provide employment to a large number of people due to the very small-scale nature of industry. All rice mills are family-run and they use their own family labor extensively. The
survey of industries showed that for the 12 rice mills, the average number of people employed is about 7 (3 family members and 5 hired workers). The number of people employed by the biggest rice mill is 15 workers in the peak season. Most of the wage workers are Tamangs from surrounding villages. Nearly 38 percent of the workers are Tamangs followed by Newars (34 percent).

Eleven furniture industries in Banepa also employ very few hired workers. All except one furniture shop are owned by Newars, and the hired workers are also mostly Newars. The average number of people employed by this industry is 4 (2 family members and 3 hired workers).

3.4.2 Employment in Service Activities

A review of employment records of offices in Banepa indicate that, altogether, 495 people have been employed in service-sector jobs. This includes all offices, schools and banks (Telecommunication Office, Post office, Water Supply and Sewerage Department, Nepal Electricity Corporation, municipality, Banks, District Co-operative office) all providing vital infrastructure and services for Banepa and surrounding village. The field survey found that Newars dominate in the number of the employees as they have advantage of being in Banepa town itself and higher literacy level compared to other ethnic groups in surrounding village. Newars account for 59.6 percent of employees, followed by Brahmins/Chhetris (34.3 percent) (Figure 11).
FIGURE 11: OVERALL DISTRIBUTION OF EMPLOYEES IN INSTITUTIONS OF BANEPA
The Tamangs and other ethnic groups are underrepresented in these service sector jobs (6.2 percent). In terms of spatial bias, 48.9 percent of the employees are from Banepa town itself, followed by 31.5 percent from surrounding villages, and 19.7 percent from other areas like Kathmandu and Bhaktapur. Often, higher level jobs are handled by the town dwellers and people from surrounding village have lower-level jobs like peons or errand boys.

Because of the lower literacy level among Tamang ethnic groups, they are clearly disadvantaged in obtaining administrative jobs in Banepa which require at least the basic minimum level of education. The field survey showed that only four Tamangs have been integrated in the administrative jobs of Banepa (two were employed in the hospital and two in other personal services) of Banepa. The employment records showed not a single Tamang has been employed in schools and banks of Banepa (Table 19). On the other hand, among the surveyed offices, largest number of Newars have been employed in administrative jobs in Banepa. Newars by far dominate other groups particularly in teaching jobs in schools (about 69 percent of the teachers in schools are Newars) and most school teachers are from Banepa town itself (Table 20). Similarly Brahmins/Chhetris also do far better than Tamangs in terms of administrative employment. Clearly Newars followed by Brahmins and Chhetris dominate in both administrative jobs as well as teaching jobs in Banepa.
### TABLE 19. ETHNIC DISTRIBUTION OF EMPLOYEES IN BANEPA'S SELECTED INSTITUTIONS

<table>
<thead>
<tr>
<th>TYPE OF INDUSTRY</th>
<th>NUMBER OF EMPLOYEES</th>
<th>ETHNICITY OF WORKERS [N(% WORKERS)]</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Newar</td>
<td>Brahmin/Chhetri</td>
<td>Tamang</td>
<td>Other</td>
</tr>
<tr>
<td>1. Personal Services*</td>
<td>139</td>
<td>77 (55.4%)</td>
<td>53 (38.1%)</td>
<td>2 (1.4%)</td>
<td>7 (5.0%)</td>
</tr>
<tr>
<td>2. Hospital</td>
<td>56</td>
<td>36 (64.3%)</td>
<td>15 (26.8%)</td>
<td>2 (3.6%)</td>
<td>3 (5.4%)</td>
</tr>
<tr>
<td>3. Schools**</td>
<td>94</td>
<td>65 (69.2%)</td>
<td>21 (22.3%)</td>
<td>0 (0.0%)</td>
<td>8 (8.5%)</td>
</tr>
<tr>
<td>4. Banks***</td>
<td>67</td>
<td>34 (50.8%)</td>
<td>33 (49.3%)</td>
<td>0 (0.0%)</td>
<td>0 (0.0%)</td>
</tr>
<tr>
<td>TOTAL</td>
<td>N 356</td>
<td>212</td>
<td>122</td>
<td>4</td>
<td>18</td>
</tr>
</tbody>
</table>

Source: Field Survey, 1989-90

* Personal Services include employment in 7 offices, namely; Municipality, Water Supply and Sewerage Office, Telecommunication Office, National Family Planning Association, Janakpur Cigarette Distribution Branch, Co-operative Office and Post Office.

** Data on schools based on 4 schools (2 High Schools, 1 Primary School and 1 Secondary School). In Banepa there are altogether 11 schools and 1 Humanities Campus.

*** Data on Banks include those from Nepal Bank Limited and Agricultural Development Bank.

Note: Data on detailed breakdown of employees in some offices such as Nepal Electricity Corporation Branch Office, Police, and Vaccine Project could not be obtained, but based on municipality records, an additional 139 staff are working in the institutions not covered in the field survey. Thus, the total number of employees in Banepa's institutions is estimated to be 495 people (356+139).
<table>
<thead>
<tr>
<th>TYPE OF INSTITUTION</th>
<th>NUMBER OF EMPLOYEES</th>
<th>PLACE OF ORIGIN OF EMPLOYEES [N(% WORKERS)]</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Banepa</td>
</tr>
<tr>
<td>1. Personal Services</td>
<td>139</td>
<td>66 (47.5%)</td>
</tr>
<tr>
<td>2. Hospital</td>
<td>56</td>
<td>31 (55.4%)</td>
</tr>
<tr>
<td>3. Schools</td>
<td>94</td>
<td>58 (61.7%)</td>
</tr>
<tr>
<td>4. Banks</td>
<td>67</td>
<td>19 (28.4%)</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>356</strong></td>
<td><strong>174</strong></td>
</tr>
</tbody>
</table>

Source: Field Survey, 1989-90
The occupational castes like Kami, Sarki and Damai do not even figure out in the employment records of the offices in Banepa. Since many administrative jobs in small towns such as Banepa are filled based on social networking, the Tamangs and occupational castes are doubly disadvantaged in obtaining jobs in that regard as they have no person from their ethnic group working in the offices.

3.4.3 Employment in Commerce Activities

Being a historic market town, Banepa has many local Newars having been long engaged in retail and wholesale trade activities. It is estimated that about 690 people have been employed in commerce activities of Banepa. In terms of employment, Banepa’s retail outlets primarily use family labor. Only the wholesale shops employ a few hired workers for loading/unloading of the goods on a regular basis. More than 95 percent of hired workers are from Banepa and belong to Newar ethnic group. Most of the workers hired for carrying loads are from outside Banepa and belong to Tamang ethnic group. Those who are working in the shops as shop assistants belong to Newar ethnic group from Banepa itself, indicating labor segmentation.

Thus, like industrial sector employment, all commercial and service employment in Banepa has been controlled by urban dwellers of Banepa, particularly the Newars. This finding has major implication in terms of expanding service sector jobs in Banepa for surrounding village.
3.4.4 Employment in Brick Kilns in Kathmandu

Many lower income people from Banepa and surrounding villages (from all ethnic groups except Brahmins) go to work in the brick kilns of Kathmandu. This is an important source of seasonal employment for low income households in the area. In Banepa, there are three brokers ('nayo') who act as middlemen to recruit the labor for these industries. Often, these brokers get the workers from their own acquaintances, relatives and friends. The municipality records of 1988 (BNP, 1988) indicate that out of 1,628 households in Banepa, members from 269 (16.52 percent) households go to work in brick kilns of Kathmandu, Patan and Bhaktapur. The work is long and arduous and, often, able-bodied men and women from the families go as a group to work in the kilns. However, with increased competition from workers from Terai and India, it is becoming harder for these workers from Banepa to compete for the jobs.

3.4.5 Village Off-Farm Employment

A greater number of Brahmin/Chhetris from villages are engaged in service employment in Banepa and Kathmandu. In comparison, the number of Tamangs from Devitar village holding administrative/service employment is almost insignificant. In Opi village, the service employment include working as watchman, gardener in Banepa Hospital, hotels in Kathmandu, constable in the Police/Army. A few families from Chhetri and Tamang groups also go to brick
kilns of Kathmandu for wage labor. Most people from low-income groups get involved in wage labor during agricultural seasons for about two to three months. In short, most people from villages have not been able to get absorbed in high-level jobs due to lack of adequate education, exposure and networking.

About 30-40 people from the villages have skills in carpentry and masonry construction and they are engaged in building construction in the villages. However, very few of them work in construction works in Banepa and Kathmandu due to low levels of skills in their work. Another off-farm employment is bee-keeping but this activity is primarily seen among the relatively well-to-do families in the village.

3.4.6 Problems in Employment

To a certain extent, lack of appropriate skill and education among the villagers is a constraint to employment in Banepa. Ethnic groups such as Brahmins/Chhetris and Tamangs do not traditionally have weaving and knitting skills like Newar women from the town itself. This lack of skill in weaving is also part of the reason why the villagers can not get employed in this labor-intensive industry. Handloom and sweater-weaving industries have not benefitted non-Newar settlements/villages around Banepa.

Most people in the villages (Opi and Devitar) are engaged in agriculture and have skills in livestock
development activities such as raising buffaloes and selling milk, weaving baskets, mats, rope and brooms (the urban Newars have less skill in this area compared to people in the village). Thus, the dairy industry is one of the areas which have benefitted the villages more than the urban Banepa in terms of non-farm income for villagers. The carpentry and masonry skills some villagers have are often not adequate for them to get jobs in construction industry in urban areas like Banepa.

The people from areas like Devitar can not enter into administrative jobs because of the low levels of education and lack of social network with the employers. Administrative jobs are predominantly held by Newars and Brahmins/Chhetris due to their higher literacy and better linkages with Banepa. Due to low levels of education, there are very few people from Devitar who are working outside. Compared to Devitar, more people from Opi have been integrated in the administrative/clerical jobs in Banepa. However, they are also engaged in low-paying jobs only such as peons, gardeners, and the like.

Lastly, Banepa’s role as an employment center has been shown in the schematic diagram in Figure 12.
FIGURE 12: SCHEMATIC DIAGRAM OF BANEPA'S URBAN-RURAL LINKAGES AS A SOURCE OF EMPLOYMENT
3.5 SERVICE FUNCTIONS AND LINKAGES

This section addresses the question of how the small town of Banepa provides urban services to hinterland villages. It examines how ethnic status, distance, and economic status of villagers affect the use of services and what factors constrain the use of these services. The study deals with three major types of services, namely; agriculture-related assistance, health services and educational facilities.

3.5.1 Agricultural Services

Three types of services are critical in the development of agriculture in rural areas -- credit support, supply of agricultural inputs, and assistance in the marketing of produce. This section of the research investigates how the first two of those services are being used by the people in Banepa and its hinterland. The previous chapter on Banepa as a market centre has already covered the issues dealing with assistance in the marketing of rural produce.

Agricultural Credit

The Agricultural Development Bank (ADB) located in Banepa, since its inception in 1970, has given loans to 2,873 individuals in 53 village panchayats. Out of these, there are 49 and 36 loantakers from the study villages of Opi and Devitar, respectively. A study of loan patterns from the Bank for the year 1988-89 shows that it caters primarily to residents of villages rather than to those of
urban centers like Banepa itself (Figure 13). This excludes
the special loans program under the Cottage and Small Scale
Industry (CSI) Project of the World Bank which has been
initiated very recently.

There is a close relationship between the type of loan
and distance from the town. For the period under study,
while farmers from surrounding villages obtained loans for
marketable products such as fruits and buffalo (milk
production), those from more distant villages acquired loans
for grains such as corn, which are largely for subsistence
and have less market value but which are less perishable.
With electricity available in Banepa only, it is
understandable that people from the town took loan for
poultry-raising while villagers did not.

In terms of ethnic status of loan takers, the high-
caste Brahmins and Chhetris top the list as they have
greater access to the loan process due to their proximity
and their higher knowledge/awareness about the availability
of loans. Newars constitute the smallest ethnic group as
they are largely urban dwellers whereas the Bank caters
mainly to rural areas.

Indeed, distance from Banepa, economic situation and
ethnic status seem to influence the ways people take loans
for particular activities.
By Place of Origin of Loan Takers

- Banepa: 5 (3.4%)
- Distant Villages: 34 (23.0%)
- Surrounding Villages: 109 (73.6%)

By Ethnicity of Loan Takers

- Brahmin/Chhetri: 81 (54.7%)
- Tamang: 37 (25.0%)
- Newar: 28 (18.9%)
- Others: 2 (1.4%)

Source: Bank Records

FIGURE 13: DISTRIBUTION PATTERN OF LOANS GIVEN BY AGRICULTURAL DEVELOPMENT BANK IN BANEPA IN 1989
This differential loan pattern based on distance and ethnic status is further evident from the study of loans taken by the villagers of Opi and Devitar (Tables 21 and 22). The nearby village of Opi has more people taking loans for a market-oriented business such as buffalo-raising for milk (54.5 percent) and for cash crops such as potato (27.3 percent), and considerably fewer for subsistence foodgrains such as corn (9.1 percent). The distant village of Devitar, on the other hand, has more loan takers for corn (52.8 percent), followed by for buffalo (30.5 percent), and least for potato as cash crop (11.1 percent). The relatively high percentage of people from Devitar taking loan for buffaloes is facilitated by the presence of a Dairy Development Corporation's collection point in the village.

Again, in terms of ethnic status, while Brahmins and Chhetris are more oriented toward cash crops and buffalo-raising, Tamangs have taken loans for subsistent crops.

A review of Bank Records on overall loan data for the years 1987/88 and 1988/89 indicated that there has been a general increase in investment for livestock development from 37.7 to 52.5 percent. Similarly, loans for fruit farming rose from 3.8 to 5.6 percent. However, there is a significant decline in investment for foodgrain from 21.9 to 7.2 percent. For cash crop, the loan pattern remains the same. For the year 1988/89, the loan disbursed by ADB for the whole of Kabhre district is about Rs 171,660, of which
TABLE 21: DISTRIBUTION PATTERN OF THE NUMBER OF LOANS GIVEN BY THE AGRICULTURAL DEVELOPMENT BANK FOR OPI AND DEVITAR*

<table>
<thead>
<tr>
<th>TYPE OF LOAN</th>
<th>OPI</th>
<th>DEVITAR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buffalo</td>
<td>12 (54.5%)</td>
<td>11 (30.5%)</td>
</tr>
<tr>
<td>Cash crop/Potato</td>
<td>6 (27.3%)</td>
<td>4 (11.1%)</td>
</tr>
<tr>
<td>Corn/Foodgrain</td>
<td>2 (9.1%)</td>
<td>19 (52.8%)</td>
</tr>
<tr>
<td>Poultry</td>
<td>2 (9.1%)</td>
<td>1 (2.8%)</td>
</tr>
<tr>
<td>Swine (pigs)</td>
<td>0 (0.0%)</td>
<td>1 (2.8%)</td>
</tr>
<tr>
<td>TOTAL</td>
<td>22 (100.0%)</td>
<td>36 (100.0%)</td>
</tr>
</tbody>
</table>

* All credits given by the Bank since its inception in 1970

Source: Agricultural Development Bank Records

TABLE 22: ETHNIC STATUS OF LOAN TAKERS FROM THE AGRICULTURAL DEVELOPMENT BANK IN BANEPA FOR OPI AND DEVITAR VILLAGES

<table>
<thead>
<tr>
<th>ETHNIC/CASTE</th>
<th>OPI</th>
<th>DEVITAR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brahmin/Chhetri</td>
<td>19 (86.4%)</td>
<td>6 (16.7%)</td>
</tr>
<tr>
<td>Newar</td>
<td>2 (9.1%)</td>
<td>0 (0.0%)</td>
</tr>
<tr>
<td>Tamang</td>
<td>0 (0.0%)</td>
<td>27 (75.0%)</td>
</tr>
<tr>
<td>Sarki</td>
<td>1 (4.5%)</td>
<td>0 (0.0%)</td>
</tr>
<tr>
<td>Other</td>
<td>0 (0.0%)</td>
<td>3 (8.3%)</td>
</tr>
<tr>
<td>TOTAL</td>
<td>22 (100.0%)</td>
<td>36 (100.0%)</td>
</tr>
</tbody>
</table>

* All credits given by the Bank since its establishment in 1970

Source: Agricultural Credit Bank Records
approximately 65 percent is disbursed from the Banepa branch.

Kabhre district has 13 Small Farmer’s Development Project (SFDP) sites under the Agricultural Development Bank. In the study area, there is one SFDP located in Rabi village (next to Opi village) which was established in March, 1986. While the ADB office in Banepa gives loan to big farmers (exceeding 20 ropanis of land) and people from areas unserved by the SFDPs, small farmers are encouraged to take loans from SFDPs located in their own respective villages. The SFDP defines ‘small farmers’ as people having less than 20 ropanis (1 acre) of land, and having less than Rs 1200 in savings after food and other necessary expenses.

In the village of Opi, there are three small-farmer groups each consisting of approximately five people. Based on the record of loans taken by Opi residents from SFDP, animal-related economic activities (i.e., goat- and buffalo-raising) account for 86.2 percent. Although the maximum allowable credit per borrower is Rs 30,000, the average loan procured is Rs 7,687 -- the maximum being Rs 15,300 and minimum Rs 3,000.

Problems: There are many constraints for the villagers to have access to credit services in Banepa. First, many of the villagers lack the adequate collateral for getting the credit. The value of land they own is less because of the lack of access to road, lack of irrigation facilities and
steep slope of the land. (At the time of the survey, the value of land in Devitar was about Rs 15,000-25,000 per ropani compared to Rs 500,000 - 1,000,000 in Banepa). Interviews with the bank officials brought out the fact that while the truly-needy small farmers cannot get loans due to lack of collateral, some influential farmers get more loan than is necessary.

Secondly, many of the villagers often need credit for social purposes such as marriage or festival for which the Bank does not give the loan and they depend very heavily upon the local lenders in the village for this purpose. The villagers are also unfamiliar and uncomfortable with the long paperwork required for obtaining the loan from the credit services. Some villagers suggest that unless one knows somebody in the Bank, it is very difficult to obtain a loan.

Among those who have taken the loan from the Bank, often due to political and personal connections, there are also instances of misuse of borrowed money. For instance, some farmers take loans from ADB and SFDP and lend them to other farmers at higher interest rates. Other farmers spend the money on household expenditures.

Another problem is the participation of large landowners in small farmers’ groups to take advantage of low interest rates. Even in Opi, some of the persons who have taken loan from the Small Farmer’s Development Project do
not even qualify to be categorized as small farmers but they have taken the loan and used it for some other purpose or loaned it to somebody else at higher interest rate.

In Opi, there are 56 households of occupational castes. Except for one household, however, none of them have been able to avail of the credit services. First, the other dominant high-caste groups like Brahmins/Chhetris don’t form small-farmer groups with them. Secondly, their awareness level about these facilities are also lower than that of the Brahmin/Chhetris.

The long tedious paperwork of the banks was identified as one of the major problems by most of the villagers. Most villagers don’t have perseverance and time to constantly go to Banepa to follow up the loan process, because that would mean taking time away from their other important household work like working in the fields or searching for wage labor. For some villagers in Devitar, it would take about five hours to go to Banepa and come back to the village, thus distance also becomes a constraint particularly because motorized transport does not exist and they have to walk to the town along the trails. That is why they depend so much on informal lending through friends, relatives and money lenders in the village.

Agricultural Inputs

In Banepa, there are five private dealers of agricultural inputs and one district Cooperative Society
which are primarily responsible for distribution of fertilizers, seeds and insecticides.

Based on the survey of two fertilizer shops, it is seen that they primarily serve the villages around the town. About 65 percent of the customers are from the villages while 35 percent of them are from Banepa town indicating the rural bias in the use of this service (Figure 14). The surrounding villages include areas like Panauti, Nala, Dapcha, Khopasi, Khadpu, Subbagaon -- all within a three-hour walk from Banepa. Other areas include places such as Barabise, Dolaghat and Chautara in the east, Bhaktapur and Sanga in the west, Anekot and Devitar in the north and the Mahabharat range (Chyamrang Besi, Rampur, Sindhuli, etc.).

In the planting season, private dealers sell a monthly average of 3,000 bags of fertilizers (50 kg each), 30 bags of rice seed (40 kg each), 60 bags of wheat, 20 bags of corn and 10 kg of raddish seeds.

Interviews with dealers indicated that at least 90 percent of the people in the proximate villages use fertilizers, but in the remote areas in the district (such as Dandapari) having no access to road, only 10 percent of the villagers use fertilizers. The cost of fertilizer rises up sharply in remote areas due to difficulty in carrying them there.

With regard to other inputs, while people from remote villages simply do not use improved seeds and insecticides,
FIGURE 14: PLACE OF ORIGIN OF FERTILIZER SHOP COSTUMERS

(Percentage estimates by the fertilizer dealers)
Source: Field Survey 1989-90
about 10 percent of the people from Banepa and surrounding villages use improved seeds. Similarly, only five percent of the farmers from surrounding villages use insecticide. These observations of the shopowners was also confirmed during field visits in the study villages. Thus, there seems to be a distance decay effect in the use of fertilizers, improved seeds and insecticides.

The use of fertilizers has increased agricultural production of the villages in general. Likewise, with access to fertilizers, more people diversified their crops. For example, dealers remembered only about one percent of the farmers planting beans and one to two percent planting potatoes ten years ago. At present, dealers estimate that five percent of the people plant beans and 15-20 percent plant potatoes in their land.

Aside from private dealers, another major channel for distributing fertilizers is the cooperative organization network. The main tasks of the cooperative are to distribute agricultural inputs, facilitate getting bank loans for its members, distribute salt and sugar which are brought in from Terai, and assist in marketing of farm produce. For the entire Kabhre district, there is the district-level cooperative society (Sajha) in Banepa and nine other cooperative organizations in different parts of the district (Sanga, Panauti, Nala, Khopasi, Kusadevi, Dapcha, Panchkhal, Mandan and Nagarkot). At present, 60
percent of the fertilizer distribution is done through cooperatives.

Problems: While fertilizers have been used by almost all villagers, the use of insecticide and improved seeds is quite low in the study villages.

With regard to fertilizer, the irregular and inadequate supply by the dealers and cooperatives has been identified as the major problem by the villagers. During the planting season, there is a long line for getting the fertilizer, but often the fertilizer does not come in time and even if it comes, is not of adequate amount, which again the dealers prefer to sell to those who buy in large quantities (people with large landholdings or those who buy it from the dealers and sell it again to farmers at a higher price thus making a profit).

Many private dealers of agricultural inputs in the Kabhre district prefer to be located in larger towns such as Banepa and Dhulikhel although they have been given dealership for more remote areas of the district. Since the government is not particularly strict regarding enforcing the dealers to set up their operation in the place for which they get dealership, there is a concentration of dealers in bigger settlements and people from more remote areas have to travel greater distances to get the inputs and carry them back by themselves. Regarding the distribution by Sajha (District Cooperative Office), again it is biased towards
the more powerful among the villagers as they often are the members of cooperatives in the local areas controlling the distribution of fertilizers obtained from the former.

Often, the villagers with small landholdings do not have enough cash to purchase the fertilizer and have to sell their produce or take loan from friends/relatives/money lenders. The interviews with the dealers and the villagers indicate that many villagers with small landholdings do not have adequate knowledge about proper use of fertilizer in terms of timing of use, proper mix of different types of fertilizers and quantity to be used. Many use only what they can afford, not what is optimum. They use the fertilizers primarily for major crops like rice and corn. The Kabhre District Statistics shows that only a small percentage of fertilizers is used for cash crops such as potatoes, vegetables and fruits.

With regard to insecticide, although many villagers complain of different insects spoiling the crops (particularly stemborers 'khumre kira'), very few use the insecticide although it is available in Banepa and costs about Rs 40 to Rs 120 per year. The survey data show that people in Opi (26 percent) tend to use the insecticide more than the people in Devitar (seven percent). Part of the reason is because of the increased awareness among the people in Opi compared to people in Devtar about these insecticide.

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With regard to improved seed, again distance and ethnicity seems to be important variables, although the reason for this difference is the fact that villagers in Opi grow more potatoes than Devitar and they use improved variety of potato for higher production. More people in Opi purchase the improved varieties of seed from market than people from Devitar (23 percent of sample households in Opi uses improved varieties of seeds as against only 11 percent of households in Devitar). People in Opi buy potato seeds from Banepa or from cold storages in Bhaktapur as they grow this crop as a cash crop. But for grains, they depend on their own seed from the previous year. The majority of people in Devitar use the seed from the previous year and do not buy from the market. Brahmins/Chhetris use the improved varieties of seeds more than the occupational castes and Tamangs.

The reason for the low use of improved varieties of seed and insecticide is both economic constraints as well as lack of adequate knowledge about these products. Many villagers do not bother about the use of new improved seeds as they are still engaged in traditional grain crops.

Farmers also lack adequate extension services regarding the proper use of fertilizers, insecticides and improved seeds. The Agricultural Service Center located in Nala/Khopasi is supposed to provide the necessary technical knowledge on production techniques, fertilizer use, and to
demonstrate use of new seeds through its agricultural extension workers. But the extension workers have to cover large areas in a difficult terrain and are unmotivated due to low wages. Only one Junior Technical Assistant (JTA) is provided for every five panchayats.

3.5.2 Health Services

In the Kabhre district, health facilities include one hospital (in Banepa), one health center (in Dhulikhel), and 11 health posts. Banepa has the best health service in the district. Banepa's Shri Memorial Hospital is a 36-bed hospital run by the Christian mission. There are 82 hospital staff out of which 56 are of Nepalese origin and 26 are foreigners working on the mission (from USA, Argentina, India and Australia).

Discussions with hospital staff indicate that people from Banepa have begun to use private clinics in Banepa or better medical services in Kathmandu. The increase in the number of people from more distant villages shows the increased awareness about the hospital services from surrounding villages. The hospital records show that while the staff of the hospital are predominantly from Banepa itself, patients are from surrounding villages, which are within walk from Banepa (e.g., Panauti, Khopasi, Dapcha, Sankhu, Rabiopi).

With respect to ethnic groups, Newars -- being predominantly urban dwellers -- dominate the use of Banepa's
health services. Newars alone accounted for about 38 percent of the total users of health services. Similarly, among the villagers, Brahmins' and Chhetris' access to these services were higher than that of Tamangs, Sarkis. While Brahmins and Chhetris account for 22 percent of users, Tamangs account for only 12 percent. Newars and Brahmin/Chhetris have clear advantage due to their proximate distance to the town and their greater awareness about the available services.

Discussion with doctors in the hospital revealed that users of the hospital tend to come to the hospital for maternity services, general stomach pain, fever, jaundice, boils, cuts, rashes, and the like. In summer there are more cases of typhoid, cholera and malaria, while in winter there are more cases of cold and pneumonia.

Use of Health Services by Villagers

To confirm the validity of the health services data from the town, questions on the use of medical services were also asked in the village household surveys. It was found that in general, more people from Opi use the health facilities in Banepa than those from Devitar. Part of the reason for more people from Opi using health services in Banepa is because of greater proximity to Banepa and greater awareness about the services. Another reason is that some villagers from Opi work in Banepa hospital and the relatives
of these employees can get discounts for services in the hospital (often free services).

The most common medical problems identified by the villagers are fevers, coughs, diarrheia and asthma. Most villagers have a sequential way of getting treatment for fever. First, the local jhakri (faith healer) is visited. When the situation does not improve, then a local health worker in the village is visited (an interview with a local faith healer found that he had about eight to ten patients per month. He charges five rupees and one mana of rice for his services). In Devitar, there is a local health post where the health worker comes about three times a week. In Opi there is a Brahmin resident who is a retired health worker (compounder) who dispenses medicine for minor treatments and dressing for cuts/boils. Only when the situation gets really bad do the villagers go to private drug stores in Banepa to obtain medicine. Hospital treatment is always a last resort. The villagers' use of health services in Banepa are mostly infrequent and erratic. A Brahmin household head in Opi said he used the health services in Banepa about five times in the last two years for minor health problems and once or twice for more serious health problems. The villagers also stated that they do not visit the hospital for child delivery, as it is done at home. The survey also found that some villagers have used
Banepa’s hospital for more serious diseases such as for the treatment of cancer and tuberculosis.

Problems: The major problem regarding the use of health services is cost of services. Many poor people in the village find the services unaffordable and come to the hospital more as a last resort after trying alternative treatments. Medicine is more expensive here than in a government hospital or in drug stores due to higher service taxes charged (i.e., 25 percent in the mission hospital, 16 percent in drug stores and 15 percent in Kathmandu’s government hospitals).

Villagers and many urban dwellers often go to the drug store in Banepa where the shopkeeper directly dispenses medicine for ordinary cold, fever, boils, etc. This, on one hand, reduces the cost to the patients and, on the other, gets rid of the general paperwork required in the hospital.

Another major problem is the lack of proper roads and means of transporting the patients from distant areas in the hills when the patients are not in a position to walk by themselves. Therefore, relatives of the sick find it more convenient to come to the drugstore in Banepa, tell the patient’s problem to the drugstore owner, and purchase the medicine without bringing the patient. The hospital, in contrast, dispenses medicine only after seeing the patients (for this the patients would have to be brought in stretchers, which is not used unless the disease is very
serious). This way, many of the likely users of the hospital just depend on alternate treatment methods including the traditional faith healers in the village.

Banepa's health services are more of an urban hospital-based curative service and there is little emphasis on preventive services. As Ruston (1987) suggests, there is a need for the move from urban, hospital-based curative services to small health units, located to maximize geographical accessibility, emphasizing health promotion and disease prevention programs and relying on extensive involvement of the community. There is little attempt at reaching out to the rural areas through mobile health teams, and community based programs. Through community based health services system, the community health volunteer can act as a link between health care delivery system and community.

3.5.3 Educational Services

For a small town the size of Banepa (population 11,000), its educational facilities are relatively better compared to other parts of Nepal. The Town assembly records (BNP, 1988) show that Banepa has one Management/Humanities campus (certificate level), three high schools, and eight primary/secondary schools.

A detailed survey of two schools -- Azad High School and Himalaya School -- was made to investigate the place of origin of school children in these schools. Azad High
school has grades one to ten, while Himalaya High school has first to seventh grade students.

The school records of the two schools show that 87.8 percent of all the students studying in these schools are from Banepa. Only 11.2 percent of the students are from surrounding villages and 1.0 percent from the outside area. Most of the village students are from surrounding villages which are within one-hour walk from the school.

In terms of ethnic status, Newars dominate with 71.1 percent of the total students in the two schools. Brahmins/Chhetris, Tamangs and others account for 24.1 percent, 2.2 percent and 2.5 percent, respectively.

The research findings on the use of schools is similar to other findings from other developing countries that education facilities in the small town are primarily used by the towns themselves rather than the villagers in the hinterland. W. de Jong et. al. (1983)‘s study on use of schools in the small town of Banjarnagar came to similar conclusion. Portais’ study on Uganda indicated that people used secondary schools only if within 10 kilometers distance. But in the case of Banepa, with the hill terrain of the villages, the time distance would be a more appropriate measure. The farthest-distance student in the surveyed secondary school comes from a village (Devitar) which is two-and-a-half hours walk from Banepa. Also more important variable than the distance is the economic and
ethnic status of the villagers. Newars and Brahmins/Chhetris students clearly dominate in the schools as traditionally these two ethnic groups have emphasized education as a priority. Tamangs, although a large group in Kabhre district are not represented in schools. The well-to-do Newars in Banepa also send children to Kathmandu for better quality schooling.

**Literacy and Schools in Village**

Examination of literacy data from the household surveys in the study villages bring out two major points. First, the literacy rate in the Tamang (Devitar) village is much less than that in Chhetri (Opi) village. While the percentage of people (above 6 years of age) who are literate in Devitar is only 21.8 percent, the corresponding figure for Opi is 46.4 percent (Table 23). Second there is a wide gap in the literacy between the male and female population in both villages. In Opi, while 70.7 percent of male population above 6 years of age are literate, the corresponding figure for female population is only 19.5 percent. In Devitar, literacy among female population is even much lower. More than 75 percent of female population in Devitar are illiterate.

Comparison of literacy data from the study villages with those of the whole country shows that the literacy rate in Brahmin/Chhetri village (Opi) is higher than the national average while that of Tamang village (Devitar) is lower than
TABLE 23. PERCENTAGE OF PEOPLE (ABOVE SIX YEARS OF AGE) IN THE VILLAGES WHO ARE LITERATE AND ILLITERATE

<table>
<thead>
<tr>
<th>VILLAGE</th>
<th>AMONG MALES</th>
<th>AMONG FEMALES</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Illiterate</td>
<td>Literate</td>
<td>Illiterate</td>
</tr>
<tr>
<td>Opi</td>
<td>29.3</td>
<td>70.7</td>
<td>80.5</td>
</tr>
<tr>
<td>Devitar</td>
<td>65.1</td>
<td>34.9</td>
<td>91.4</td>
</tr>
</tbody>
</table>

Note: Percentage literate and illiterate calculated separately for male and female population based on sample survey.

Source: Field Survey, 1989-90

national average. The national census of 1991 indicates that the percentage of population above six years of age who are literate in Nepal is 39.3 percent. Male literacy is little more than double the female literacy rate in Nepal.

Children from Opi and Devitar go to schools in their respective villages. Some of the better-off Brahmins/Chhetris from Opi also send their children to primary schools in Banepa which are privately run and have better facilities. Many children of occupational castes do not go to school. The literacy rate of occupational castes is also among the lowest in the entire village.

To have a better understanding of the educational services by the villagers, data on number of children currently enrolled in schools and colleges was collected for all the households in the sample survey. For the 77 sample households in Opi, the number of children currently enrolled...
in educational institution is 92, while for 96 sample households in Devitar, the corresponding figure is only 75.

Similarly, the sample survey also compared the percentage of school going children with those not going to school in both villages by focussing on children between six and 21 years age (this age group is most likely to go to school in Nepal). The survey found that 46.9 percent of children do not go to school in Opi while 68.9 percent of the children in Devitar do not go to school. Both the above data show that more children from Opi village goes to school than those from Devitar.

Among those going to school, most children in Devitar are enrolled in primary school only (66.7 percent of the total school going children) after which they often terminate their education (Table 24). There is virtually nobody from Devitar enrolled in college, either in Banepa or Kathmandu. In Opi a higher percentage of children are currently enrolled in secondary schools (42.4 percent), high schools (15.2 percent) and colleges (4.3 percent). While children primarily go to Banepa for high school education, for college work they either go to a college in Banepa or commute to Kathmandu where there is more choice of colleges (in Banepa, the campus caters primarily to commerce students).

While in the entire village of Devitar, there are only one or two persons who have completed high school, the
TABLE 24. PERCENTAGE OF CHILDREN CURRENTLY ENROLLED IN DIFFERENT LEVELS OF SCHOOL/COLLEGE*

<table>
<thead>
<tr>
<th>LEVEL OF SCHOOL/COLLEGE</th>
<th>OPI (%)</th>
<th>DEVITAR (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary School (1-3 grade)</td>
<td>38.0</td>
<td>66.7</td>
</tr>
<tr>
<td>Secondary School (4-7 grade)</td>
<td>42.4</td>
<td>30.7</td>
</tr>
<tr>
<td>High School (8-10 grade)</td>
<td>15.2</td>
<td>2.7</td>
</tr>
<tr>
<td>College</td>
<td>4.3</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

* Based on Sample Household Survey

Source: Field Survey, 1989-90

Survey found that there are at least thirteen people in Opi who have completed high school (i.e., acquired School Leaving Certificate).

Part of the reason for higher literacy in Opi, is that there seems to be a greater awareness among Brahmin and Chhetri households to give priority to the education of their children. Some of the better educated people in the village with jobs in local administration belong to this ethnic caste groups. Besides, the Brahmin/Chhetri village has better access to education facilities in Banepa due to proximity.

Many villagers, particularly the occupational castes, indicated their reluctance to send children to school because of their need to do household and farm-related jobs. Some also said that children left school because they were not much interested in the schoolwork. A sense of urgency to educate children seems to be lacking among most
villagers. Also the schools in both Opi and Devitar have not been managed well, and are short of funds to pay teachers and upgrade physical facilities. It is therefore not surprising that most schools in Banepa have only very few children from surrounding villages.

3.5.4 Problems in Use of Services

The foregoing discussion dealt with the nature of urban services existing in Banepa. This section treats the constraints to the use of those agricultural, health and educational services.

Lack of proper roads between the surrounding villages and the town has been a problem in the use of services. As discussed earlier, it is difficult to bring a patient to Banepa’s hospital because there are no motorable roads, and fertilizers from Banepa’s shops have to be carried on the back to take them to the village. In the same way, children cannot go to Banepa’s schools especially during the rainy season, due to slippery trails and rising water levels in the river which they have to cross to get to school.

Another problem is the limited resources of the villagers to afford the urban services. Many villagers face the problem of presenting collateral to obtain credit from the bank in Banepa. Regarding agricultural inputs like fertilizers, villagers just buy how much they can afford with the limited cash on hand rather than what is required for increased agricultural productivity. Similarly, the
cost of hospital services in Banepa is beyond the affordability of many villagers. Therefore, they only use hospital services as a last resort. At other times they depend on alternate services such as the traditional jhakri, or pharmacies in Banepa which are comparatively cheaper and more convenient for the villagers.

The third problem is the limited awareness about the services and lack of social linkages with the town which constrains the villagers' use of urban services.

Having discussed Banepa’s three development roles as market center, industrial/employment center and service center, the dissertation next summarizes the major findings from the study, bringing out the major policy and planning implications.

The findings on Banepa’s role as a service center has been presented in Figure 15.
Schools in Banepa primarily used by residents of Banepa

FIGURE 15: SCHEMATIC DIAGRAM OF BANEPA'S URBAN-RURAL LINKAGES AS A SERVICE CENTER
CHAPTER FOUR

BANEPA, VILLAGES AND BEYOND

4.1 INTRODUCTION

The role of small towns in Nepal's hill region has been the focus of this research. Most past studies on small towns from other developing countries have particularly focussed on dynamic agricultural regions with higher levels of production. In many developing countries where empirical analyses have been carried out, agriculture has moved beyond the subsistence level. Proponents of small town development argue that small towns play an important role as distribution, agricultural marketing, processing, employment and service centers because they contribute to the exchange of goods between rural hinterland and urban markets.

These propositions have been tested in an area of different geographic and socio-economic characteristics. The people in the hills of Nepal are predominantly engaged in subsistence economy although there is increasing integration of the hills with the larger national economy. The terrain is largely undulating and the area has a diversity of ethnic/ caste groups. Thus the dissertation made an attempt to understand the relationship between a small town and its hinterland villages in the context of hilly terrain with severe resource constraints and ethnic diversity.
4.2 SUMMARY: FUNCTIONS AND LINKAGES

4.2.1 Distribution and Marketing

Banepa is the principal distribution center for foodgrains and cloth in the Kavre district. The reasons for this include: (1) Banepa's proximity to Kathmandu; (2) excellent transportation access to Kathmandu with frequent bus/minibus service; (3) its historical role as entrepot to the central/eastern hills, and improved transport facilities to the area through the Arniko highway and Lamosangu-Jiri road; (4) its central location with respect to its hinterland population; (5) presence of local entrepreneurs for financial investments; and (6) lower land rental cost for warehouses compared to Kathmandu.

Nonetheless, while Banepa has the enabling qualities of a market center, findings of the present research show that the town functions mainly as a distribution center, and predominantly for goods imported from outside the region. The non-competitiveness -- quality- and price-wise -- of some locally-produced goods (e.g., cloth) against those brought in from Terai, India or China make marketing of the former a less lucrative business.

Banepa does play a significant role as a distribution center for consumer goods and foodgrains from outside the region (Kathmandu and the Terai), despite having only a limited role as collection center for agricultural produce from surrounding villages. While urban consumer goods are
primarily catering to urban residents in Banepa, other items such as foodgrains and salt are primarily destined for villages. The research findings thus clearly show that Banepa’s present role as market center does not match the roles suggested by the proponents of small town development.

Research on small towns in other Asian countries like Thailand, Malaysia, Indonesia has found that small towns play more important role as distribution center for urban consumer goods and limited role as collection center for agricultural produce. However there are also important differences between the hill towns in resource poor rural areas of Nepal and other small towns in agriculturally more dynamic regions of South-East Asian countries.

First, the range of products distributed by the wholesalers in Nepalese hill towns is quite limited and are primarily foodgrains and clothes. Other countries, with higher purchasing power of rural people would have a more diversified range of goods supplied by the wholesalers in small towns. Therefore, an important difference between the hill towns in Nepal and other towns from literature survey is that Banepa also plays an important role as a distribution center for food grains coming from other regions to the food deficit areas in the hills and mountains.

Secondly, while many of the case studies from South-East Asian countries indicate that rural areas produce
agricultural surpluses and sell various cash crops in the market, the rural areas in the hills of Nepal have very little agricultural surpluses besides those made by a few rural rich. Therefore, the volume of flows of agricultural produce from the hill areas in Nepal are much less compared to those from these case studies. With the commercialization of agriculture in these countries, while much of the rural produce are directly marketed to the larger towns thus bypassing the small town, in the context of hill areas of Nepal with little commercialization of agriculture and limited surpluses, most of the agricultural produce are sold in the small town themselves (particularly items such as corn, potatoes and rice). Only the limited items such as oranges are sold directly to merchants from Kathmandu bypassing Banepa. Therefore, the small town in Nepal plays a more important role as a place for selling agricultural produce for small farmers while larger surpluses of rich farmers and cash crops go directly to larger towns often bypassing the small town.

Based on the study of items sold by the wholesale and retail shops, it is found that most of the items sold in the Banepa market are not produced or processed locally but brought from outside, either imported from foreign countries or produced in the Terai or in Kathmandu. The wholesalers get most of the grains directly from the Terai due to demand
for large quantities of foodgrain in remote hill/mountain regions along the Arniko highway and Lamosangu-Jiri road.

The only items which are processed in Banepa and which are sold by the wholesalers are chyura (beaten rice) and mustard oil. Compared to other countries, the level of agricultural processing in hill towns of Nepal seem to be much less due to general low levels of agricultural surpluses. This is also a reflection of general low levels of manufacturing and dominance of mercantile activities in the small towns of Nepal.

It is clear from the study of wholesalers and retailers that there is a dominant commodity flow from Kathmandu and the Terai. The limited commodity from the surrounding villages include Pokhareli (upland) rice, potatoes and oranges, and often Banepa is altogether bypassed as they are sent to Kathmandu directly. In totality, there is an unequal exchange in net flows from villages to urban areas causing a resource drain in the villages.

In Banepa, the market is characterized by predominance of retail establishments whose transactions are low. With heavy dependence on goods produced from outside, market is oriented towards consumption of goods from outside rather than linked to local production. Banepa’s merchants make profit by trading of the imported goods rather than selling locally produced goods thus contributing to general decline of economy in the villages. The only major marketing
activity linked to local production in the rural areas is the sale of milk by the villagers (this has been discussed in greater detail in the next section on "Industry and Employment").

Control and access to market is dependent on ethnic status, economic class and distance from the town. Some prominent Newar families who live in Banepa control much of the wholesale and retail trade in the region. Among the major wholesalers in Banepa, except for one Brahmin wholesaler, all others belonged to the Newar ethnic group and none from Tamang ethnic group. This finding is similar to the small-town study in Sri Lanka, where marketing linkages are based on ethnic and locality factors thus permitting an ethnic group to monopolize trade in certain commodities for a particular area, thus excluding other ethnic groups in those activities (Naville, 1979).

The constraints for Banepa to act as collection center for agricultural produce has roots in the small size of landholdings and limited diversification of agriculture in the hinterland villages. It is further compounded by the difficult terrain which limit the amount of cultivable land and lack of rural infrastructure (such as irrigation facilities, feeder roads to village), limited use and knowledge about insecticide, and improved varieties of seeds all of which result in low production. There is both a lack of marketing culture and entrepreneurial skills among the
villagers which also constrain diversifying agricultural production for sale.

4.2.2 Industry and Employment

Banepa does not provide employment for a large number of people. Commercial establishments except wholesale shops in Banepa primarily generate self employment to the owner, but cannot hire additional people. Institutional establishments such as schools, banks, offices generate even fewer jobs due the fact that Banepa is not an administrative center for the district. Most jobs in Banepa have been created in the private sector by local inhabitants of Banepa itself. Unlike other hill towns in Nepal, Banepa has very few administrative jobs. Also most jobs in industries are the casual type without full security of tenure.

Due to the small-scale nature of activities, employment in commercial establishments of Banepa is largely limited to family labor. Similarly, except for handloom, sweater weaving and carpet industries, most industries such as furniture industries again depend largely on family labor. Although handloom and sweater weaving industry employs comparatively large number of workers due to labor intensive nature of industries, the workers are paid low wages on a piece rate basis and they see this as source of supplementary income for housewives. Besides, handloom and sweater-weaving industries employ largely Newar women from urban settlements in the area, excluding non-Newar villages.
from access to employment. The newly emerging carpet industry does employ large number of non-Newar workers like Tamangs, but it is still in an infancy stage in Banepa.

There is a low ratio of family worker and hired worker in both commercial and industrial establishments in Banepa. In terms of employment in industries, most of them employ few people beyond the unpaid family members. The ratio of family labor to hired labor for enterprises like rice mills and furniture industries is as low as 1:1.7 and 1:1.4. In comparison, handloom industries and sweater industries have comparatively much higher ratio of hired labor to family labor (1:15.2 for handloom industry and 1:9 for sweater industry). Although handloom and sweater industries hire relatively more workers, they are often seasonal work which are done more at home than at the premises of the owners.

**Labor Segmentation Based on Ethnicity and Gender**

There is a clear tendency towards labor segmentation in the employment available in small town like Banepa. The Newars dominate in most of the commerce, service and industrial employment particularly in the retail shops, handloom industry, sweater weaving industry, educational and administrative jobs. The Brahmins/Chhetris are engaged in dairy, education and administrative services. Lastly the Tamangs are engaged as workers in rice mills, porters, casual hires, and dairy industry. This labor segmentation has its roots in socio-economic structure of Nepalese
society where each ethnic group/caste group has historically dominated certain occupations along ethnic/caste lines and this pattern still exists as a legacy of the past although not to the same extent as before.

Industries such as handloom industries and sweater weaving industries largely employ Newar women because they have the traditional skills which the people from the villages lack.

Although the handloom industry is one of the few industries employing a considerable number of people compared to rice mills, this industry’s impact on the non-Newar village in terms of employment has been negligible. Similarly, the furniture industries in Banepa also employ Newar carpenters. The industries which employ the most disadvantaged groups (Tamangs) and people from outside Banepa are the carpet industries and rice mills. In the rice mills, Tamangs are largely engaged in manual work such as loading and unloading and are not paid well. Many Tamang workers are employed in the carpet industry as some of them have been trained in Kathmandu. Tamangs are also engaged as porters for carrying the milk from the villages to Banepa. Brahmins and Chhetris are largely engaged in the dairy industry and in administrative and teaching jobs. In the three dairies, almost all the employees are Brahmin/Chhetris who come from nearby villages.
Since Newars are the major entrepreneurs in Banepa this seems to have direct impact in hiring the workers -- mostly Newars. For some industries like the handloom industry, sweater weaving industry, furniture industry, Newars have a natural advantage over other ethnic groups due to the fact that Newars, being urban dwellers, have learned these skills more than other ethnic groups.

This understanding of spatial, ethnic and gender bias in employment is important because if the government intends to promote rural employment through private sector initiatives to industrialists in Banepa, it is quite probable that these spatial and ethnic biases continue and the people from surrounding villages and economically poor ethnic groups like Tamangs may continue to be left out from the jobs created in Banepa.

**Growth of New Industries and Decline of Old Industries in Banepa**

Two new industries which have grown in Banepa are carpet industry and sweater weaving industry, both of which operate on subcontracting system from Kathmandu based business establishments.

Part of the reason for growing carpet industries in small towns like Banepa is the increasing government restrictions on carpet industries in Kathmandu due to pollution of rivers caused by throwing wastes. Carpet business establishments in Kathmandu therefore search for
alternate locations where they can obtain cheap labor and be not too concerned about government restrictions.

Here the experience of China in the growth of rural industrial enterprises having linkages with urban industrial enterprises is relevant (Lee, 1991). In China, many of the rural enterprises were established with the assistance of urban industries (in terms of technical assistance, supply of raw materials, providing links to market) to produce intermediate goods for the urban industries on a subcontracting basis because of the pollution control regulations, congestion and high cost of land in the cities.

In contrast to growth of the industries operating under subcontracting system (like carpet and sweater weaving industries), other industries like handloom industries, aluminum-utensil industries which produce goods that have to compete with mass manufactured products from larger industries in Kathmandu, Terai and foreign countries, in general, decline. This finding is similar to Bhoosan's finding in S. India that many goods traditionally produced by the artisans in a village had to compete directly with the mass-manufactured goods from larger cities, thus causing a decline in local household industries.

These findings about declining old industries and emerging new ones have major implication in terms of selective promotion of certain types of industries in small
towns such as Banepa where industries have some chances of success. It is more prudent to encourage those industries in small towns which have higher chances of surviving by working with larger industries in Kathmandu than competing with them.

Another finding from study is that certain industries which have linkages with villages in terms of procurement of raw materials and linkage with larger towns for final output/processing also have potential for growth in small towns. The contribution of the dairy industry in generating nonfarm cash income to villagers selling milk is a case in point. In fact, the dairy industry is one of the few industries in Banepa which have largely benefitted the villages rather than the town (the other is carpet industry). Here Evans' (1991) argument for need to link nonfarm activities in small town with farm activities in villages is very pertinent for promotion of small towns and development of hinterland villages.

The empirical findings from Banepa is similar to those found in Indonesia and South India where there is limited employment opportunities in small manufacturing industries, retail and service establishments. (Bhoosan, 1986; Misra, 1986; Titus, 1991).

Unlike the suggestion of the proponents of small towns that small towns could provide jobs to rural people from hinterland areas, Banepa has not been able to significantly
absorb the rural people in the jobs available in the town. Most of the jobs in industrial and service establishments has gone to townspeople themselves rather than the villagers in the surrounding areas.

Local governments in these small towns also lack decision-making power and resources to play a greater role in expanding the employment base of small town. At the village level, small landholdings of the villagers and low income and purchasing power of the villagers also limits possibilities for establishing consumer goods industries in small towns to cater to local demand. In light of the limited employment opportunities, Banepa also has not been able to arrest the migration of people from surrounding villages to Kathmandu either (Bajracharya, 1992). In fact, with the transportation linkages and regular bus service between Banepa and Kathmandu, there has been increased commuting by residents of Banepa to Kathmandu. Findings from other countries have also shown the limited role of small towns in arresting migration to large cities. For example, in the case of Papua New Guinea, E.A. Young found that due to lack of administrative and service functions, small towns are bypassed and larger towns continue to become major areas of destination.

Recent studies on metropolitan cities of developing countries in Asia by McGee and others argue that significant changes are taking place in the regions surrounding the
metropolitan region (McGee, 1990), blurring the traditional urban/rural distinctions. It is argued that these areas have greater intermixing of agriculture, industry, trade and service, a rapid shift to non-agricultural employment, and considerable size of populations. McGee has categorized these regions as kotadesa from the Indonesian word for village and town to highlight their high degree of intermixing of rural and urban activities. While this may be applicable in some larger cities in Asia, this does not seem to be the case particularly in the study area in Nepal. Although Banepa is only 26 kilometers from the capital city of Kathmandu, some of the surrounding villages near Banepa have hardly any significant non-farm economic activities. Most of the villagers from Opi and Devitar are still engaged in subsistence agriculture, and very little commercialization of agriculture has taken place in these villages except in small pockets. Part of the reason is due to their isolation with lack of motorable access road and hilly terrain. Also the capital city of Kathmandu is much smaller than other metropolitan cities in Asia. Only along the road linking Banepa and Kathmandu, one sees some semblance of intermixing of economic activities like agriculture, transport and industry.

4.2.3 Urban Services

Certain conclusions can be drawn from the analysis of Banepa’s service facilities. In the first place, village
residents make extensive use of the agricultural credit, agricultural inputs and hospital services located in Banepa.

In terms of agricultural credit and inputs, the availability of these services has no doubt benefitted the surrounding villages to a limited extent. But there are problems, as noted, because small farmers are still unable to use the available agricultural inputs and credit to produce enough to have surplus to sell in market.

However, as proponents of small towns justify its role in agricultural innovation, Banepa has also made a limited contribution in the diffusion of agricultural innovation in the surrounding villages. It is easier for the villagers to obtain the agricultural credit and inputs from Banepa itself rather than going to Kathmandu to get them. Villagers agree that there has been increased use of fertilizers in the villages since they were available in Banepa. The use of fertilizers has increased agricultural production compared to the time when fertilizers were not used. However much of the gains in production has been more than offset by the growing families of the households.

Similarly, with the availability of agricultural credit, many of the villagers from surrounding areas have been in a position to generate cash income by raising livestock and cash crops. Without institutional credit, there would still have been heavy dependence on informal
credit sources such as village creditors who charge exorbitant interest rates.

In the past, many villagers used to grow millet and wheat in the winter. In the last decade, there has been a rise in the number of families growing potatoes instead of wheat, the former having a higher market value. Likewise, there has been a greater use of improved varieties of potatoes to increase production. At present more than 80 percent of the potatoes grown are produced for the market, only 20 percent for self-consumption.

Since Banepa is accessible to its surrounding villages there have been greater chances of it being more successful in agricultural innovation diffusion than if the innovation had come directly from larger urban center like Kathmandu. Informal interviews with the villagers found that most of the farmers got information about the use of agricultural inputs from personal networks with dealers of agricultural inputs and friends/relatives. This finding concurs with Taylor's suggestion that interpersonal communication is an important element in innovations and such communication is more likely at the small-town level where villagers interact more and have more personal networks than larger cities. Influence from rural areas themselves (in terms of persuasion by friends and the demonstration effect of seeing other farmers using new techniques) was more than from government extension workers and merchants from small towns.
In the context of Banepa, the major beneficiaries of agriculture-related services are large farmers with financial resources to present collateral, pay for fertilizer/improved seeds and get access to knowledge on the use of services. In this respect, Brahmins/Chhetris have done better than Tamangs. People from distant villages and ethnic groups such as Tamangs and occupational castes have not been able to effectively use the services due to high cost of inputs, lack of personal networks and difficulty in transporting fertilizers. Due to the precarious nature of agriculture in the villages, many villagers are also afraid to experiment with new crops and modernize their agricultural practices.

The schools in Banepa, on the other hand, primarily cater to the residents of the town. This is similar to the findings from the case study of Banjarnagar, Indonesia (de Jong, 1986) as schools primarily serve the town rather than the region where they are located. Also the villagers have not been able to give as much priority to the education of their children as the townsfolk do due to general poorer economic condition of the villages.

With respect to hospital services, Banepa’s hospital has been found to be used primarily by the villagers and people from nearby smaller towns, not by the residents of Banepa themselves. The reason for this is not only due to the fact that the hospital is a region-serving function but
because many residents of Banepa also depend on alternate services such as private clinics in Banepa and hospitals in Kathmandu.

In other words, while both the Agricultural Credit Bank and Banepa Hospital have region-serving functions, the schools are primarily fulfilling a town serving function. This has a major policy implication in that if investments are made in region-serving functions, there is a greater potential for these services to benefit the people from hinterland areas rather than from the town.

However, even among region-serving functions, there are some spatial, ethnic and economic class biases. Villages close to the town have availed of the services more than the distant villages. With regard to credit facilities, there is a linkage between type of loans taken and distance from town. People from surrounding villages borrow money to grow cash crops (such as potato, fruits), while those from distant villages took loans primarily for subsistence crops such as corn.

Ethnically, Brahmins/Chhetris are the largest beneficiaries of the Agricultural Credit Bank. People from occupational castes such as Sarkis and Damais, and ethnic groups such as Tamangs, have been largely left out from the credit services in Banepa. Small farmers have not been able to benefit as much as the farmers with relatively larger landholdings due to lack of collateral, high
dependence on informal lending network and other reasons discussed earlier. This is similar to findings from Preston’s case study in Bolivia and Kaothien’s case study of Thailand which suggested that small towns have not been able to benefit the small farmers in providing credit facilities.

The longitudinal data on loans taken from the Bank in different time periods indicated some gradual increase in loan investments in marketable products and livestock development. Thus Banepa’s credit facilities has to some extent contributed to the diversification of agriculture, horticulture and livestock development in the surrounding villages.
4.3 CONCLUSIONS

4.3.1 Growth of Hill Towns

Historically, there were constraints to the development of hill towns due to subsistence-level agriculture, exploitative state policies, limited development of hill trails and difficult terrain. The hill areas have been fragmented "pocket economies" with limited economic exchange between different areas. The limited surpluses of the peasants had been extracted by the aristocracy for growing administrative and military apparatus as well as for wasteful consumption by the ruling class in Kathmandu.

In the past, hill towns grew due to the need for political control by the rulers in Kathmandu. Many hill towns trace their origin as administrative centers and military outposts. Similarly, the movement of Newar traders from Kathmandu to different areas in the hills to fulfill the demand for salt and kerosene in those places facilitated the growth of some towns in the hills.

In the present context, expansion of the central bureaucracy and development of motorized transport in the hills have contributed to the development of many hill towns. Some hill towns, which are administrative centers, grew with the cash flows from the national government often in the form of agricultural development programs and expansion of education, health and banking facilities. The increase in administrative activities at district centers
have contributed to the increased opportunities for commerce in these towns to serve the civil servants and people using the administrative services.

With the development of highways, some towns along the road have gained importance, while others by-passed by the road have declined in importance. With the lack of protectionist trade policies of the government, there has been increased trading of imported goods in these hill towns. Commerce is the major economic activity in towns along the highways with few agro-processing and transport-related industries. These towns also became the new gateways to serve the hinterland, roads from where foodgrains, kerosene and salt are distributed to rural hinterland areas and locations where villagers come in search of labor. Some towns became points where travellers stop for meals/overnight accommodation and where tourists disembark for trekking. Most of the hill towns are thus into tertiary activities like commerce, and/or administrative jobs. Hill towns are both few in number and small in size.

4.3.2 Hill Towns Generative or Parasitic?

The theoretical debate on small towns continue to differ on role of small towns in rural development. While some highlight the parasitic aspects of small towns, others highlight the generative aspects of the same. It is difficult to resolve this question in the real world as the
regional context varies in terms of level of hinterland development, level of decentralization of government activities both in terms of investments and political power. To shed light on the role of small towns in rural development, empirical work of the kind proposed here is important.

Based on the case study of Banepa, it is seen that both viewpoints of small towns as generative (as Rondinelli, Mathur suggests) or the opposite view that all small towns are parasitic (as propagated by the dependency paradigm) and are symbol of exploitation of the rural masses seem extreme. Reality in developing countries like Nepal is much more complex than either of the extreme viewpoints about the small towns. Rather, instead of rigidly considering the small towns as either generative or parasitic, it is possible to visualize small towns as playing simultaneous generative functions in certain activities and parasitic roles in other activities. Also it is not the town per se which becomes exploitative or generative, it is certain activities of people in the town which makes it generative or parasitic. Thus it is important to identify the people and their activities, their interests in both small town and rural areas to have a better understanding of urban-rural interaction.

In the context of the hills of Nepal, small towns play an important role in the distribution of daily essential
goods such as salt, kerosene and foodgrains. Also the dairy industry in small town such as Banepa is playing a generative role by creating avenues for hinterland villages to sell milk. The availability of Banepa's agricultural input facilities have also contributed in the use of fertilizers in the surrounding village which have increased agricultural production compared to the past. Similarly the availability of credit, extension facilities in Banepa have also to certain extent created a environment for villagers from surrounding areas to grow cash crops (such as potatoes, fruits) increasing the rural income.

However, much of the benefits of small towns have gone primarily to residents of the town themselves. Even among the villagers who have accrued some benefits, it has some spatial, economic and ethnic biases. Benefits have gone to comparatively more well-off villagers. On the whole occupational castes and ethnic groups such as Tamangs have not availed of the services to the same extent as Newars and Brahmins/Chhetris.

The small town has also been playing parasitic role in their dependence on larger town and facilitating penetration of village market by urban consumer goods, produced from outside, often contributing to the decline of local industries in the area. In comparison to supply of urban consumer goods from larger urban centers such as Kathmandu, the small town contribute little in terms of collecting
local produce from the villages to sell them outside the region. Often this has resulted in decline of some household industries such as handloom industries and some locally-produced products not being competitive.

Thus the case study of small town in Nepal has not been generative or parasitic to the extent suggested by the proponents and critics of the small town. For surrounding villages, the parasitic relationship is generally secondary to facilitative aspects of the small town -- like providing essential goods/services such as kerosene and salt, access to transport services and agricultural inputs. A small town such as Banepa is also playing some generative role for the hinterland villagers by creating avenues for them to sell milk. In retrospect, if those small towns did not exist, many of the services the villagers are using now from these towns would be more difficult to get for them.

Based on the case study of Banepa, following are the general findings which have emerged from the study:
1. Hill areas in Nepal have limited arable land and lower levels of production. This has an adverse impact in the growth of both the rural areas as well as the town located in the rural areas. In the hill context, terrain itself becomes a constraint for physical, social and economic linkages between the town and villages. Difficult terrain and lack of access to road in many villages constrains movement of people, goods and services in the hills. Other
studies from Nepal also found that due to hill terrain and low economic base of the region, small towns are fewer and have to cover large distances in the hills compared to the plains (GIC, 1984).

2. In the context of subsistence agriculture, a small town plays important role as a service center for distribution of essential foodgrains, kerosene salt for food-deficit hill and mountain areas, but play limited role as market center for rural produce from local areas and employment center for rural people. A small town in resource poor areas is less diversified than those in areas with diversified agriculture. They have more consumptive functions than productive functions.

3. The rural society in Nepal is culturally heterogenous with many different ethnic/caste groups. This study found that ethnicity and caste are still important variables in the access to off-farm jobs and services available in the small towns.

The specific findings of the case study in each of the different role of the town as market center, employment center and service center are as follows:

4.3.3 The Role of Small Towns as Market Centers

The small town in the hill region of Nepal plays a greater role as distribution center of daily essential goods such as foodgrains, kerosene and salt from outside the area as the hills/mountains are food deficit areas. Due to the
general lack of purchasing power of the rural households, the range of urban consumer goods sold in the small town in Nepal is limited and primarily cater to the residents of the town themselves. Case studies from other countries like Thailand and Indonesia indicate that small towns distribute a much wider range of urban consumer goods supplied by corporate enterprises from larger urban centers.

Due to small size of landholdings, low levels of production and limited diversification of agriculture, only the rural rich have agricultural surpluses from the hills. Since majority of the rural households have limited surpluses only, these agricultural produce are sold on an individual basis to retailers in the small town themselves, rather than to larger urban centers. Those who grow high value crops such as fruits and potatoes on a large scale sell them directly to large urban centers thus bypassing small town altogether. A small town plays a more important role as a collection center when the level of marketing by the villagers is less, but as the quantities get bigger, a small town is bypassed altogether. Thus the small town is important as a place where small landowners with limited surpluses sell.

Small town markets are controlled by a particular ethnic groups, Newars, who engage in distributing goods from outside the area than goods produced locally as this entails higher profits.
The constraints for a small hill town to act as major collection center for agricultural produce from surrounding areas is due to small agricultural surpluses, difficult terrain, lack of rural infrastructure (irrigation, feeder roads), limited diversification of crops to cash crops and lack of marketing skills among many small farmers. Thus the rural areas in the hills of Nepal have much severe constraints of terrain, infrastructure, resource base to act as collection center for local produce. Although some inequalities in land owning structure exists, these are not comparable to Latin American countries or other Asian countries with larger and more productive landholdings.

Although literature on small towns suggest that development of small towns is linked to agricultural growth in the rural regions, in the context of Nepal, the small town like Banepa grew not because of the agricultural potential of the rural hinterland, but because of its strategic location as a gateway town to rural hinterland with good transportation access, making it an attractive location as a break-of-bulk point and distribution center for urban consumer goods and urban services such as agricultural credit and inputs. Other contributing factors for the small towns’ growth are presence of local entrepreneurs for financial investments and linkage with a large town (Kathmandu).
Due to small quantities of agricultural surpluses marketed by the local villagers from the hills, the wholesalers in small towns of the hills often depend on the Terai for supplying the grains to the food deficit hill region. This finding is different from the findings of studies in other developing countries with more dynamic and productive agricultural regions where the rural landlord and newly emerging urban merchants appropriate huge profits by buying the agricultural produce from the villages and transferring them to large cities (Douglass, 1981; Harris, 1984).

4.3.4 The Role of Small Town as an Industrial and Employment Center

In developing countries with dynamic agricultural regions, as agriculture grows, it is envisioned that there will be surplus transfers to nonagricultural sectors. This will increase local capital investments in agriculture supporting manufacturing and services. Again, in the context of hill town in Nepal, there has been very little nonagricultural activity beyond agriculture and livestock activities. There are some seasonal wage labor employment and service sector employment in small town both of which are not adequate to fulfill the growing demands for non-farm work in the hills.

Due to low purchasing power of the rural people, the villages cannot act as markets for industries in small
towns. Because the productive base of the small towns are limited, there is a greater penetration of local market by outside industries with higher economies of scale, contributing to further decline in the cottage/household industries in the region.

The industries in the small town have limited backward and forward linkages with agricultural production in the villages. Except for small rice mills, most larger rice mills in the small town obtain their grains directly from Terai thus lacking backward linkages with surrounding villages. The raw materials for industries such as carpet weaving and sweater making come from foreign countries. The dairy industry, which is still in nascent stage in small town such as Banepa is probably one of the few industries which have backward linkages with the village as they obtain milk from the surrounding villages. Most industrial and commercial firms have fewer downward linkages but more with larger towns in Kathmandu and Terai for supply of raw materials and destination of finished product.

The small town has not been able to generate much employment for rural people due to the small-scale nature of establishments with high dependence on family labor and lack of skills for household industries in the town. Commercial establishments and many household industries (like rice mills, furniture mill, sweater weaving) largely employ family labor from the residents of the small town.
themselves. Although handloom and sweater weaving industries employ considerably higher number of hired workers, their impact in job creation in non-Newar villages is insignificant as they employ primarily Newars. Besides these jobs in industries are more casual in nature and are often supplementary source of income for women household members.

Dairy industry is the only industry which has created income earning opportunities for significant number of residents in rural areas by creating avenues for selling milk. But this has also favored comparatively well-off villagers who can afford to buy and maintain buffaloes. Dairy industry, more than other industry, creates urban-rural linkages beneficial to the rural residents.

Constraining factors for employment of villagers in the small town are lack of appropriate skills among the villagers for urban household industries (i.e., weaving, knitting), lack of education to enter administrative jobs and limited number of jobs available. The lack of rural enterprises is also due to lack of managerial and entrepreneurial skills in the village, besides the lack of financial capital for starting up the rural industries.

There is a segmentation of labor among different ethnic groups for getting employment in the small town. While the Newars by virtue of being urban residents, higher literacy, family networks, higher skills have the highest access to
the jobs in the small town, Tamangs and occupational castes are the most disadvantaged in terms of access to jobs due to their limited skills in urban household industries, limited education and larger distances to travel.

Newars dominate all jobs including administrative jobs, teaching jobs, and jobs in commercial and industrial establishments. Brahmins/Chhetris come a close second in access to jobs in small town and they are primarily in dairy industry, teaching and administrative jobs. The Tamangs are primarily working as wage workers in carpet industry and rice mills.

4.3.5 The Role of Small Town as a Service Center

The use of urban services in the small town is dependent on the nature of services. While region-serving services such as agricultural credit, inputs and health services are primarily used by the rural people from surrounding villages, the town serving services such as schools are predominantly used by residents of the small town themselves.

Even among region-serving functions, like agricultural credit services, the use is directly related to ethnic status, economic class and physical distance from the town. Among the rural people, the large landowners, Brahmins/Chhetris and people from proximate villages from the small town have availed of the services more than the
small land owners, Tamangs/occupational castes and people from distant villages.

There is a relationship between the types of loans taken and distance from the town as people from villages near the town took more loan for cash crops than those from distant villages, who took loan for subsistence crops.

Regarding the small town's role in diffusion of agricultural innovations, it has contributed in widespread use of fertilizers, although the use of insecticide and improved varieties of seeds are quite low particularly in the distant villages.

It is assumed that with agricultural development, there will be concomitant demand for inputs and production services, which will be fulfilled by the small town by providing service support centers for agricultural production. Banepa no doubt has been important center in the area providing agricultural credit and agricultural inputs for the hinterland areas, but the distribution of the benefits have been uneven.

To conclude, the urban-rural linkages of the hill town in Nepal has been generalized in Figure 16.
NOTE: Size of Arrow Shafts Indicate Relative Extent of Flows of Goods/Services

REGION SERVING FUNCTION
Wholesale Business, Hospital, Agricultural Credit, Fertilizer Distribution

TOWN SERVING FUNCTION
Retail Shops with Luxury Consumer Goods, Schools, Most Jobs

FACILITATING/CONSTRAINING FACTORS FOR HILL TOWN'S LINKAGE WITH LARGER TOWN
-Road/infrastructure Dev.
-Ties of Town Entrepreneurs
-Locational Advantages of Town

REGION SERVING FUNCTION
Wholesale Business, Hospital, Agricultural Credit, Fertilizer Distribution

URNAN SERVICES
Agri Credit/Input/
Region Serving Function

HINTERLAND VILLAGES

FACILITATING/CONSTRAINING FACTORS FOR HILL TOWN'S LINKAGE WITH HINTERLAND VILLAGES
-Difficult Terrain
-Subsistence Economy in Villages
-Ethnic/Social Class Defined economic Activities

MARKETING
Basic Necessity Goods

Limited Agri/Hort Produce by Rural Rich

LIMITED

Low Paying Jobs

INDUSTRY/EMPLOYMENT

FIGURE 16: URBAN-RURAL LINKAGES OF A HILL TOWN IN NEPAL - A GENERALIZED MODEL
4.4 BEYOND BANEPA: THEORY AND POLICY IMPLICATIONS

4.4.1 Banepa as a Hill Town

The case study of Banepa and two surrounding villages gave important insights into the functioning of the town and its linkages with the local area. However, it is important to examine how much of the findings from this town would be relevant for Nepalese hill towns in general.

There are some differences between Banepa and other hill towns. Due to geographical locations and transport linkages, many other hill towns are more integrated to Terai towns compared to Banepa. Although Banepa is linked to Terai economy in terms of flow of grains/other consumer goods, it has more linkages with Kathmandu, the capital, due to its proximity than other hill towns.

The initial growth of small towns is due to their role as centers of administration or as military outposts. Many hill towns like Dhulikhel, Bidur, Dhankuta have a more important economic base as administrative center, while Banepa is one of few urban centers in the hills with more important role as market center and transport center. Compared to other hill towns, Banepa is one of the better developed towns due to development of roads linking Kathmandu to eastern hill areas.

With the construction of the national highways, some hill towns along the road have prospered while others bypassed by the road have declined. In the case of Banepa,
the construction of Arniko highway and Lamosangu-Jiri road have increased its role as a service center and distributor of urban consumer goods and diffuser of innovation. On the other hand, some traditional hill towns like Bandipur have declined in importance as they were bypassed by the national highway (Mikesell, 1992). Similarly, hill towns like Tansen have been relegated to less importance after opening of the Butwal-Narayanghat highway. The construction of these roads often have resulted in movement of the mercantile class of older towns to newly emerging towns. Tansen’s merchants shifted their locus of mercantile activities to Butwal, Bandipur’s merchants to Dumre and Narayanghat.

Another difference between a market town such as Banepa and other small towns which are administrative centers is that the dominance of Newars in employment seen in Banepa may not be so prevalent in other small towns. With a smaller Newar population in other towns more remote from Kathmandu, these towns may have more Brahmins/Chettris in local-level government bureaucracy than in Banepa. However, ethnic groups such as Tamangs, Rais, Gurungs would still be underrepresented in the employment in administration in other towns as in Banepa.

Generalizations based on this case study would have to be done with caution, as Banepa’s proximity to Kathmandu provides it with opportunities which other small towns in
more remote areas lack (for example, the dairy industry in Banepa is based on the demand for milk in Kathmandu). The size of towns in other hill areas, particularly those without municipal status, is smaller and the range of services offered is also limited.

Having discussed these differences, there are many similarities Banepa has with other hill towns, particularly along the highways as the distribution center for foodgrains and urban consumer goods. Many hill towns such as Dumre, Bimalnagar have important functions as wholesale distribution centers. Much of the rural areas around the hill towns have low productive base as case study villages. Therefore findings about Banepa's role as distribution center and collection center would hold true of many hill towns. Most hill towns may not play as big a role as wholesale center as Banepa, but clearly many hill towns have important distributive functions as discussed in Chapter Two.

Like Banepa, other hill towns are also the major service centers for the surrounding villages in terms of provision of agricultural, health and education services. In many rural areas, small hill towns are often the only areas where these services are available. Therefore Banepa's role as service center may also apply to many other hill towns.
As in Banepa, many hill towns have agro-processing activities. However, the range of industries found in Banepa may not be available in other hill towns—particularly carpet industries and dairy industries. These industries developed in Banepa due to the town’s proximity with Kathmandu but not all small towns have this comparative advantage in terms of location. In spite of Banepa’s natural advantages, Banepa still has not been able to generate employment to hinterland population as other hill towns.

Similar to Banepa, many hill towns in Nepal are dominated by Newar traders. Newars and Brahmins/Chhetris have better access to urban services than other ethnic and caste groups. Thus the case study’s findings on the role of ethnicity/caste on use of urban services may be valid in other hill contexts, too.

Much of the rural areas around the hill towns have little rural infrastructure as the case study villages. In spite of the fact that the study area is so close to Kathmandu, the villages like Devitar lack access to many basic rural services such as tap drinking water, rural feeder roads, electricity, secondary schools and health clinics. Therefore, the findings about hinterland villages of Banepa may be applicable to many other hill towns with similar lack of basic rural infrastructure and services.
Lastly, a case study like the present research can help better understand the functioning of the town and linkages with the villages. More case studies of other hill towns and villages in similar format can help in a comparative analysis of towns and testing the general validity of the findings of the case study. Also it is important to note that each small town would be in some ways unique based on its local/regional context, levels of agricultural development in the surrounding areas, levels of transport linkages, distance/relation with other similar/higher level towns, entrepreneurial capacity of local people, levels of infrastructure, local level leadership and their political influence in the central decision making process etc.

4.4.2 An Approach: Market Oriented Territorial Development

In this study, the recommended mechanism for improving urban-rural relations in the hills of Nepal uses neither the functional approach of Rondinelli and Ruddle nor to the radical approach of the dependency theorists discussed in the literature review. The functional approach has limited utility as it makes simplistic assumptions that mere integration of rural areas with urban centers and provision of services and marketing facilities in small towns will by themselves bring about rural change. Similarly, the dependency theorists' argument for radical changes in the existing political, economic and social order is hardly feasible in the present political and administrative context.
of Nepal. Besides, much of their focus is on reordering socio-economic structures with hardly any focus on the local spatial context. What is advocated in this study is a market oriented territorial development approach. Based on the needs and practical constraints of the political economic reality of Nepal, a territorial framework for development is suggested with important inputs from market oriented development.

The territorial development model has spatial focus on small territorial units for decentralized planning at local level, emphasis on diversified agricultural economy and use of local resources for local people. Besides, in a setting of hilly terrain with dispersed settlements, initiating local development based on central directives from Kathmandu seem hardly practical with problems of communication and transport.

In the hill context, nevertheless, concepts of regional autarchy and selective spatial closure cannot be pursued as hill economies can no longer sustain themselves by being isolated. Increases in productivity from within, without outside linkages is severely restricted. For hill development, the agriculture needs to be integrated with the wider market economy in order to diversify into high-value added crops with comparative advantages in the hills.

Studies from other countries suggest that linking with the larger market economy may result in transformation
of traditional subsistence communities, creating dependent relations with the outside and greater social differentiation (Brookfield, 1973, Grossman, 1984). This is true particularly if with penetration of the market economy, rural people make large-scale shifts in their agricultural production from local subsistence to cash cropping.

However, contrary to above arguments, Allen (1993) points out that involvement in the cash economy and commercial agriculture is not everywhere negative. Nibbering (1991), based on his study in Gunung Kidul district in Java found that social and economic conditions improved with greater access to markets, fertilizers, pesticides, opportunities for off-farm employment. As the farmers economic conditions improved, the farmers also invested more in ecologically sound practices such as tree planting for both sale as well as fuelwood, which was beneficial for maintaining the local environment. This was not possible in the past when farmers could not produce more without working on increasingly marginal land and costly construction of terraces with the increase of pressure on land without improved access to outside economy. Grossman (1983) suggests that whether linkage with outside commercial network will be beneficial or harmful depend on factors such as degree of voluntariness among villagers in cash cropping activities, nature of cash cropping activities and amount of land allocated to it. If there is
agricultural diversification to include both grain crops and cash crops, then when cash crop prices drop, they can reduce the extent of involvement in cash cropping.

In the hills of Nepal the replacement of subsistence crops by single cash crop is not proposed. However, a certain level of market-oriented agricultural production with diversification of grain crops as well as cash crops would certainly improve the standard of living of the hinterland population. With this strategy of linking with the larger market economy, although there are inherent dangers to hill areas being all the more vulnerable to external shock, leakages to outside and unequal exchanges, such potential negative effects is subordinate to the generative aspects of these linkages such as increased income, access to the larger market and provision of inputs.

More than halting interaction with the larger market, there needs to be an emphasis on higher agricultural production, higher value of production and diversification of agriculture. Also, this is where there is a need for deliberate intervention on the part of the government to minimize the negative aspects of integration. As suggested by market-oriented development proponents, strengthening small farmers can be done through credit, skill training, agricultural inputs which are few relevant interventions -- tools which can also facilitate hill development. Other important interventions suggested by the Agropolitan
(territorial) development approach in terms of land reform, fair price for agricultural goods, improvements in extension, marketing, cooperatives, minimization of leakages as far as possible are also important policy instruments for hill area development.

In Nepal, as a part of the recommended development strategy, a town-village territorial unit of planning is important. Although the present government stresses the need for urban-rural linkages, the existing administrative structure provides very little scope for creating town-village linkages for complementary benefits. The towns/municipalities often plan their development activities without taking the surrounding villages into consideration. In this respect the chinese system of "town administering the village system" (zhen guan cun) concept seems interesting (Lee, 1989). The objective of this policy measure is to counter the influence of former administrative boundaries which restricted trade and commodity exchange (Tan, 1993). In China, the administrative boundary of the designated town is overbounded to include the surrounding rural population to use the "towns’ nodal influence to boost the agricultural economy in the hinterland areas. This also broadens the tax base of the towns so that rural resources could be drawn upon to finance the expenses of town development (Lee, 1989). Although this creates a statistical problem in that it does not distinguish urban population with agricultural
population, it has an important purpose of strengthening the urban-rural linkages in the area.

In the context of Nepal, the present municipalities are all overbounded such that some surrounding agricultural population are included in the town. However, this still leaves many of the rural areas away from the town from development plans of the towns, which are the major nodes of government investments in the area. It is important to develop a strategy of linking towns and groups of villages for greater sharing of town level services/investments.

Under Nepal’s "District Development Plan", the basic territorial unit of plan formulation and implementation is the district. But in the hill context, the district spreads over a large territorial area. A more appropriate strategy would be to divide the district into smaller sub district areas with at least a small town and a small group of villages having economic, spatial or social linkages with it.

The service center concept initiated during the Panchayat regime does have some usefulness in that it facilitates a mechanism to distribute government-sponsored services to the villages. However, the service centers were not particularly designed to help strengthen urban-rural linkages in terms of commercialization of agriculture, agricultural marketing, and creation of non-farm jobs at service center level, nor at harnessing the marketing
potential of service center with private sector efforts. Often the districts have been divided into nine service areas (ilakas) without much consideration for social/economic linkages between the villages and the service center. To address this issue, the present government does provide a more flexible framework of planning with the division of the districts between nine to seventeen ilakas depending on the size and population of the districts (the previous Panchayat government had the districts divided into nine ilakas irrespective of the territorial size, terrain and population of the districts).

The advocated approach in this study can build upon this current district subdivisions, with the following recommendations. There is a need for identifying the general service and marketing area of each of the towns in a district for developing a sub-territorial unit of planning, with a town and groups of villages. For this purpose, the towns do not necessarily have to be of municipal status. Even smaller market towns and small pockets of concentrated settlements could be identified around which the villages having economic linkages can be brought together. In the case of Kavre district itself, some of the small towns which could qualify for this purpose would be towns such as Nala, Panauti, Banepa, Dhulikel, Dapcha and Dolalghat. There is also a need for identifying comparative advantages of each of these towns for agricultural development and generation.
of off-farm employment. Each of these towns, instead of being seen in isolation, needs to be viewed together while developing district level development plans/policies. Priorities in the government investments in each of the small towns need to be made based on its potential for expanding agricultural production of small farmers, facilitating agricultural processing of village produce. Specific programmes may include skill development of villagers in jobs available in the town, encouraging the villagers to diversify the agriculture to produce for market, better access to credit for villagers. There is a need for target group focus on rural poor through programs such as small farmers development. The central government also has a key role to play by supporting greater decentralization of power and services at local level, ensuring fair prices for village produce and protection of domestic industries.

Political and institutional reform should be a key part of development strategy, along with the spatial focus on small town-hinterland functional regions. Considering that a large number of villagers are marketing on an individual basis, without much bargaining power to get fair prices for their produce, there is a need for institutional reform to address this issue. Greater priorities need to be given to the rural poor through rural cooperatives for group marketing and bargaining between producers and buyers, and
to greater processing of agricultural produce at the village level to retain the value added within the area itself. Non-governmental organizations could play a facilitative role in organizing the villagers into user groups of services.

As the study found that there are spatial and ethnic biases in the access to off-farm jobs and services, policy responses specifically tackling this issue need to be considered. These could take the form of developing appropriate skills among the villagers (particularly disadvantaged ethnic groups) to gain access to jobs, initiating adult literacy programs for villagers to increase awareness about available services in the town as well and to improve the literacy level of the villagers to compete for administrative/service sector jobs, and giving priority to industries which generate employment and income to the villagers (such as the diary industry). Rather than competing with larger industries in Kathmandu and beyond, there are better chances of creating jobs in the hill areas by exploring the possibilities of subcontracting with larger industries.

In Nepal, part of the reason that the small towns have not been effective in providing beneficial linkage with the villages has also to do with limited resources and political power available at the local level. As there is centralization of power in Kathmandu, and the development
budget of government line agencies are primarily dictated from the head office in Kathmandu, the local hill districts have to depend heavily on the center for initiating local area development. There is a need for increased devolution of power at the local level so that rural regions (with small towns and villages) get more involved in the formulation of district development plans conducive to local needs, and greater control over management of community resources such as forests, public land and public infrastructure. These, in turn, create increased local accountability and sharing of benefits, and led to the retention of local surpluses. Case studies of different hill districts in Nepal have shown that in turning control of government forests to local village communities, user groups have contributed to better management of local forests (Gilmore and Nurse, 1991; Fox, 1993; Carter and Gilmore 1989) and sharing of benefits by the villagers.

It is clear that small town development strategies need to be seen in the light of structural characteristics of underdevelopment of the rural areas. Any strategy for strengthening small towns need to develop ways to promote agricultural productivity and rural development. If the small towns are not evaluated on the basis of its role in addressing the needs of the rural poor, it is likely that the urban residents and rural elite may benefit from the development of rural towns. Some form of top-down
interventions will be necessary in terms of favorable agricultural pricing policies, decentralization of power and investments at local level as a precondition to small town development.

However, small town development can not be zealously pursued at the cost of large cities. If the investments are widely dispersed in small towns with complete neglect of larger urban centers, negative impacts can occur. Each of the towns, larger and smaller ones and rural areas have their own important role to play in a national development strategy. Banerjee et. al. (1982) has suggested that the dual strategy of modernization of agriculture and rural industrialization in China’s small town development program may not have been successful without a complementary policy of industrialization in large cities and infrastructure development.

Here Gaile’s distinctions between role of large cities and small towns in reaching the rural poor are also relevant (Gaile, 1992). He argues that while large towns may have higher on-site efficiencies due to economies of scale at site, small towns are more efficient than large towns in the distribution of economic benefits to surrounding hinterland. This is because spatially large towns would have to cover large distances to expand the spatial extent of the market but since small towns have smaller market areas it can expand more easily than large towns. In the context of the
hills of Nepal, the undulating terrain and scattered settlements themselves restrict the development of large market areas for large cities. Therefore focus on small towns in the hill context is a necessary precondition to reach a larger populace of hill areas.

4.4.3 Policy Implications

The Small Town as Marketing Center:

Since agriculture is the mainstay of the villages, any program on small town development has to take into consideration agricultural development in the rural areas. In order for the small town to play a greater role in marketing village produce, attempts have to be made to diversify the subsistence agriculture to include high value cash crops based on local comparative advantage rather than limiting to subsistence cereal/grain crops. Attempts have to be made to encourage the small farmers to set aside certain percentage of land for cash crops (like potatoes, vegetables, fruits) for selling in the market and generating cash income. To make a small town a more efficient collection center for agricultural products from villages, additional emphasis have to be given to irrigation facilities, and better distribution of agricultural inputs/credit in the villages. The government has to play a more active role in guaranteeing a minimum fair price of agricultural produce to the villagers to ensure larger share of the benefit to the producers rather than the middlemen.
Some policies that could contribute in promotion of small towns and agricultural marketing are:

1. **Contract Farming (Government Assisted Small Agri-business):** To facilitate increased agricultural production and marketing, contract farming of vegetable and fruit crops could be attempted in the villages. The traders from towns and farmers group from the villages could be brought together where the traders provide the necessary credit and agricultural inputs and in return gets assured of produce from farmers. This could be done through the Small Farmers Development Project acting as moderator for the two groups.

2. **Group Marketing/Transport:** In view of the small size of surpluses, support needs to be given to encourage group marketing of hill produce to larger urban centers. Group marketing could be encouraged through Small Farmer Development Project which could provide group loans to people for growing a particular crop and marketing it together (for example for renting farm implements, providing marketing information in terms of prices, potential buyers, helping negotiate with outside parties, teaching modern methods of grading, weighing, cleaning, storing, packaging and transporting).

Group transport would bring down the costs of head load transport -- fewer farmers would have to make the journey to market on an individual basis. Farmers who have disincentive of producing marketable items due to inadequate
returns, and necessity of individual transport, may be more inclined to produce for more distant markets providing better prices because of group marketing/transport. This way they would also be in a better bargaining position in obtaining the fair price for their products.

3. Farmer’s Market: To facilitate direct marketing by the villagers, the government could promote the development of periodic and permanent farmer’s market through provision of market space and paved area, weighing/grading facilities and overnight storage facilities. Government still has large parcels of public land which could be used for this purpose and in return for establishing the markets, it can get revenues in the form of rent and taxes.

4. Diversification of Agriculture: There is a need to support the production of vegetable and tree crops which have higher potential for growth in hill region. For example, fruits such as oranges and lemon, and vegetables such as potatoes, pumpkins, cucumbers, yams and raddishes, as well as spices like turmeric, ginger and red chillies can be grown as cash crops in the hills. The key is to focus on crops suitable to the hill areas’s climate and terrain, and for which there is a demand in urban markets of Kathmandu or outside. Recent case studies from certain hill districts have shown the potential for growing tree crops in private plots (Gilmore and Nurse, 1991; Carter and Gilmore 1989). These not only provide cash income from the sale of timber,
but also contribute to the salvation of community forests. There is also a potential for growing some tree crops such as oranges, lemon in community-owned land to generate cash income for the villagers. If tree crops can be sustained in the hills to produce timber, then furniture industries in small towns such as Banepa would not have to depend solely on timber from Terai and Kathmandu. This could potentially be a mutually beneficial urban-rural linkage between the villages and small towns.

Small Town as Industrial/Employment Center

Off-farm employment opportunities in the small town need to be expanded. For this, one area where small town such as Banepa already has made an encouraging start is woollen sweater making industry and carpet industry with local people from the areas weaving sweaters and carpets on a sub-contract basis for businessmen in Kathmandu. Banepa’s proximity with Kathmandu, availability of entrepreneurial skill and cheap labour compared to Kathmandu makes Banepa a potential area for expanding the sweater industry as well as other export-oriented carpet and garment industries. The municipal government would need to organize necessary training in production and marketing, attract outside investors by providing incentives such as tax breaks and provision of support infrastructure. For this the municipalities and village development committees need to be
given greater decision making power for local collection of
taxes and reinvestments at local level.

Instead of merely marketing village produce such as
potatoes and paddy, there is a greater possibility of
processing these at the village level so that value added
from processing can be retained at the village level itself.

Small town’s agro-processing industries may be
diversified to include potato-chips, fruit processing and
dairy products industries, considering the hinterland
population produce potatoes, oranges and milk. Potential
industries in the small town can go into direct contract
with groups of farmers to ensure a regular supply of raw
material for the industries). These measures would not only
contribute towards improving local economy by providing
marketing avenues for rural products but also providing
additional off-farm employment opportunities for local
people.

The small cities may be encouraged to develop goods and
personal services for local consumption as well as to
produce intermediate goods for larger industries in the
bigger cities. Some of the likely industries that may be
promoted at small urban centers may be production of
household items, handicrafts for export etc. Industries
such as handloom need greater support from the government to
make them more competitive in terms of regular supply of raw
materials, and credits for conversion into power looms.
The findings from the study showed that people from surrounding villages often lack adequate skills and education to get jobs in urban household industries. Job training, skill development of villagers should be an integral part of the strategy for small town development. Vocational training, adult literacy programs in the village could facilitate those disadvantaged groups to enter the job market outside of the villages.

Priorities have to be given to industries which can generate employment in the villages rather than limiting only to urban residents. Dairy industry is a good example of the nature of industry with significant beneficial impact in the villages.

Since dairy industry benefits many villagers, additional efforts need to be made in livestock development by encouraging higher-breed animals, better animal health services, provision for fodder plants and credit for small farmers.

The Small Town as Service Center

The government needs to invest on region-serving functions rather than town-serving functions while investing on the small town so that the surrounding villages can also benefit from investments in the town.

Since there are ethnic and spatial biases in the use of services, greater attention has to be paid to reach disadvantaged groups in the use of services through small-
farmer development program, minority group economic
development program.

A consolidated support service center for provision of
credit, purchase of inputs, sale of agricultural produce,
storage, processing, agricultural extension services, market
information can be started in small towns which facilitate
greater potential for agricultural marketing in surrounding
villages. This would also address the problem of scattered
agriculture related services in different locations in the
district (for example, at present agricultural extension
services are handled from Nala and agricultural credit
services are provided from Banepa). Position of sellers
could be strengthened by providing prices of different
agricultural produce (through bulletin boards, informants)
in different districts/market centers so that the farmers
can consider if it would be more profitable to take their
produce to more distant markets.

The study found that although fertilizers are widely
used, the use of insecticide and improved varieties of seed
is quite low, partly due to lack of adequate information and
knowledge about them. In order to diffuse agricultural
innovation, there is a greater need for agricultural
extension services. The extension service could include
advice on marketable product/crop, market information in
terms of prices, suggesting as to when, how where to sell
agricultural products, promoting group marketing activities,
facilitating production/marketing arrangement between farmers and millowners/traders and the like.

4.4.4. Implementation

The first step in small town development is the proper identification of small towns in all districts in Nepal which do not necessarily hold municipal status, but which are central places providing commercial, administrative and service functions (i.e., small towns of between 2,000 to 20,000 population). The next step would be to determine general characteristics of these small towns in terms of population size, population density, number and types of services. (The Suspension Bridge Division of Nepalese government with assistance from Swiss Technical Agency (SATA) has done some work in this direction). Third, a general functional service area of each of the towns needs to be identified, based on information such as movement of people, goods, road links and the like.

Based on this information, a small number of towns in each district can be selected which have a potential for developing region serving functions to the hinterland villages. Friedman and Douglass (1978) suggest development of a small town of about 20,000 population for a district of 50,000 to 150,000 population within a commuting distance of one day. In the case of the hill region of Nepal, both the size of the town and area it services would be smaller considering the hill topography and limited range of
services available in the town. In Nepal, among hill districts, the average population is about 200,000 with an average area of 1657 square kilometers (Based on the 1991 census).

In the hills of Nepal, it would be more appropriate to identify central places of population within the range of 2,000 to 20,000, considering that most of towns in the hills are generally small. The selection of small towns for further investment needs to be based on the criteria of the region-serving functions of the small town, such as its capability for agricultural diversification, its centrality in serving a larger population, availability of rural infrastructure such as spatial links to villages, potential for processing industries and potential for creating off-farm employment.

The district development committees in collaboration with the village development committees and municipalities within the district could make recommendations as to the towns which fulfill the above criteria. Local area development plans could be formulated, based on the understanding of urban-rural linkages between the small town and hinterland villages, which later could be part of the overall district development plans. In Nepal, context, an approach focussing on villager participation has been suggested through the ‘village dialogue’ method at the ward level (Messerschmidt 1990, Exo 1989). While the village
dialogue approach has been used primarily for resource management issues, the possibility exists of applying similar concepts to foster people’s participation in linking market towns and hinterland villages in urban-rural area development plans. Based on localities, these development plans could identify the constraints for marketing, service provision and non-farm employment, for which an appropriate package of investments could be suggested. These could take many forms, such as building town to village trails, developing a regular or weekly producers’ market in the town in which the villagers could sell produce, the provision of agricultural credit, input and extension, vocational training and skill development training for the local people to gain better access to jobs in the local area, development of processing industries based on local comparative advantage, rural irrigation and rural electrification.

This section has outlined the roles of a small town in Nepal and examined its applicability beyond the case study area. It also identified the problems the small towns are facing and suggested policy measures to address the problems. The roles of small towns in terms of existing activities, the problems in fulfilling those roles/activities and policy responses that are likely to help alleviate such problems are summarized in Figure 17.
Priorities for village industries (dairy)

POLICY RESPONSES

Diversification of agriculture and contract farming.

Improvement of town-village trails.

Unified service center for credit, input ag. extn.
To conclude, it would be relevant to list the contributions of the study and areas for further research on the issue of urban-rural relations.

4.4.5 Contributions of the Study

The dissertation makes three contributions to the study of urban-rural relations.

First, the study made an attempt to contribute to the progressive conceptualization of urban-rural linkages and their role in rural development in developing countries. Since the study dealt with a hill region, it fills a knowledge gap, that is of incorporating ecological (terrain) and cultural (ethnicity) factors in the examination of relationships between small towns and their hinterland in a hill area context. It was found that terrain itself becomes a constraint to urban-rural linkages in the hill area in terms of movement of people, goods and services. In the subsistence hill economy, often small towns provide important links to the villages for obtaining daily essential consumer goods, which are in short supply in the hills. Ethnicity and economic status are important variables in the context of Nepal to understand differential access to urban services in the small town.

Second, a deliberate focus on the linkages between the small town and its surrounding villages from the villagers’ perspective, likewise, provides a more holistic view of interactions within the rural areas of Nepal. Past studies
on small towns in Nepal have primarily focussed on the the town itself without examining village-level data. Small towns are where villages avail of many of the urban services. Therefore, the contraints for the villagers to use urban services in the small towns can only be better understood by examining both the town- and village- level information.

Thirdly, the research has contributed in identifying key policy measures for rural development in developing countries with similar context as hills of Nepal. A small town development program without taking into considering the rural hinterland is not adequate. Similarly, a rural development program without an urban component is not complete either. A strategy for rural development needs to strengthen the mutually beneficial relationship between the small town and village both in contributing to agricultural development and creation of off-farm employment for the rural poor.

4.4.6 Further Areas of Research

This section identifies further areas of research pertinent to small urban centers, linking them to agrarian change and rural regional development in the hills of Nepal.

First, research needs to be conducted on the linkages between all towns, small and big within a particular region so greater understandings will emerge of the interrelationship between different levels of towns, their
levels of economic activities and their complementarities. In the context of the study area (Kavre district), a starting point would be to examine all market places so that each of the towns' areas of specialization and hinterland could be adequately identified. This kind of research would be a useful basis for developing locally-generated district development plans using local level urban-rural linkages, rather than focussing on only one or two towns in the district.

Second, for delineating a territorial unit of planning with a small town and groups of villages, research could be carried out on indigenous traditional regional systems to see whether these systems are valid today. Such systems could have the advantage of being based on local environmental condition and local social systems. While Murton (1980) studied this aspect in the case of South India, it would be worthwhile in the case of Nepal to explore the possibility of using traditional local territorial units based on the identification of regional systems' functional linkages by local people, rather than being imposed by planners from Kathmandu who do not have as much knowledge of existing local social, cultural and economic networks.

In like manner, better understanding of alliances between different urban and rural groups based on classe,
ethnicity, and politics could throw much light on the political dimension of the urban-rural relations.

A longitudinal (historical) study of a small town along with its hinterland area could also illuminate on the nature of the transformation in both town and villages in terms of changes in agricultural practices, access to land and resources, population growth and changing social relations. With the introduction of roads, certain hill towns have grown, and others, bypassed by the road, have declined. Research on the dynamics of growth and decline of towns and changes in the hinterland areas would be relevant for policy on rural development.

There is, in addition, a need for more policy relevant research on the nature of investments in small towns. This needs to emphasize the beneficial impacts on the town's hinterland villages rather than merely for the town residents. Another area of research could be on the identification of types of resources that could be generated at the local level versus the nature of support that need to be given by the central government. Also additional policy-oriented research needs to be carried out on the nature of institutional and political reforms which could be part of an integrated urban-rural area development.
APPENDIX A

SURVEY OF COMMERCIAL ESTABLISHMENTS IN BANEPA

1. Name of Business Establishment: __________________________
2. Name of Owner: __________________________
3. Shop Location: __________________________
4. Date of Establishment: __________________________
5. Place of Residence of Owner: (ENCIRCLE ANSWER)
   A. Local (Banepe and Nearby Villages)
   B. Outside Area (Kathmandu, Terai, etc.)
6. Type of Shop by Volume of Goods Sold: (ENCIRCLE ANSWER)
   A. Wholesale
   B. Retail
7. Type of Shop by Items Sold: (ENCIRCLE ANSWER)
   A. General Merchandise
   B. Cloth Shop
   C. Readymade Garment Shop
   D. Utensil Shop
   E. Motor Parts Shop
   F. Vegetable Shop
   G. Other (Please specify) __________________________
8. About what percentage of items sold in the shop are from the local area? __________________________
9. What percentage of items sold in the shop are from outside areas (e.g., Kathmandu, Terai)? __________________________
10. In your opinion, what are the three most important reasons why Banepa became a major distribution center for urban goods? (INDICATE ORDER OF IMPORTANCE)
    ___ A. Banepa’s proximity to Kathmandu.
    ___ B. Banepa’s access to eastern hills.
    ___ C. Entrepreneurial capability of local people.
    ___ D. Ease in bringing goods in trucks compared to Kathmandu.
    ___ E. Other (Please specify) __________________________
11. Do you sell any item/s processed locally in Banepa or in its surrounding villages? (ENCIRCLE ANSWER)
   A. Yes
   B. No

   (IF NO, PROCEED TO NO. 13.)

12. If yes, what are those items? Who/where do you obtain them from? (USE TABLE BELOW)

<table>
<thead>
<tr>
<th>ITEM</th>
<th>WHO/WHERE OBTAINED</th>
</tr>
</thead>
<tbody>
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<td></td>
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</tbody>
</table>

13. What are the problems you face in selling locally-produced goods? (ENCIRCLE ANSWER/S)
   A. Irregularity in supply of locally-produced goods
   B. Low quality of locally-produced goods
   C. Small quantity of supply
   D. Limited demand
   E. Other (Please specify)

14. What problems do you face in selling goods produced from outside the area (e.g., urban consumer goods from Kathmandu, Terai) (ENCIRCLE ANSWER/S)
   A. High transportation cost
   B. High taxes
   C. Business in credit
   D. Other (Please specify)

15. What are the farthest areas from where costumers come to buy goods in the shop?
   A. Eastside
   B. Westside
   C. Northside
   D. Southside

16. Name the major areas from where costumers come. _____
17. What percentage of customers are from Banepa? ______

18. What percentage of customers are from surrounding villages? ______

19. What percentage of customers are from other areas? ______

20. Average Transaction per Month: (USE TABLE BELOW)

<table>
<thead>
<tr>
<th>SEASON</th>
<th>TRANSACTION (Rs)</th>
<th>PROFIT (Rs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rainy Season</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Winter Season</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Festival Season</td>
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</tbody>
</table>

21. How many people work in the shop? ________________

22. How many of them are family members? ________________

23. How many are paid labor? ________________

24. What are the places of origin of paid laborers? (ENCIRCLE AND SPECIFY AREA OF ORIGIN)
   A. Local _______________________________________
   B. Outside ______________________________________

25. What are the ethnic groups of paid laborers? (ENCIRCLE ANSWER)
   A. Newar
   B. Brahmin/Chhetri
   C. Tamang
   D. Other (Please specify) ________________________

26. What do you think are the impacts of the construction of the Arniko and Lamosangu-Jiri roads to your shop/business? (ENCIRCLE ANSWER)
   A. Increase in business
   B. Decrease in Business
   C. No difference
   D. Not applicable

THANK YOU FOR YOUR COOPERATION!!!
APPENDIX B
SURVEY OF INDUSTRIAL ESTABLISHMENTS IN BANEPA

1. Name of Industrial Establishment: _________________________

2. Name of Owner: ________________________________

3. Location of Industry: ______________________________

4. Date of Establishment: ____________________________

5. Place of Residence of Owner: (ENCIRCLE ANSWER)
   A. Local (Banepa and nearby villages)
   B. Outside Area (Kathmandu, Terai, etc.)

6. Type of Industry: (ENCIRCLE ANSWER)
   A. Handloom Industry
   B. Carpet Industry
   C. Sweater Weaving Industry
   D. Rice/Beaten Rice/Oil Mill
   E. Furniture Industry
   F. Other (Please specify) ___________________________

7. What are the major problems facing your industry?
   (ENCIRCLE ANSWER)
   A. Related to supply of raw materials
   B. Related to sale of finished product
   C. Related to manpower
   D. Related to investments/banking
   E. Related to Infrastructure
   F. Other (Please specify) ___________________________

8. Place of Origin of Raw Materials: (USE TABLE BELOW)

<table>
<thead>
<tr>
<th>TYPE OF RAW MATERIAL</th>
<th>PLACE OF ORIGIN OF RAW MATERIAL (PLS. CHECK)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Local (Banepa &amp; surrounding villages)</td>
</tr>
<tr>
<td></td>
<td>Outside (Kathmandu, Terai, etc.)</td>
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</tbody>
</table>

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10. Transport Rate/Cost: Rs. ____________________________

11. What problems do you face in obtaining raw materials? (ENCIRCLE ANSWER/S)

A. Small quantities of raw materials
B. Poor quality of raw materials
C. High transportation cost
D. High taxes
E. Other (Please specify) ____________________________

12. What are your suggestions regarding tackling the problems related to raw materials?

________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

13. Finished Product/s and their Consumption: (USE TABLE)

<table>
<thead>
<tr>
<th>TYPE/S OF GOODS PRODUCED</th>
<th>ANNUAL VOLUME OF PRODUCTION</th>
<th>WHERE FINISHED PRODUCTS ARE SOLD (PLS. CHECK)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Local (Banepa &amp; surrounding villages)</td>
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<tr>
<td></td>
<td></td>
<td>Outside (Kathmandu, Terai, etc.)</td>
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</tbody>
</table>


15. Transport Cost: Rs. ____________________________

16. In what capacity is your industry running? (Please specify) ____________________________
17. What problems do you face in selling the finished product/s? (ENCIRCLE ANSWER/S)

A. Poor quality of finished products
B. Competition with finished product from other places
C. High transportation cost
D. Low levels of technology/ old machines
E. Lack of provision (like shops) for selling goods
F. Lack of adequate storage before selling
G. Other (Please specify) ____________________________

18. What are your suggestions regarding tackling the problems related to selling the finished product/s?

________________________________________
________________________________________
________________________________________

QUESTIONS REGARDING MANPOWER:

19. Who runs your establishment? (ENCIRCLE ANSWER)

A. Family member
B. Manager

20. Type of Ownership: (ENCIRCLE ANSWER)

A. Family-owned
B. Government/semi-government

21. Place/s of Origin of Workers (Please specify):

________________________________________
________________________________________

22. Percentage of Workers from Banepa: ________________

23. Percentage of Workers from Surrounding Villages: ___

24. Percentage of Workers from Outside Areas: ___________

25. Ethnic Groups of Workers: ____________________________

26. How many people work in the industry? ________________

27. How many of the workers are family members? _________

28. How many are paid labor? ____________________________

322
29. What are the ethnic groups of paid laborers? (ENCIRCLE ANSWER/S)
   A. Newar
   B. Brahmin/Chhetri
   C. Tamang
   D. Other (Please specify) ________________________

30. What is the monthly salary of workers? Rs. ______

31. What are the major problems you are facing relating to workers (manpower)? (ENCIRCLE ANSWER/S)
   A. Workers don't stay too long
   B. Lack of adequate skills among the villagers
   C. Lack of accounting skill among the owners
   D. Lack of management skill in selling the finished product
   E. Other (Please specify) ________________________

32. What are your suggestions regarding tackling the problems related to manpower?
   ________________________________

QUESTIONS REGARDING FINANCE/BANKING:

33. What is the fixed capital of your industry? Rs. ______

34. What is the working capital of your industry? Rs. ______

35. What is the volume of business per month? Rs. ______

36. What is the profit (in percentage of total transaction)? ________________________________

37. Have you taken loan from the bank for your industry? (ENCIRCLE ANSWER)
   A. Yes
   B. No

   (IF NO, PROCEED TO NO. 44.)

38. If yes, what is the purpose of the loan?________________________

39. Amount of Loan Taken: Rs. __________________________

40. Amount of Interest on the Loan: Rs. ______________________
41. Name of Bank from Where Loan was Taken: ________________

42. Year Loan was Taken: ________________________________

43. Have you paid back the loan? (ENCIRCLE ANSWER)
   A. Yes
   B. No

44. What are the major problems in obtaining the loan? (ENCIRCLE ANSWER/S)
   A. High interest rate
   B. Long paperwork
   C. Can't pay the loan back in time
   D. No asset to obtain loan
   E. Other (Please specify) ________________________________

45. Where do you get the loan from easily? (ENCIRCLE ANSWER)
   A. Friends/relatives
   B. Money lenders
   C. Banks

46. What are your suggestions regarding tackling the problems related to finance/banking?
   ____________________________________________________
   ____________________________________________________

QUESTIONS REGARDING INFRASTRUCTURE:

47. What are the major problems you face regarding electricity? ________________________________

48. What are the major problems you face regarding access to water? ________________________________

49. What are the major problems you face regarding transportation? ________________________________

50. What are your suggestions regarding tackling the problems related to infrastructure?
   ____________________________________________________
QUESTIONS RELATING TO RURAL DEVELOPMENT:

51. In your opinion, has your industry contributed in any way to benefit the surrounding villages? ____________

(IF NO, PROCEED TO NO. 53.)

52. If yes, in what way? (ENCIRCLE ANSWER/S)

A. By providing employment to the villagers
B. By purchasing the raw materials from the villages
C. By selling the processed goods to villages
D. By developing other related industries in the villages
E. Other (Please specify) ____________________________

53. What are your suggestions for contributing to village development by your industry? Please specify.

__________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________________

THANK YOU FOR YOUR COOPERATION!!!
APPENDIX C

VILLAGE HOUSEHOLD SURVEY

1. Name of Village: ____________________________

2. Name of Ward: ____________________________

3. Name of Household Head: ________________________

4. Place of Birth of Household Head: (ENCIRCLE ANSWER)
   A. Local (Same Village)
   B. Outside Area

5. Ethnic Status: (ENCIRCLE ANSWER)
   A. Brahmin
   B. Chhetri
   C. Newar
   D. Tamang
   E. Other (Please specify) ________________________

6. Religion: (ENCIRCLE ANSWER)
   A. Hindu
   B. Buddhist
   C. Other (Please specify) ________________________

7. Number of Household Members: ________________________

8. Other Household Information: (USE TABLE BELOW)

<table>
<thead>
<tr>
<th>NO.</th>
<th>RELN. W/ HH HEAD</th>
<th>AGE</th>
<th>SEX</th>
<th>CIVIL STATUS</th>
<th>EDUCATION Literate?</th>
<th>Educ. Level</th>
<th>TYPE OF WORK*</th>
<th>WORK IN VILLAGE? Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
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<td>Yes</td>
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<td>No</td>
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<td>No</td>
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</tbody>
</table>

326
* For Type of Work (Jobs taken by individual household members): (INDICATE LETTER IN PRECEDING TABLE)

A. Farming
B. Livestock
C. Service
D. Household Industry
E. Wage Worker
F. Not able to work
G. Business
H. Other

9. What are the major sources of household income? (USE TABLE, INDICATE FIRST, SECOND AND THIRD)

<table>
<thead>
<tr>
<th>SOURCE OF INCOME</th>
<th>ANNUAL INCOME (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td></td>
</tr>
<tr>
<td>Livestock</td>
<td></td>
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<tr>
<td>Service/Admin. Jobs</td>
<td></td>
</tr>
<tr>
<td>Wage Labor</td>
<td></td>
</tr>
<tr>
<td>Business</td>
<td></td>
</tr>
<tr>
<td>Pension</td>
<td></td>
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<tr>
<td>Other (Specify)</td>
<td></td>
</tr>
</tbody>
</table>

10. Do any of your family members work outside your village on a daily basis? _____. (IF NO, GO TO NO. 11. IF YES, USE TABLE BELOW)

<table>
<thead>
<tr>
<th>NO.</th>
<th>RELN. W/ HH HEAD</th>
<th>TYPE OF WORK</th>
<th>PLACE OF WORK</th>
<th>TIME TAKEN TO REACH WORKPLACE</th>
<th>MODE OF TRANSPORT</th>
<th>INCOME (Rs.)</th>
</tr>
</thead>
</table>
11. Do any of your family members work outside by being away from the village for part of the year? _____. IF NO, GO TO NO. 12, IF YES, USE TABLE BELOW

<table>
<thead>
<tr>
<th>NO.</th>
<th>RELN. W/ HH HEAD</th>
<th>TYPE OF WORK</th>
<th>PLACE OF WORK</th>
<th>DISTANCE OF WORKPLACE</th>
<th>TIME TAKEN TO REACH</th>
<th>MODE OF TRANSPORT</th>
<th>INCOME (Rs.)</th>
</tr>
</thead>
<tbody>
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</tbody>
</table>

12. Information on Land: (USE TABLE BELOW)

<table>
<thead>
<tr>
<th>TYPE OF LAND (CHECK)</th>
<th>KHET (Has.)</th>
<th>PAKHO (Has.)</th>
<th>TOTAL (Has.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Own land, cultivated by self</td>
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<tr>
<td>Own land, cultivated by others</td>
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<tr>
<td>Other's land cultivated by self</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>No land</td>
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</tbody>
</table>

13. Total land under cultivation: ____________

14. In the last ten years, did you buy or sell land? ____

15. If yes, how much land did you buy? ________________

16. If yes, how much land did you sell? ________________

17. Reason for Selling: ________________________________
_________________________________________________________________________________
18. Information on Agricultural Production: (USE TABLE BELOW)

<table>
<thead>
<tr>
<th>TYPE OF CROP</th>
<th>AREA (Has)</th>
<th>IMPROVED SEED VARIETIES</th>
<th>FERTILIZER</th>
<th>INSECTICIDE</th>
<th>ANNUAL PRODUCTION</th>
<th>AMOUNT SOLD</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Type</td>
<td>Amt</td>
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<tr>
<td>Paddy</td>
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<tr>
<td>Corn</td>
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<tr>
<td>Wheat</td>
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<td>Potato</td>
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<tr>
<td>Other grain</td>
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<tr>
<td>Cucumber</td>
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<tr>
<td>Raddish</td>
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<tr>
<td>Orange</td>
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<tr>
<td>Other Fruit</td>
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</tbody>
</table>

19. Milk Production: (USE TABLE BELOW)

<table>
<thead>
<tr>
<th>TYPE OF LIVESTOCK</th>
<th>NO. OF LIVESTOCK</th>
<th>AMOUNT OF MILK PRODUCED</th>
<th>AMT. OF MILK SOLD</th>
<th>PLACE OF SALE</th>
<th>PERSON TO SELL</th>
<th>TRANSPORT METHOD</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Local</td>
<td>Impvd</td>
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MOVEMENT PATTERN OF VILLAGERS FOR THE USE OF HEALTH SERVICES:

20. In last two years, for what diseases did you get treatment?

21. Where did you get the treatment? (ENCIRCLE ANSWER)

A. Doctor
B. Vaidya
C. Faith Healer
22. What place did you visit for treatment? ______________

23. How far did you have to go for treatment? ______________

24. Why did you choose the service you chose? ______________

25. What are the major problems regarding use of health services? (ENCIRCLE ANSWER/S)

   A. Expensive
   B. Difficulty in transportation
   C. Poor quality of services
   D. Other (Please specify) ________________________________

26. What are your suggestions regarding improving the health services?

   ____________________________________________________________________
   ____________________________________________________________________
   ____________________________________________________________________
   ____________________________________________________________________

MOVEMENT PATTERN FOR THE USE OF EDUCATIONAL SERVICES:

27. Does any member of your family go to school? (ENCIRCLE ANSWER)

   A. Yes
   B. No

28. Household Information Re: Use of Schools. (USE TABLE BELOW)

<table>
<thead>
<tr>
<th>PERSON IN SCHOOL</th>
<th>GRADE/LEVEL</th>
<th>SCHOOL NAME</th>
<th>SCHOOL LOCATION</th>
<th>DISTANCE OF SCHOOL FROM HOME</th>
<th>REASON FOR CHOOSING SCHOOL</th>
</tr>
</thead>
<tbody>
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330
29. What are the major problems facing your family in using educational services? (ENCIRCLE ANSWER/S)

A. Unaffordability
B. Poor quality of education
C. Poor transportation
D. Need children for working at farm
E. Other (Please specify) ________________________

30. What are your suggestions regarding improving the use of educational services? ________________________

MOVEMENT FOR THE USE OF CREDIT FACILITIES:

31. Have you taken loan from the bank or an individual last year? _____

(IF NO, GO TO NO. 39)

32. If yes, who or what bank did you take the credit from? ________________________

33. What is the loan amount? Rs. ________________________

34. What are the interest rates on the loan? __________

35. What is the purpose of loan? ________________________

36. What did you spend the loan money on? __________

37. How far is the place from where the loan has been taken? ________________________

38. Did you pay back the loan? Why or why not? __________

39. What are the major problems you face in obtaining loan from the bank? (ENCIRCLE ANSWER)

A. Long paperwork
B. No money for mortgage/downpayment
C. Difficulty in repaying the loan in time
D. High interest rate
E. Other (Please specify) ________________________

40. What are your suggestions for the use of credit facilities? ________________________

______________________________________________

331
MOVEMENT FOR BUYING FROM AND SELLING GOODS AT THE MARKET:

41. Buying Goods from the Market: (USE TABLE BELOW)

<table>
<thead>
<tr>
<th>TYPE OF GOODS</th>
<th>PLACE OF PURCHASE</th>
<th>TYPE OF SELLER</th>
<th>HOW OFTEN DO YOU BUY?</th>
<th>REASON FOR CHOICE OF BUYING PLACE</th>
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</table>

42. Selling Goods in the Market: (USE TABLE BELOW)

<table>
<thead>
<tr>
<th>TYPE OF GOODS SOLD</th>
<th>TYPE OF BUYER</th>
<th>PLACE OF SALE</th>
<th>INCOME FROM SALE (Rs.)</th>
<th>REASON FOR CHOICE OF SELLING PLACE</th>
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</tbody>
</table>
43. Expenditures for Agricultural Production: (USE TABLE BELOW)

<table>
<thead>
<tr>
<th>EXPENDITURE TYPE</th>
<th>DAILY (Rs.)</th>
<th>MONTHLY (Rs.)</th>
<th>ANNUALLY (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grain</td>
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<tr>
<td>Clothes</td>
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<tr>
<td>Education</td>
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<td>Health</td>
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<td>Credit</td>
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<tr>
<td>Fertilizer</td>
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<tr>
<td>Improved Seed</td>
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<tr>
<td>Insecticide</td>
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<td></td>
<td></td>
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<tr>
<td>Agri. Labor</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Miscellaneous</td>
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</tr>
</tbody>
</table>

44. How has your family's economic condition changed in the last ten years? (ENCIRCLE ANSWER)

A. Become better  
B. Become worse  
C. About the same

45. What is the reason for changes? ____________________________
______________________________
______________________________

46. House Information: (USE TABLE, OBSERVE ONLY)

<table>
<thead>
<tr>
<th>TYPE OF HOUSE</th>
<th>WALLS</th>
<th>ROOF</th>
<th>NO. OF STOREYS</th>
</tr>
</thead>
<tbody>
<tr>
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</tbody>
</table>

THANK YOU FOR YOUR COOPERATION!!
BIBLIOGRAPHY


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