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Toward synergistic rural-urban development

The experience of the Rural Urban Partnership Programme (RUPP) in Nepal

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Acronyms and abbreviations

CM	Community Mobilizers
DDC	District Development Committee
DFDP	Decentralized Financing and Development Programme
EDP	Enterprise Development Plan
IRD	Integrated Rural Development
IRDP	Integrated Rural Development Projects
MCF	Market Centre Facilitator
RD	Rural Development
RLL	Rural Labour Linkage
RMC	Rural Market Centre
RUL	Rural–Urban Linkages
SAP	Structural Adjustment Programme
TLO	Tole/Lane Organization
UC	User Committees
UFRD	Urban Functions in Rural Development
UNCHS	United Nations Centre for Human Settlements (HABITAT)
UNDP	United Nations Development Programme
VDC	Village Development Committees
VGF	Vulnerable Group Feeding

1. Introduction

This paper argues that the dimension of territory or space is indispensable to a development strategy and that regions,¹ as the platform for human society rather than artificial division between rural and urban, should provide the unit of analysis in the development process. While macro-level reforms can provide a sound policy framework and effective incentives, it is at the regional level that appropriate interventions can be identified and implemented. This paper suggests a general framework for such an approach, and illustrates it through a case study of a district in Nepal where conscious efforts have been made to improve linkages between rural and urban areas through the Rural Urban Partnership Programme, RUPP.

The various paradigms that have dominated development thinking in the past 50 years have generally treated urban and rural areas as separate entities. Such dichotomy clearly does not fit reality, as there are many linkages among urban and rural areas. Tacoli (1998) provides a useful summary of the literature and identifies two categories of linkages:

- linkages across space (flows of people, goods, money, information, wastes);
- linkages between sectors (agricultural and non-agricultural synergies – backward and forward linkages, etc.)

Recently, the Governing Council of the UN Human Settlements Programme defined rural–urban linkages as “...*complementary functions and flows of people, capital, goods, employment, information and technology between rural and urban areas*” (UNCHS, 2004: 22). Terms such as “rural–urban exchange” (Evans, et al., 1988) “farm/non-farm linkages” (Haggblade and Brown, 1989) and “rural–urban interaction” (Potter and Unwin, 1989) recognize the functional relationship between rural and urban areas. They highlight the uneasiness with the rural–urban dichotomy as the basis for policy, and signal a break from the time when “...*rural and urban development affairs were largely handled as separate policy issues, and the linkages were not adequately translated into policy formulation and funding*” (Kammeier, 2002).

The dichotomous conceptualization of national or regional economies is at odds with the empirical findings around the world on the following grounds:

- households are both multi-sectoral (engaging in occupations that include farm and non-farm activities) and multi-spatial (with its members living in different locations, rural and urban, either on a long-term basis or on a temporary, often seasonal basis);
- urban and rural areas are interconnected (through flow of goods, people, capital and information) and therefore, urban and rural development nurture each other.

Empirical findings from around the world confirm that many households depend on both urban and rural areas for their livelihoods. For example:

- A large number of non-slum-dweller migrants in Dhaka, Bangladesh, have access to cultivable land in rural areas and small urban centres, and more than one-quarter derive regular incomes from that land. (Afsar, 1999).
- People migrate continuously to different destinations. Seasonal and circular migration dominates migration patterns (Ellis and Harriss, 2004; Douglass, 1998), but government

¹ The word is being used in a general sense meaning a large contiguous area containing towns and villages.

statistics departments are ill-equipped to report it. Such “...continuous circular form of ... migration should be explained as a consequence of rural family strategies” (de Haan, 1997).

- Potts and Mutambirwa (1998) suggest that migrants in Harare have “...a strong perception that the maintenance of rural links was essential as economic security for the eventualities of the old age and unemployment when urban expenses could not be covered”.
- Kamete (1998), in a study of a small town in Zimbabwe, found rural and urban poor people depending on both the “informal” urban economy and agriculture.
- A review of 33 household surveys from 18 African countries found that, on average, 45 per cent of rural household income was from non-farm rural activities, even in “subsistence” farming communities (Reardon, 1997).

Thus, “...straddling the rural-urban divide is, in some cases and for some groups, an important part of survival strategies” (Tacoli, 1998). It is important to note that such interaction is not between one single town and *its* hinterland. Rather, households seek livelihoods in multiple places at different times of year or during different economic, political or climatic conditions. As Douglass (1998:9) observes:

“... (W)hen seen from the household perspective, the view of the urban world is not that of a single urban centre, but is instead one of a network of rural and urban linkages and employment possibilities, including destinations abroad.”

2. Rural–urban synergistic development: framework for the current study

The literature concerned with rural–urban interdependencies has explicitly or implicitly depended on a virtuous circle of growth model (Mellor 1976, Friedmann and Douglass 1978, Evans 1992, and Douglass 1998). The virtuous circle model takes note of intersectoral (farm–non-farm) and inter-settlement dependencies. With some caveats, the proponents of such model implied that growth could be propagated from sector to sector and place to place through the linkages and interdependencies.

2.1 Entry points for virtuous circles

2.1.1 Agriculture

The proponents of agricultural growth maintain that agricultural development is the key to overall development. Such line of argument, as summarized by Evans (1992), is as follows:

“...rising agricultural incomes spur demand for food and other consumer goods, which leads to the creation of non-farm jobs and the diversification of urban activities, especially in small towns close to areas of agricultural production. This in turn absorbs surplus rural labour, raises demand for rural produce, and once again boosts agricultural productivity and incomes.”

Evans (1992) himself identified a number of circumstances where growth in agricultural productivity did not result in poverty alleviation or rural–urban development. Irz et al. (2001) provide a comprehensive list of conditions that must be fulfilled for agriculture to trigger a virtuous circle. The most relevant among these are the poor’s access to farmland, the sustaining of output prices, and the creation of jobs upstream and downstream.

The proponents of agriculture-led development generally targeted “middle” farmers (those whose landownership lies between that of large landowners and sub-subsistence peasants) on at least two grounds:

- large landowners were considered less efficient than smallholders. Empirical studies have shown that small farms are more efficient users of inputs, particularly land, for most agricultural produce;
- moreover, helping large landowners would increase their relative power in rural society, sometimes to the extent that they can accumulate productive assets (mainly land) by buying smallholders’ land. Such measures therefore, were considered less desirable, although they would have helped increase aggregate productivity.

Production linkages of agriculture are generally very short in crop agriculture. Therefore, as Hart (1998) observes, this argument is based on consumption linkages. Agricultural growth will stimulate non-agricultural activities in rural regions, which will benefit those with little or no land or other assets. But as has been identified in the aftermath of the Green Revolution, constraints on the organization of production and on social production relations might negatively affect productivity and income distribution. Moreover, crop agriculture’s low potential for value-added makes it less strong a candidate for the entry point. Nevertheless, agriculture still remains the largest economic activity in many rural regions of the world. Even where it is not the largest economic activity, it can still form part of the economic basket of the region and therefore, holds

immense potential as a sector where interventions can be made. The advent of new commercial agriculture, such as horticulture, herbiculture, and agro-industrialization has opened up new opportunities, making agriculture an avenue of renewed interest.

2.1.2 Non-farm enterprises

An increasing body of evidence suggests that rural areas have, and even specialize in, activities such as manufacturing and processing. Such specializations are rarely accommodated in standard statistical reporting practices and thus have a less strong impact on policy. Non-agricultural activities are generally referred to under the umbrella term ‘rural non-farm enterprises’ (RNFEs).

The main questions relating to the potential of RNFEs are:

- how to link household or micro-enterprises in rural areas to larger, growth-oriented enterprises in semi-urban/urban areas?
- how to assist the rural poor in enterprise development in the context of macro-policy changes, including trade liberalization? Some see small enterprises as inefficient, and vulnerable to being out-competed by larger industries that will access rural markets as trade liberalization proceeds.

RNFEs’ strength is that there are certain productive activities that are not profitable for large-scale industries. RNFEs can also take advantage of niche markets. Overall, rural non-farm enterprises provide an option as an entry point.

The specific entry points will be dictated by local conditions, but whatever entry points are identified for a particular region, a few conditions need to be met in order for the region to have a set of efficient economic linkages:

- Value-added to be retained in the local area (Evans, 2002); but the retention of all or most value-added might not be a practicable goal in the present-day circumstances of increased liberalization of economies.
- Having an export base in most cases improves the chances of creating a virtuous circle of growth, and there are proponents who see it as an indispensable condition (for example, Evans, 2002); but there are obvious alternatives, or at least significant role to be played by trade within regions. Such trade is the result of specialization at village- or cluster-of-village-level within regions.
- Another caution against sole reliance on exports is that the market outside the rural regions (national capitals/international markets) has repeatedly proven volatile. Sole reliance on a foreign market by innumerable rural regions produces conditions of monopsony (many producers, one or few buyers).

The efficient set of economic linkages can happen through forward and backward production and marketing linkages. The creation of such efficiency also has a spatial dimension. Different villages and towns develop mini-specializations such as pottery, dairy products etc. Such activities have the potential for production and marketing linkages, the spatial span of which can cover multiple villages and towns.

Support for the small and medium non-farm enterprises generally requires the removal of impediments that result from the small size of enterprises. Notable among such impediments for their survival and growth are:

- the inability to capture market opportunities that require large production quantities;
- the difficulty in achieving economies of scale in the purchase of inputs, such as equipment, raw materials, finance, consulting services, etc;
- the absence of economies of scale in the internalization of functions such as training, market intelligence, logistics and technology innovation (Cegli and Dini, 1999).

The removal of these constraints generally requires inter-firm cooperation and institutional support. Once these constraints have been removed, the small and medium enterprises stand to achieve a *collective* competitive advantage that is possible while operating in isolation. Since spontaneous cooperation among small and medium enterprises is uncommon, external agents that act as catalysts for the formation of clusters are very important.

Based on the above principles, some additional guidelines for the creation of functionally linked clusters of enterprises can be developed.

- What business(es) to support? Those that take advantage of local resources or who could take advantage of a potential linkage with the outside. Rural regions generally have some resource endowment to exploit. On the other hand, linkages may create potential business opportunities of diverse nature. For example, peri-urban areas can take advantage of the market for perishable high-value agro-produce in the city. In Taiwan and South Korea, rural household-based sewing and knitting started to work as a feeder for the urban garments industry (Epstein and Jepeth, 2001).
- What size of enterprise to help create synergistic rural–urban development? The size of enterprise is an important issue in the discussion. While large enterprises or manufacturing units are thought to achieve more economies of scale, empirical evidence from around the world suggests that such manufacturing units in small towns are oriented towards the national and international markets, and seldom use local raw materials² (Hinderik and Titus 1998 in the African context). Small enterprises, on the other hand, present a different set of problems and opportunities. For a number of manufacturing and processing activities (such as cottage weaving, artisanal food-processing), the production itself, to a large extent, is scale neutral. Another characteristic of small and medium enterprises that make them a viable tool is that there are many productive activities that are not feasible for corporate manufacturing. Furthermore, small and medium enterprises stand to cater to niche markets.
- The nature of functional linkages: linkages among enterprises need *not* be confined to the same sector, as we conventionally know them (such as livestock, cereals, cottage weaving etc.). Very often, such linkages will need the creation of common institutions such as information generation, skills training, facilitation of marketing, and even building of social capital among entrepreneurs. So, it is at the level of pre-production and post-production that economies of scale and agglomeration are important. The clustering of enterprises, and building social capital among small entrepreneurs is thus of immense importance (particularly in the context of the present study).

² Except in the case of large agro-processing industries, which appear to be outnumbered by other categories of industries as evidenced in literature on small towns (Sharp et al., 2003; Titus and Hinderik (editors), 1998).

The agricultural, processing and manufacturing sectors cannot strengthen and sustain local linkages by increasing (aggregate) productivity alone. In the absence of measures to ensure the poor's access to productive assets, increased productivity does not necessarily result in poverty alleviation. Therefore, there is also a need for reducing social obstacles that result in prohibitive transaction costs for the poor, the inability to respond to the macroeconomic incentives, and a weak negotiating position. No spatial model can ignore these variables and hope to provide the basis for sound policies.

Thus, synergistic rural–urban development, because of the reciprocities and linkages between rural areas and urban centers, requires complementary investments in both rural and urban areas, while keeping an eye on the institutional and governance aspects of rural life (Figure 1).

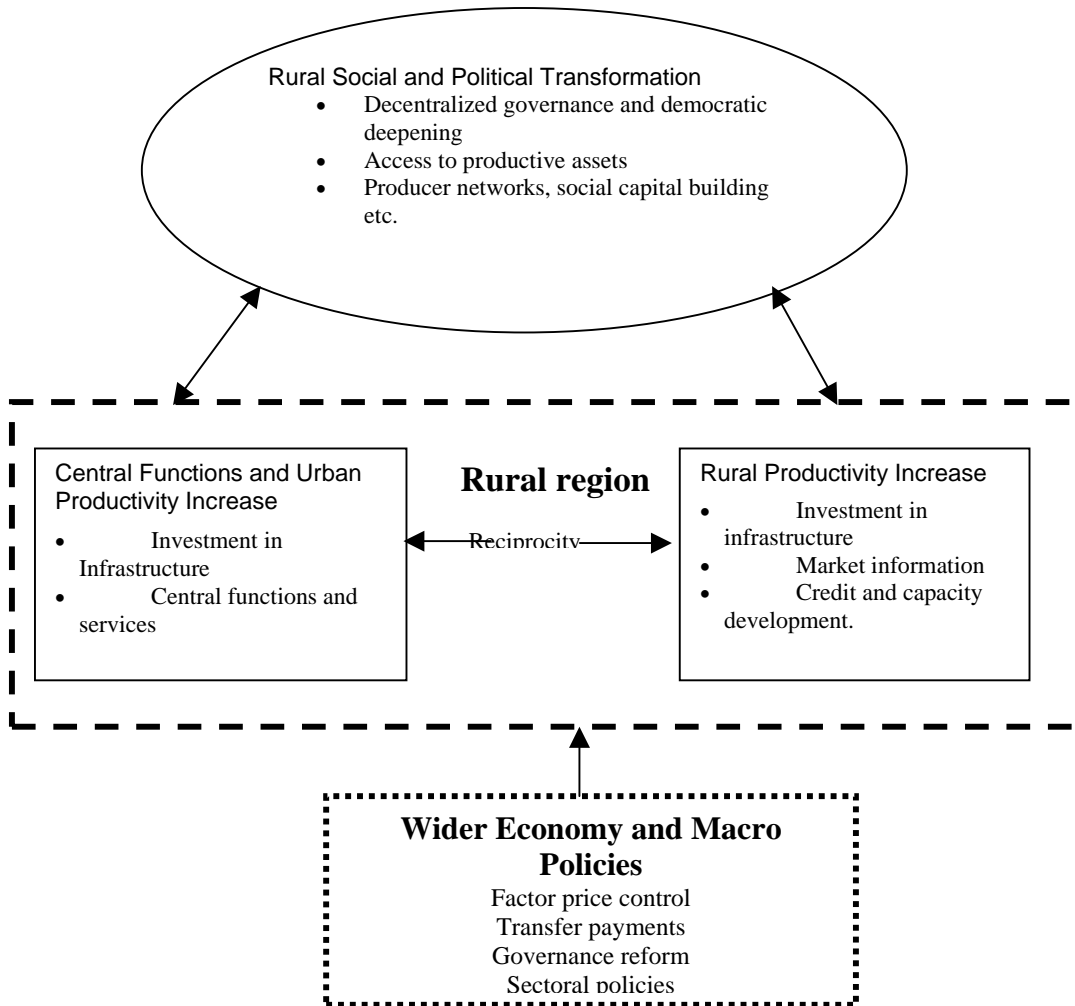
The creation of linkages in a territorial unit will involve:

- the identification of functionally linked businesses, or the promotion of businesses that use local resource endowments and help build linkages;
- facilitating forward and backward linkages to ensure that value-added is substantially retained in the area. Market forces very often do not create these because of high transaction costs and/or imperfect information.

Substantial investment will be needed for some of the linkage effects to take place, for example in road building, storage facility construction etc., which have traditionally been subsidized by the government. Under structural adjustment programmes, subsidized investments have become rare, but private investment has proved difficult to attract. Nevertheless, there appears to be signs of a paradigm shift among international organizations towards more comprehensive investments in rural areas (as opposed to the “soft” interventions of the 1990s in the form of participation, empowerment and institutional building). Such a paradigm shift is conducive to the framework outlined here.

It is within this framework that the pattern of rural–urban linkages that is evolving from the Rural Urban Partnership Programme’s contribution in the district of Rupendehi, Nepal, will be studied.

Figure 1: A Framework for Synergistic Rural Urban Development



2.2 Recent “Rural–urban linkage” programmes around the world

This short review offers a snapshot of different programmes around the world, and their underlying models. It must be noted however, that a categorization of projects into those that are spatially aware (or territorial) and the rest (mainly sectoral) is a rather arbitrary task. This paper describes two programmes that promise to be instructive for the framework developed in this paper (although not because of their conformity to the framework).

2.2.1 Poverty alleviation through rural–urban linkages (PARUL)

(PARUL was renamed in 2002 as Partnerships for Local Economic Development – in Indonesian, *Kemitraan bagi Pengembangan Ekonomi Lokal* or KPEL).

PARUL was launched in 1999, with Bappenas (the central planning agency) as the executing agency, with funding provided by UNDP and technical assistance from UN HABITAT. The concept of PARUL is succinctly described by Evans (2002), who served as chief technical adviser for the programme:

“PARUL aims to integrate lagging regions into the mainstream economy, by connecting producers to markets within the region and beyond, focusing on clusters of economic activities associated with key local export commodities. Central to this approach is an institutional component based on public–private partnerships between (local) government and the business community (both producers and medium to large tradesman), whose function is to generate initiatives and mobilize resources to strengthen rural-urban linkages for production and trade.” (citing Evans, 2001.)

Thus, PARUL deliberately attempts not to be comprehensive across all economic activities, but focuses on one sector (one commodity to be precise) that has the potential to earn money from outside the region. Examples include cashews in South Sulawesi, coconuts in North Sulawesi, offshore fisheries in Papua, etc. The entry point in PARUL’s strategy is to choose one agricultural commodity in each region and facilitate its production and marketing while ensuring that the income benefits the poor.

It is unclear, however, how incentives in one agricultural commodity create forward and backward linkages within the local economy. The creation of marketing linkages might not guarantee that most of the value-added is retained in the local economy. More practical problems, as documented by Evans (2002), include the fluctuating dollar exchange rate and produce prices, and the unwillingness of trans-regional or international importers to commit for a long time. There appears to be a dearth of evaluation studies of the project’s interventions, but a study of small and medium enterprise clusters (including non-PARUL clusters) in Indonesia found that there was little social networking among small and medium enterprises and little cooperation and economies of agglomeration even when they were geographically concentrated (GOI and JICA, 2004)

PARUL provided the seed and impetus for the formation of Partnerships for Local Economic Development (or KPEL) that Bappenas undertook in 2001 with no assistance from PARUL donors. The ongoing decentralization in Indonesia meant that KPEL morphed more into a programme to help local governments play an increased role in local economic development. The envisaged role included the establishment of “...*participatory mechanisms and tools to engage citizen groups and the private sector in agreeing on priorities for local development and in sharing responsibility for implementing such priorities.*”³ The local development strategies adopted by the sub-national governments would provide an interesting insight into the policy models underlying them. However, the development of regional governments with help from the KPEL programme is beyond the scope of this paper and will not be discussed here.

2.2.2 Micro-regions in Mexico

The programme for micro-regions in Mexico also tries to take a territorial approach to the economy. The programme “...*seeks to:*

- *derive added value from locally under-used resources relative to current potential;*

³ Speech by A Klap, Deputy Resident Representative, UNDP, Indonesia on 26 August 2002. Available online and retrieved 3 January 2005 from http://www.undp.or.id/statements/2002/20020826_drrspeech.asp

- *integrate rural and urban activities in a territorial dimension centred around regional economic projects; and*
- *incorporate the rural poor into the employment and investment opportunities created by local growth.* ” (de Janvry and Sadoulet, 2004:1)

This description reveals little of the actual *modus operandi* of the project. As in the case of KPEL in Indonesia, there appears to be a dearth of material in English.

Nevertheless, available information suggests that the strategy is centred on strategic community centres, which concentrate populations (purely voluntarily) for the delivery of social services, infrastructure and the clustering of economic projects. These centres are where services and infrastructure (namely, “...*electricity, health, telephone services, community training centres, hard floors, sanitation, roads, education, piped water, commercial outlets, and productive projects*”⁴) are provided. Investment in these centres is expected to attract households from the dispersed rural settled areas in Mexico that are on “the margin”. The strategy emphasizes the role of local government at different levels (national, regional, municipal) during the investment process. The micro-regions strategy is being implemented on a large scale and is providing the most marginalized areas in 1,340 municipalities with social infrastructure.⁵

Overall, the strategy lacks a rural component and smacks of Urban Functions in Rural Development⁶, with an increased emphasis on productive activity and decentralized decision-making. In the absence of authoritative evaluation studies, the strategy’s contributions and effectiveness cannot be ascertained as yet.

⁴ From an earlier draft by de Janvry and Sadoulet (2004).

⁵ Source: <http://www.mexconnect.com/MEX/lloyds/llydeco1004.html> (retrieved 7 January 2005)

⁶ Urban Functions in Rural Development (UFRD) advocated that the most effective and rational spatial strategy for promoting rural development is to develop a well articulated, integrated and balanced urban hierarchy (Johnson, 1970, and Rondinelli and Ruddle, 1978). As the name suggests, this approach attempted to provide the functions required for rural development in small towns. The underlying assumption was that the presence of the functions in the close proximity of rural areas will “increase production and exchange between rural and urban areas” (Rondinelli and Ruddle, 1978: 30). In the most famous experiment of this principle in the Bicol river basin in the Philippines in the late 1970s, provision of services such as consumer convenience centers, linkage to (inter-)national markets for selling rural produce, production supply and support centers did not result in the development of rural areas. The reason was that in the absence of a thriving economy and purchasing power in the rural areas, there was no demand for such services. An evaluation study a decade after the commencement of that program found that the towns themselves were stagnating (Koppel, 1987). A general critique of UFRD as a strategy is that even when services and facilities are physically proximate, social structure might prevent a large section of the population’s access to them (Begg, 1992).

3. Setting the scene for the present study

One purpose of this paper is to develop a policy framework for synergistic rural–urban development. In order to do so, this study reviews the intervention of the Rural Urban Partnership Programme (RUPP) in and around the municipality of Butwal in Nepal. It must be pointed out that this paper is not intended as an evaluation of RUPP’s activities in Butwal *per se*. Rather, it is intended more as a detailed look at RUPP’s *modus operandi*, thereby gaining insights for synergistic rural-urban development.

Such a study of RUPP’s modality is important because, as the brief reviews of PARUL (KPEL) in Indonesia and the micro-regions strategy in Mexico revealed, without detailed examination of how the theoretical frameworks play out on the ground, policies are vulnerable to being out of touch with reality.

3.1 Selection of the study area

The framework developed here requires that a region⁷ must be the spatial unit of planning, but RUPP operates with municipalities and rural market centres (RMCs) for, as its slogan suggests, “urban-based local development”. To fit the framework, this study reviews the district of Rupendehi, where Butwal municipality and all the associated RMCs are located, and takes the district as the spatial unit under study. As this study is concerned with the RUPP model’s potential in synergistic rural–urban development, this subtle difference is important because the lynchpin of the framework is a contiguous area as the planning unit.

3.2 Development planning in Nepal

Nepal ranked 144th (among 174 nations) in the Human Development Index in 2000 (UNDP, 2001). It measures approximately 885 kilometres long and 193 kilometres wide, has an area of 147,181 square kilometres, and had a population of 23,151,423 in 2001 (CBS, 2001). There are three distinct physiographic/ecological areas consisting of three narrow east–west-lying strips of land: the mountains in the north, the hills in the middle and the plains (known as Terai) in the south (Figure 2).

⁷ The term “region” is used in a generic sense here, meaning a contiguous geographic area comprising both town(s) and rural areas.

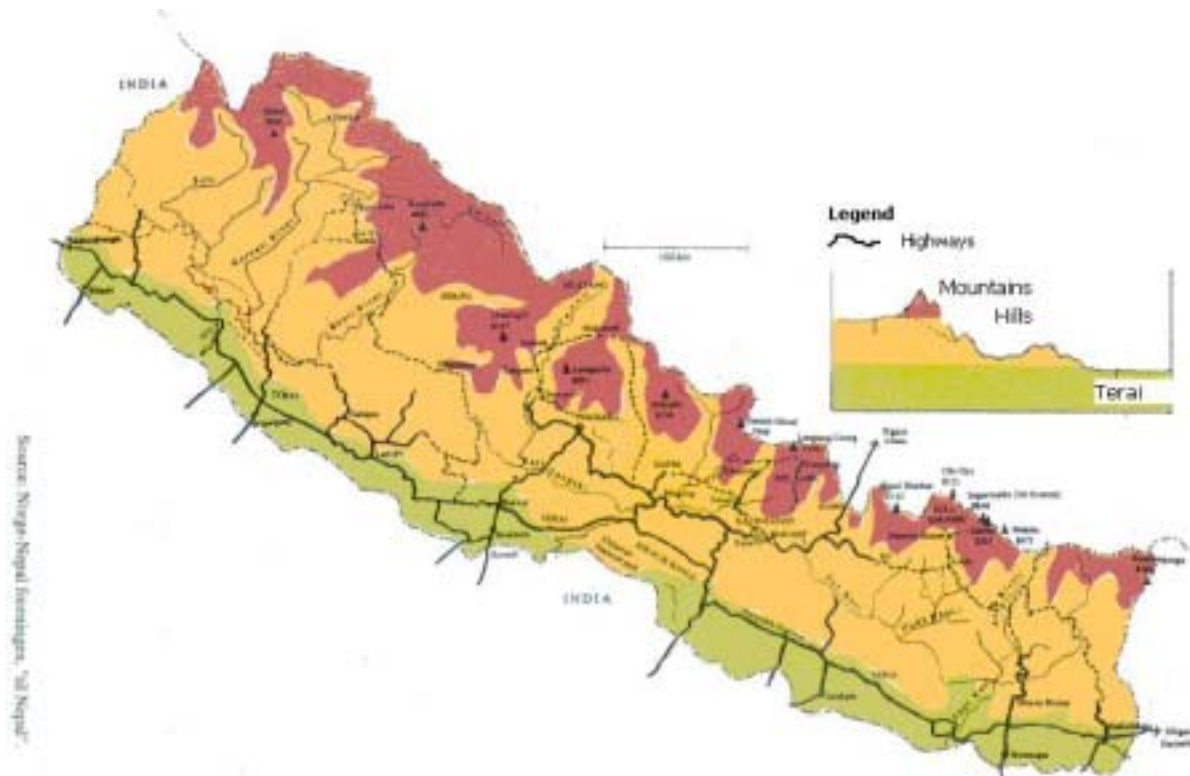


Figure 2: Agro-ecological Zones in Nepal

The mountain, hill and Terai regions respectively account for 35, 42 and 23 per cent of the total land area, and 7, 46 and 47 per cent of the total population. The regions have a very uneven population distribution, ranging from as little as four persons per square kilometre in the Dolpa district of the mountain region to as many as 2,270 persons per square kilometre in the Kathmandu district of the hill region (WFP, 2001). The country is divided into 75 administrative districts, grouped into 14 zones and five development regions (Figure 3).

Nepal is an agricultural country with more than four-fifths of its population living in rural areas. Around 40 per cent of its GDP originates from this sector. Land distribution is very skewed, resulting in an uneven distribution of income. The Nepal Living Standard Survey of 1996 shows that in nominal terms, the bottom 80 per cent of households earn 50 per cent of total income, while the top 20 per cent earn the other 50 per cent. Nepal is still at a very low level of development, with an annual per capita income of only US\$ 220 (UNDP, 2000).



Figure 3: Administrative Units (Districts and Regions) in Nepal

Despite the fact that several statutes enabling local governance have existed in Nepal for decades, the country generally remains mostly centrally governed. The central government, with its Kathmandu-based bureaucracy, traditionally exercised almost exclusive power over matters of development in different sectors. But the hegemony of central government, as practiced in Nepal, has turned out to be inefficient, and on occasion dysfunctional, as the quote below suggests:

“Cooperation among ministries at the national level is minimal. This lack of integration reaches down to the district level, undermining the government’s rural development policies. One may find the Irrigation Ministry digging canals at one end of a district while the Agricultural Input Corporation, under a different ministry, is dispensing all its fertilizer at the other.” (Bienen et. al, 1990)

In a landmark law facilitating decentralized governance and local development, the Local Self-Government Act (LSGA), 1999 and Rules of 2000 devolved very important functions (listed below) to the local governments. Nepal has a two-tier system of local governance, with village and municipal bodies as the lower tier and district bodies as the higher. The village bodies are called village development committees (VDCs), with municipalities⁸ serving the same function in town areas. The district bodies are the district development committees (DDCs). The LSGA 1999 gave the DDCs substantial powers and responsibilities that are not common in many countries in the world. Some of these powers, which are relevant to the study framework, authorize the DDCs to:

- open sectoral units to take over the work of government line agencies; and
- hire their own professional staff.

It must be noted though, that the implementation of the law remains stalled with consequences for a geographically targeted program such as RUPP.

⁸ The Nepalese word for which is *nagarpalika*.

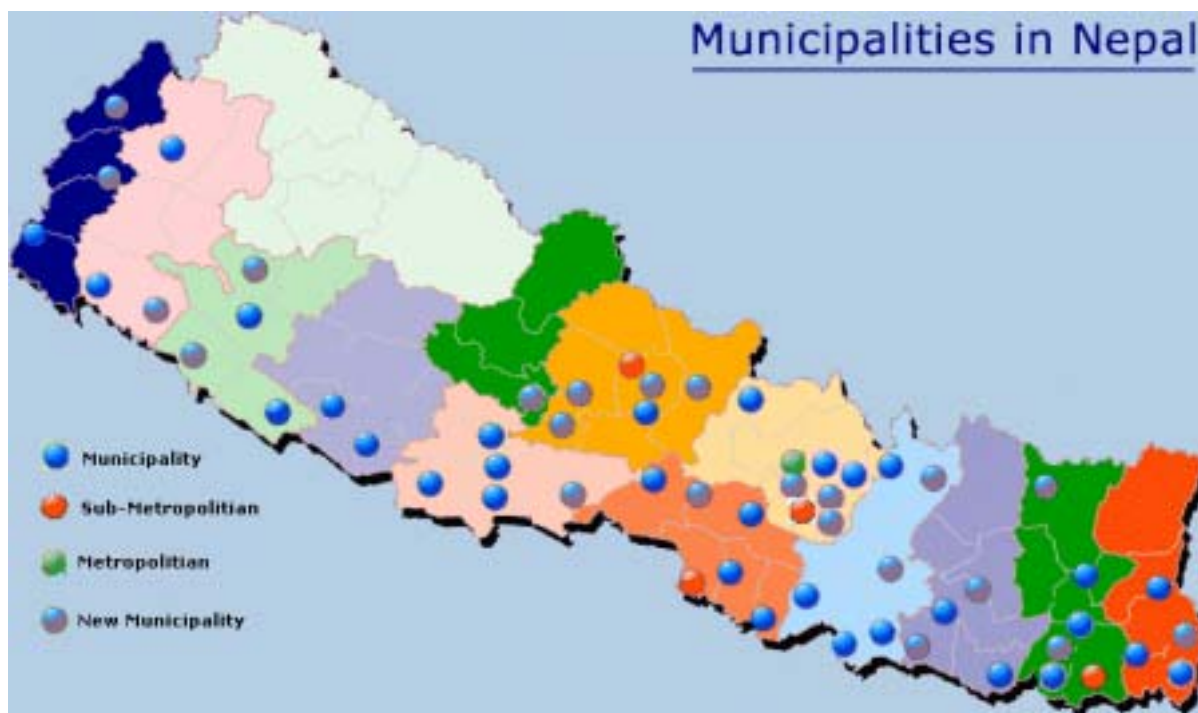


Figure 4: Municipalities in Nepal

(Source: Municipal Association of Nepal,
www.muannepal.org/municipalities/municipalities.php)

The biggest development challenges facing Nepal are the internal conflicts between the armed Maoist activists and the state. But there are many policy issues related to development of different sectors in Nepal that can and need to be addressed. Agriculture, being the largest sector, has been the subject of major policy interventions. Throughout the 1990s, Nepal failed to substantially increase irrigated land in the country. The removal of subsidies for shallow tube wells in the late 1990s had an adverse impact on the development of irrigation (NPC, 2002). The slow growth in agriculture, or even decline, in Nepal deprives overall development efforts of a major means of generating growth and development in rural areas. An almost stagnant economy is also changing the social fabric in rural areas.

The disruption from political instability lessens the rigour of a study of RUPP. If certain undesirable consequences are observed, it is not evident if this is from a failure of the model and modality, or simply a result of disruption. Nevertheless, this study is not meant to be an evaluation of RUPP, rather a way of gaining insights into ways and means of attaining rural-urban synergy.

3.3 The district of Rupendehi

The district of Rupendehi is located in the Terai region of the Western Development Zone (Figure 4). It borders the districts of Palpa to the north, Nawalparasi to the east and Kapilbastu to the west, and the Indian state of Uttar Pradesh to the south. It has an area of 1,401 square kilometres and has a population of 690,000. The district's dependency ratio⁹ of 52.2 is the 72nd worst among the 75 districts in Nepal (CBS, 2003 based on 2001 census data).

⁹ Expressed as the ratio of number of person aged 0-15 and 60+ to the population aged 15-59 expressed in 100.

Agricultural land accounts for 64 per cent of the total district area, while forest occupies 28 per cent. On average, the per capita land holding is 0.17 hectares and in 1993, 62 per cent of households in the district had less than one hectare of land. Of the total irrigable land area (88,417 hectares), about 51 per cent is under irrigation, and sugarcane, paddy, wheat, potato, oilseed and maize are the principal crops. Rupendehi has a food deficit of 24 per cent when comparing food requirements to food supply. There are around 450 persons per hectare of agricultural land and at present levels of productivity, such a land to man ratio is inadequate for local food sufficiency. The district has 2,008 small and cottage industries and 140 manufacturing industries.

Rupendehi district contains several of the linguistic minority populations in Nepal. Latest census data (from 2002) suggests that Bhojpuri is the most commonly spoken mother tongue across the district as a whole, while Nepali is the state language. The ethnic and linguistic minority populations mostly live in the district's southern VDCs; these same VDCs are generally also the poorest.

3.4 Rural Urban Partnership Programme (RUPP)

Because of its operational modality and considerable success in achieving its objectives, RUPP offers an important opportunity to gain insights into the process of local development. In this subsection, RUPP's modality is explained to establish the backdrop for the case study in a particular geographic area (i.e. Rupendehi district).

3.4.1 History, coverage and organogram

The Rural Urban Partnership Programme was launched in 1997 as a joint effort of His Majesty's Government, Nepal, the National Planning Commission, the Ministry of Physical Planning and Works (MPPW), the Ministry of Local Development (MLD), UNDP and UNCHS. At the outset, the programme established partnerships with 12 municipalities, and its activities are implemented by the Partnership Development Committee (PDC) of the municipalities through their secretariats, which are called support organizations. The considerable success of RUPP in community mobilization later encouraged five more municipalities to seek technical assistance (mainly in the form of transferring organizational know-how) from RUPP. These five additional municipalities are referred to as replicating municipalities.

At the end of the programme, the trained personnel and the logistics become part of the municipality, enabling RUPP's activities to continue despite the withdrawal of central support from national government and international donors. RUPP's basic strategy is to be rooted in local government; however, in practice, RUPP's modality is rooted in *urban* local government, as identified above. Reliance on urban local government for local/rural regional development might cause incongruence, but for a new programme trying to find a way into a rural region, urban local governments offers the most promising entry point.

The policy model underlying the design of the programme can be understood from the following extensive quote from the website of RUPP:

“Most development projects and programmes in Nepal have strictly concentrated on addressing either rural or urban development problems and needs. They have encouraged an institutional culture largely associated with sectoral approaches to development. Sectoral approaches to development tend to direct resources towards development in isolation, with little impact on people's livelihood. These approaches may have made certain

isolated impacts; however, improvements in the situation of both rural and urban poverty are not significant. Lack of focus on rural–urban linkages, and application of largely sectoral approaches to development have diverted development investments away from addressing the priority problems at the local level.” (Source: www.rupp.org.np , retrieved on September 30, 2003).

Therefore, RUPP bypassed a sectoral approach and has attempted to base all interventions at the level of the municipality. RUPP’s major interventions are institutional development, community mobilization, enterprise creation and small-scale infrastructure development. A brief description of each component follows this sub-section.

The programme started with a delineation of market *regions* and market *zones*. RUPP reasoned that existing flows of goods and people should reveal the pattern of economic connectivity across settlements and, accordingly, flows of goods and people were studied to delineate market regions. Three major market regions were identified in Nepal with each of them comprising multiple contiguous districts. Within the market regions, key municipalities were identified on the basis of their high “economic potential” (RUPP, 1999). The economic potential criteria included type and number of functional units, road connectivity and population size of the municipality. These, together with a last criterion, the willingness of the municipality officials to join the programme, provided a final list of municipalities for the programme. Getting the local government office incumbents on board ensured that the programme would have the necessary patronage at the incipient stage of RUPP.

The study of the flows further identified the market zone of each municipality.¹⁰ Once the market zone for each partner municipality was identified, the rural market centres (RMCs) within the market zone were selected for inclusion in the programme activities. Those RMCs that had pre-existing development programmes (such as Participatory District Development Planning, Local Governance Programme, Parks and People Programme, etc.) were given higher priority. The actual criteria for selecting RMCs were:

- type and magnitude of functions;
- road connectivity with rural homesteads; and
- proximity to the partner municipality.

As with the selection of municipalities, the commitment of the local government officials (the VDCs) was taken into account. The whole selection process yielded 12 partner municipalities and 31 RMCs. By the third phase (April 2004-March 2007) of RUPP, the rural-urban partnership modality was installed in 30 municipalities and 49 rural market centres (RMCs).

3.4.2 Institutional development (community mobilization)

An important component of the programme is to increase the capabilities of local government bodies to conduct local development.

Community mobilization was seen as the main tool for implementing activities at the local level, which took place at the lowest spatial level, namely the lane (*tole*, in Nepalese). Five to seven field-

¹⁰ The study defines these terms as follows: The **market region** is “...a closely linked network of urban centres, market centres and rural settlements”, whereas the **market zone** is “...an area where there exists a mutually beneficial linkage between the centre itself and its hinterland” (RUPP, 1999).

level staff were appointed as community mobilizers (CMs) in each of the 12 partner municipalities, and they organized community people into small associations. In the rural market centres, these community workers are known as market centre facilitators (MCFs). The community associations, called *tole/lane* organizations (TLOs), comprised the households in a contiguous area in the municipalities, or RMCs. Once established, the TLOs had the option to raise funds through member contributions, and were entrusted with the preparation of *tole* development plans (TDPs) and enterprise development plans (EDPs).

TDPs are the physical and other infrastructure development plans prepared by members of the TLOs, and which serve as the basis for physical infrastructure expenditure in the *tole*. The EDPs are proposals by the group enterprises formed by TLO members as a condition of lending. A brief description of both infrastructure and enterprises is provided later on in this section.

RUPP's community mobilization process has been so successful that the Ministry of Local Development has decided to replicate these community associations in other municipalities in Nepal, and to make them a legal entity. TLOs have been RUPP's most important success to date.

3.4.3 Training and capacity building

RUPP's building block is capacity building at the local level. RUPP took extensive measures to train personnel working at different levels, including TLO members, municipality and VDC staff, and national-level officers. Such training generated the skill and enthusiasm that are widely regarded as the catalysts for the success that RUPP has enjoyed. Such diverse programmes as skills training for potential entrepreneurs, Participatory Municipality Development Planning (PMDP) and Participatory Village Development Planning (PVDP) have been provided to mayors, deputy mayors, VDC chairpersons, ward members and TLO representatives of partner municipalities and RMCs.

The training component of the programme has been categorized into four major types: community enterprises training, human resource training, programme staff training and additional training. Community enterprise training, which includes skills transfer, enterprise management and technology transfer, and rural labour linkage (explained underneath), is conducted for potential community partners for maturation as well as for skills development.

3.4.4 Enterprise development and the creation of economic opportunities

One of the most important components of RUPP for the partner municipalities and the associated RMCs is the creation of enterprises. As identified above, TLOs provide the platform for their creation, and the EDP outlines the enterprises that the TLO members propose to establish. Through training and financial assistance, RUPP attempts to create three types of enterprise:

- linkage enterprises: collectively owned by 2–5 members of a TLO;
- rural labour linkage enterprises (RLL): run by occupational caste members (underprivileged castes) – can be owned by a single entrepreneur; and
- technology transfer enterprises: enterprises that help spread know-how in the locality, for example concrete sanitary latrine manufacturing, jewellery, pickle-making, etc.

The formation of linkage enterprises is conducted through a prescribed process. RUPP supports selected economic enterprises based on their potential to promote and strengthen rural–urban

linkages. Members of a TLO must form a group (typically 2–5 persons) and must elect a chairperson. The groups are given training in enterprise management skills before they are offered credit, and they are required to generate a certain amount of equity. An average of Rs. 20,000–25,000 (US\$ 266–333) is offered to each group enterprise and group members remain collectively responsible for the RUPP loan. Up until 2001, RUPP had created 4,992 such enterprises in 12 municipalities. Common business activities include vegetable and fruit trading, food processing, handicraft trading, herbs trading, milk collection and selling, metalworking, and various services such as hair cutting, tailoring and small retail stores.

The technology transfer and rural labour linkage enterprises, on the other hand, are exempted from the requirement of being group-owned, and thus can be owned and operated individually.

3.4.5 Development of small-scale infrastructure

RUPP also provides funds, known as seed grants, which are often complemented by TLOs' own funds raised from member contributions, for small-scale infrastructure such as tertiary road construction, market places, mountain trail reconstruction, etc. In practice, RUPP has only been able to build small- to medium-sized projects mainly due to the small budget that it operates with.

3.4.6 RUPP's expanding array of mandates

RUPP's remarkable success in a number of areas, for example the creation of community associations (TLOs), bringing together a large number of highly skilled and dedicated field-level staff, and an efficient administrative set-up, has not gone unnoticed. As the exigencies demanded, several components have been added to RUPP's functions that have no immediate connection with rural–urban linkage or urban-based local development. Such exigencies include programmes on HIV/AIDS prevention, facilitating internally displaced persons (IDPs), etc.

3.4.7 Development efforts in the district of Rupendehi

As in most other developing countries, development efforts in Nepal are generally planned and carried out by national-level bureaucracy and different ministries. Moreover, different donors have different support programmes in the country that often do not complement each other to the fullest extent possible. The district of Rupendehi features in a number of projects and programmes, and a brief review of these is given here.

The **Participatory District Development Programme (PDDP)** is a major programme in Nepal and is supported by UNDP and NORAD in 30 out of 75 districts. At the *micro* level it aims to provide support for improving the governance system and social empowerment process at the village level through the development of self-governing community institutions. These community institutions are very similar to the RUPP's TLOs, and PDDP has its own community mobilizers who helped create these associations. Once RUPP expands to these areas, the creation of new TLOs will merely create overlap, and could be counter-productive. At the *meso* level, PDDP provides support for the strengthening of development programming and management capabilities of the district development committees (DDCs). At the *macro* level, PDDP supports the National Planning

Commission (NPC) and the Ministry of Local Development (MLD) to formulate policies that reflect and support local-level development initiatives.¹¹

Tourism for Rural Poverty Alleviation Programme (TRPAP) is implemented by the Ministry of Culture, Tourism and Civil Aviation with technical and financial assistance from UNDP, DFID and SNV/Nepal. TRPAP aims to reach out to some of Nepal's poorest rural areas by developing, promoting and marketing rural tourism. Being a community-based tourism programme, it uses tourism as a vehicle to reduce poverty. Rupendehi district, the birthplace of Lord Buddha, has an important resource for attracting tourists. As of 2005, the programme is ongoing and its impacts are not clear yet.

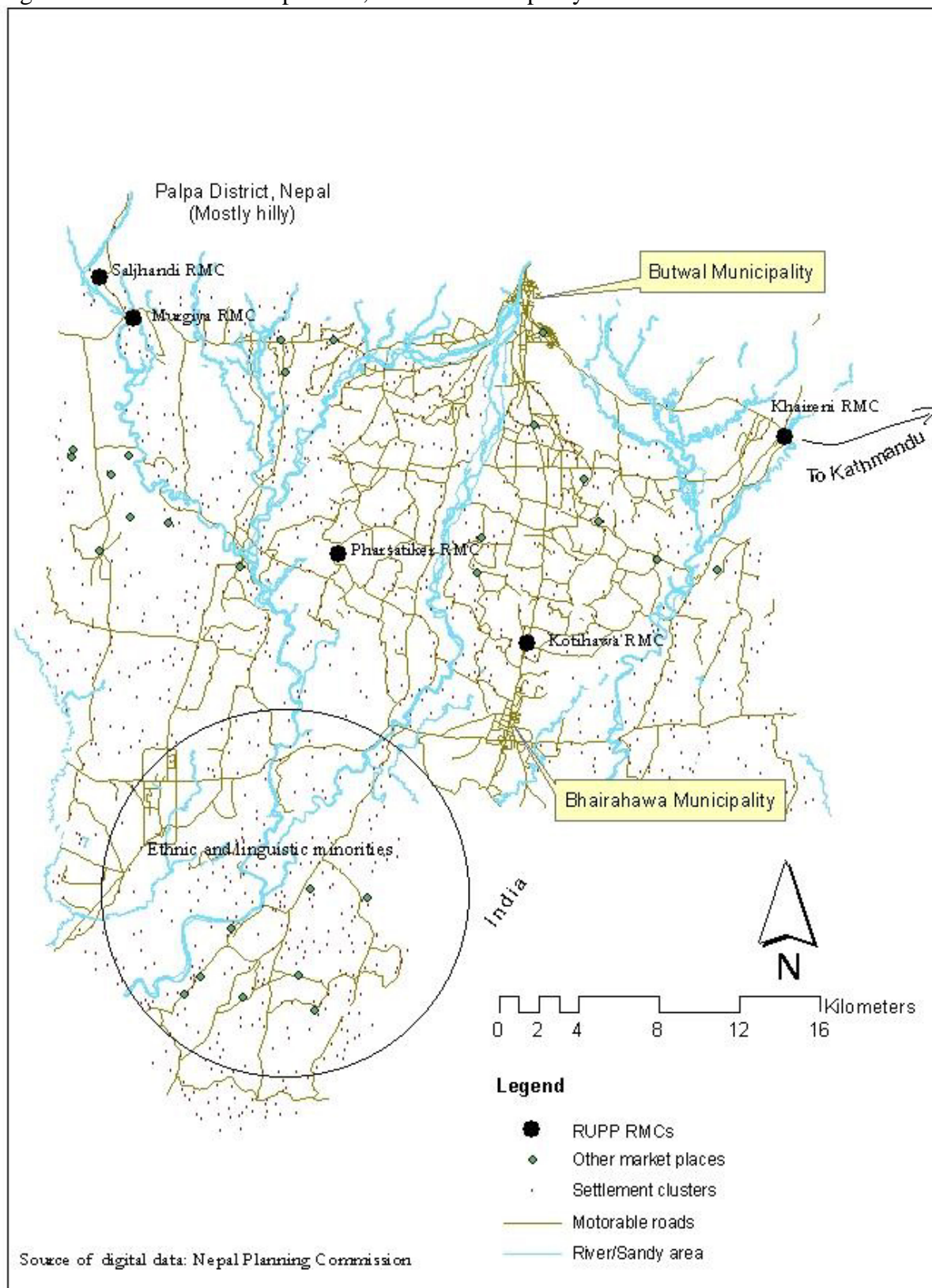
The **Decentralized Financing and Development Programme (DFDP)** (previously, the **Local Development Fund Programme**), a countrywide programme to help local governments establish micro-infrastructure, is being implemented in the district. The programme is led primarily by the district development committee (DDC). The VDCs and user committees (UCs) also propose and implement smaller projects. The infrastructure projects currently being undertaken are small projects such as culvert construction, school expansion, small-scale drainage improvements, etc. The activities of this programme have the potential to complement RUPP's interventions, particularly the seed grant initiative.

The implementation of DFDP, however, leaves room for further improvement. A review study (DCL, 2003) revealed that project selection, technical design and construction supervision could be improved to ensure that the micro-infrastructure projects meet local needs more effectively. Once improved, the infrastructure projects stand to provide regenerative capital and help improve local productivity, while improving environmental conditions in the district.

Development activities that are common in rural areas around the world, such as the building of roads and other communication infrastructure, marketing facilitating etc., have been less rigorous in Rupendehi over the past few years (except for the small-scale infrastructure projects that RUPP has built in the peri-urban areas and in the rural market centre areas). In the rural areas outside of RUPP's geographic coverage, there has not been much infrastructure building in the past several years, and this stagnation has had an important bearing on RUPP's effectiveness and on the overall development of the district.

¹¹ (Source: <http://www.pddp.org.np/pddpbrief.htm#main>)

Figure 5: The District of Rupendehi, Butwal Municipality and RUPP RMCs



4. A study of RUPP in Butwal municipality

This chapter describes a field study conducted in and around Butwal, a partner municipality in RUPP–Nepal, with the aim of understanding first, the nature of RUPP’s enterprise linkages and second, the extent of decentralized governance, community mobilization and empowerment created by RUPP’s intervention. By examining the social, administrative and resource context of the district of Rupendehi, RUPP’s contribution to the overall process of creating growth linkages is also addressed.

4.2 A brief introduction to RUPP–Butwal

Butwal is a medium-sized municipal town in Nepal, and is one of two municipalities in the district of Rupendehi, the other being Siddharthnagar (Figure 6). With a population of 44,272 in 1991, it was the fourteenth largest municipality in the country, and its 2001 population was estimated at around 76,000. The municipality covers 7,953 hectares, of which more than 66 per cent is forest and 4 per cent agricultural land (Butwal Municipality, undated). This high proportion of “urban” land under forests reflects a general trend in Nepal, where towns often have administrative boundaries extending well beyond built-up areas. In Butwal, only a small portion of the town is of urban character (in terms of population density and economic activity, and built character). The municipality originated as a trading place by virtue of its location at the meeting place of Terai and the hills, and trading continues to be an important activity in the area. But the municipality has also developed an industrial base, with 58 medium-sized industries, many of which are located on an industrial estate.

RUPP started in Butwal in 1999. Four of the five RMCs selected for RUPP interventions are located on inter-district highways, while the fifth, Pharsatiker, is located on a rural road (Figure 5). The furthest RMC is located 24 kilometres from the municipality, while the nearest is 12 kilometres away.

The community mobilization programme in Butwal has been a remarkable success whereby all legal¹² landowning households were brought under community mobilization. The TLOs are particularly cohesive in the areas outside the core of Butwal. To date, RUPP–Butwal has created or supported around 600 enterprises, about 500 among them being group (linkage) enterprises. Other enterprises include enterprises by members of disadvantaged castes, and also technology transfer enterprises, such as the manufacture of concrete slabs for sanitary latrine, jewellery, etc. The creation of enterprises involved both financial support and operational/skills training from RUPP.

As in the case of other partner municipalities, RUPP–Butwal also has a component for small-scale infrastructure provision. Through seed grants, it has helped in the construction, improvement or maintenance of 33 small projects in the VDCs focusing on:

- paving rural market places;
- culvert construction;
- small link roads (both new and the expansion of existing ones); and

¹² Households in the squatter settlements were not brought under community mobilization because the municipality considers them to be illegal settlers. During RUPP’s fourth phase (2004–2006), households that have lived in any type of settlement (legal or illegal) for more than one year were brought under community mobilization.

- irrigation canals.

In the process, RUPP gave approximately US\$ 16,500 as grants to the people’s committees, who contributed similar amounts to the projects and acted as the supervising authorities for these. On the whole, RUPP has been able to make this community–donor–local government partnership work to significant effect.

4.2 Case study methodology

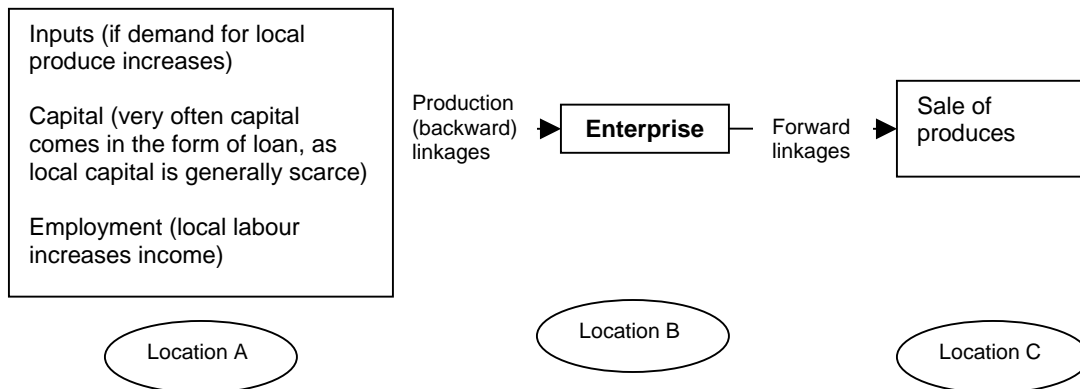
The municipalities in which RUPP is working are located in regions with different physiographies, resources, demographic compositions and economies. Therefore, it is understandable that the nature of linkages will also be different in different areas. Nevertheless, the limited resources available for this study preclude investigation in more than one municipality. Since this study is trying to look at the impact of enterprises, it requires the presence of enterprises that are doing good business (as opposed to being precarious or becoming non-functional). RUPP–Butwal was chosen for this study, as it was one of the better performing municipalities within RUPP. The five rural market centres, namely, Kotihawa, Khaireni, Murgiya, Pharsatiker and Saljhandi, which are associated with RUPP–Butwal, were also chosen for the study (Figure 5).

Information was gathered on the following broad areas:

- the forward and backward linkages of the enterprises (places of procurement of inputs by quantity and by frequency);
- information on the discontinued businesses (reason for closure, or change to another business); and
- the socioeconomic, political and administrative setting of the region (Rupendehi district).

The first two areas involved primary data collection, while the third involved information from a variety of secondary sources.

Figure 6: A Framework for Understanding Linkages of Enterprises



As in any productive activity, enterprises have forward and backward linkages. The location of such linkages is crucial to local development (Figure 7) as it provides important information (although not sufficient) about the impact on the local economy. Obviously, if all inputs are coming from the

outside, there is substantial leakage.¹³ Figure 7 therefore emphasizes the point that the location in each transaction, and value-added, is an important issue for investigation.

As in any productive activity, enterprise linkages have three multipliers:

- direct (profits and wages);
- indirect (value-added for suppliers or job-created in the supplying firms); and
- induced or consumption (expenditure by the owner/employees of the enterprise or the suppliers in the economy).

Despite the fact that induced or consumption linkages constitute a large part of local growth linkages, this study does not include the consumption linkages of the RUPP enterprises because of time and financial resource constraints. The same constraints confined the study to those enterprises that were trading in any of following categories of agricultural goods (including livestock and fisheries): milk, buffalo, vegetables, goat trading, poultry and chicken meat, and grain trading.¹⁴

Only the enterprises that were *in business* were studied. Community mobilizers (for the municipality) and market centre facilitators (for the RMCs) were asked to identify those enterprises that had shut down or had become non-linkage businesses (i.e. businesses that changed to a different activity from the one for which the initial credit had been approved) from the list of enterprises kept at the RUPP Butwal office.¹⁵ Of the active enterprises, those involved with any of six different kinds of goods were identified.¹⁶ This list provides the basis for generating random samples from each category of enterprises in each of the RMCs and the municipality.

Together with the sample survey, this study also gathered information on the reasons behind the discontinuation of businesses. To generate this information, community mobilizers and market centre facilitators were asked about each “failed” enterprise. Moreover, a number of semi-structured interviews were conducted with some of the businesses that closed down.

Twenty-five per cent of each type of enterprise at each of six locations (the municipality and five RMCs) was selected at random for both ethnographic interview and data collection on various quantitative variables. In those categories where the number of enterprises numbered fewer than six, at least two enterprises were randomly selected for survey.

Table 1: Number of enterprises in each category at different locations, and sample size

Type of enterprise	Butwal municipality		Kotihawa RMC		Murgiya RMC		Khaireni RMC		Pharsa-tiker RMC		Saljhandi RMC	
	No	SS*	No	SS	No	SS	No	SS	No	SS	No	SS

¹³ A notable exception being the Japanese economy of the 1960s and 1970s when Japan thrived on innovative adaptations while importing most raw materials.

¹⁴ The goods and services produced by the enterprises created or supported by RUPP were varied. They included enterprises such as fertilizer trading, animal feed trading, pig trading, tailoring, etc. But this study estimates that 65 per cent of the enterprises were in the above six categories.

¹⁵ Two months before this study was conducted, new incumbents joined as community mobilizers in Ward 9 of the municipality, and as market centre facilitators in Kotihawa and Khaireni RMCs. As they were in the process of becoming acquainted with all the entrepreneurs, they could not provide information on about 30 enterprises, which were not included in the enumeration list for the sample.

¹⁶ These are: goat trading, buffalo trading, grain trading, vegetable trading and chicken trading.

Goat trading (live and meat)	21	5	2	1	1	1	1	1	1	1	0	0
Buffalo trading	10	3	1	1	0	0	1	1	1	1	0	0
Grain	36	9	1	1	1	1	9	3	3	2	1	1
Milk	11	3	2	2	1	1	0	1	1	0	0	0
Vegetable	40	10	4	2	11	3	8	3	2	1	1	1
Chicken	10	3	0	0	2	2	0	0	1	1	0	0
Others (not included in the study)	73		6		9		8		2		0	
Total ¹⁷	201		16		25		27		11		2	

* SS denotes sample size

The first phase of the survey was conducted on the linkage enterprises selected in all six locations. Structured questionnaires were used to interview each of the “active” enterprises in the sample, and the owners of a few failed enterprises were also interviewed. Furthermore, one input supplier in each category of enterprise was interviewed to gain insight into the indirect linkages of the enterprises.

In terms of practical problems in conducting the research, it was difficult to collect information on a number of aspects during the pre-testing phase. Because of the lack of record keeping by entrepreneurs, seasonal variations in transactions and production activities could not be quantified. Respondents even had difficulty recalling the location, price and quantity of purchases for transactions that had taken place only two weeks previously. This study was conducted in the summer of 2004, and information on linkages was asked for four weeks before the survey.

4.3 RUPP–Butwal enterprises: formation and direct multipliers

Together with community mobilization to create sub-neighbourhood citizen organizations, enterprise development is RUPP’s main intervention to promote rural–urban linkages. The enterprises are seen as the tools with which to connect rural areas and towns, while eliminating poverty. Thus enterprise linkages are vital to achieving the programme’s goals. In this section, we will discuss the nature of the economic and spatial linkages of the RUPP enterprises. First, we provide an overview of the direct and indirect linkages, followed by a description of each category of linkage enterprise studied in the field survey.

RUPP’s lending for enterprises follows an elaborate procedure. Generally, interested entrepreneurs need to form a group of 2–5 persons and they apply collectively for RUPP funding with detailed proposal of the trade they want to engage in. Once this has been approved, group members are offered 1–3 days training in the particular trade. Contrary to the spirit of RUPP, often the members divide the money between them and start individual enterprises. Nevertheless, the group as a whole remains collectively responsible for the loan.

Since its inception in Butwal municipality, RUPP has offered loans to nearly 500 enterprise groups, some of which have received two loans, but very few have received three. On average, each group

¹⁷ As mentioned before, these numbers are almost certainly larger. Since two new incumbents were working as CM and MCF in the municipality and Kotihawa RMC, respectively (in June 2004), a few enterprises were still unknown to them. Those enterprises were not included in the enumeration list.

received around Rs. 25,000 (US\$ 267). This is a very small amount when divided between three people, which is the typical group size. Rs. 5,000–8,000 is barely enough as start-up money for even the least capital-intensive enterprises. As the survey showed, most entrepreneurs, particularly successful ones, supplemented the RUPP loan with money from their own sources. More than one-quarter of the enterprise groups had more equity than the amount borrowed from RUPP. On the other hand, all but one enterprise that had less than 20 per cent equity in the initial investment could not continue doing business and closed down.

Being very small, RUPP enterprises generally create employment only for the entrepreneurs. Although the enterprise groups comprise 2–5 members, and approximately 500 enterprise groups have been supported so far, there are at present around 600 active enterprises (this is a rough estimate based on interviews with CMs and MCFs). Thus, each group produced 1.2 enterprises. In a large number of enterprise groups, one person actually took the entire amount and started a business. Often, other members of the group become members only to meet the criteria of lending, namely, forming a group.

The survey found that only two enterprises (out of 65 surveyed) employed non-household members, and a large number of enterprises employed household members on a regular basis (generally daily). But the opportunity cost of this household member labour is generally zero (i.e. the opportunity for alternative financially productive use of this labour). This adds to the problem of calculating the cost-benefit of these enterprises (another problem area is the collective purchase of inputs for both household consumption and sale).

The profits generated by enterprises that relied on a RUPP loan alone tended to be barely enough for household expenditure. In these cases, reinvesting profits in the expansion of the enterprise is rare.

4.4 Nature of linkages of different types of enterprise

4.4.1 Goat trading

Since 1999, RUPP has created 26 groups for goat trading in the municipality and in the five RMCs. These fall into two categories, namely buying live goats to sell on for a profit, and buying goats to sell as meat.

As with most of the other enterprises, the entrepreneurs themselves and/or household members were the only employees. Only rarely did the entrepreneurs use part-time labour.

The goat traders (particularly the meat traders) in the region generally bought goats from a regional livestock market centre, Chandrauta, which is located 60 kilometres west of the municipality and is in another district. In one RMC, Kotihawa, the only meat trader bought from a local supplier, who happened to be a friend of his. The supplier was buying from his village, 3–3.5 kilometres from the market and carried one or two goats on a bicycle to the meat shop everyday.

Otherwise, the majority of goat traders bought most of their animals from Chandrauta regional market; less than 25 per cent was purchased locally (within 10–12 kilometres). Purchase and sale

volumes varied among enterprises, but most bought goats twice a week from the regional market as, generally, supply from nearby villages was considered unreliable.

The meat trading process involves slaughtering, preparing the meat by burning off the skin and selling it by the kilo. Typically, an entrepreneur makes a profit of Rs. 200–250 per goat. The surveyed entrepreneurs were selling on average two goats’ worth of meat a day, to households and restaurants.

4.4.2 Milk trading

Milk is a major product in the district of Rupendehi. There were 11 milk-trading enterprises in the municipality that had been either created or supported by RUPP, and a further four in the RMCs.

The milk traders generally bought milk from homestead-based producers in surrounding areas of the municipality or RMCs, and then sold it on to households or restaurants. Most traders were found to have a prior contract with a buyer (householder or restaurant) for a certain quantity of milk at an agreed time of the day.

On average, each milk enterprise bought about three litres of milk from nine producers (i.e. cow/buffalo owning households) each day. These suppliers are generally located within one kilometre of the trader within the municipality and 1.5 kilometres in the RMCs. Thus, the backward linkage of milk trading enterprises is very localized. They create an outlet for very small producers who have as little as 1.5 litres of milk to sell.

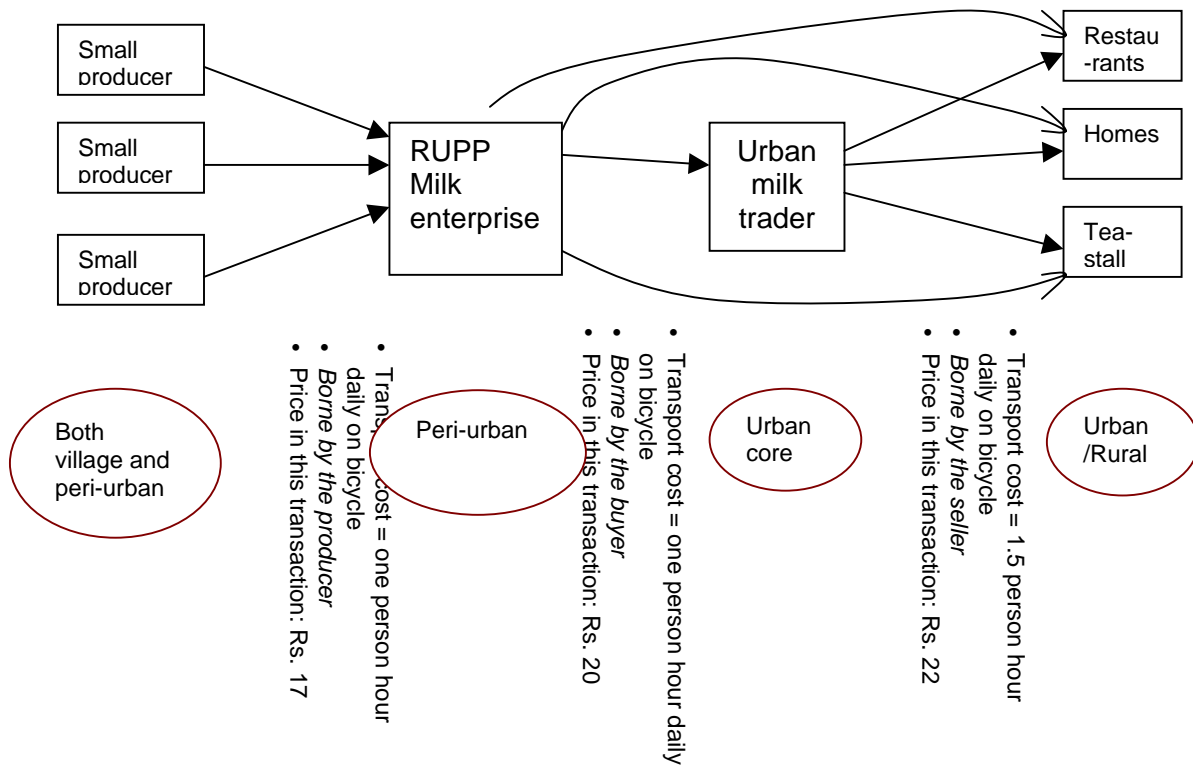


Figure 7: Backward and forward linkages of a typical RUPP milk enterprise

4.4.3 Vegetable trading

Entrepreneurs trade in various kinds of vegetables. Some are produced locally while others are imported from outside the district or locality. The major vegetables are potatoes, tomatoes, brinjal and beans. Most traders, both in the municipality and in the RMCs, generally buy most of their vegetables from the wholesale vegetable markets in the town. A large proportion of the vegetables in the wholesale markets, however, are imported from India. Thus, even for an agricultural area, vegetable trading largely constitutes a leakage in Rupendehi's local economy. However, a small portion of the vegetables purchase (less than 25 per cent of the monetary value of total purchase of the enterprises surveyed) was from local households.

The enterprises were selling in small quantities both as mobile sellers (from vehicles or carried as head loads) and as shop-based traders. More than half of the shop-based traders who obtained loans as vegetable traders actually expanded into groceries, with vegetables constituting only a small proportion of their total sales and serving only to meet RUPP lending criteria of being a rural-urban "linkage" enterprise.

4.4.4 Grain trading

Rupendehi is a food deficit district. Most of the produce is imported from India, causing substantial leakage in the local economy. Thus, to a large extent, RUPP's grain enterprises comprise the bottom tier of the marketing of imported grains. Generally, the grain enterprises buy from wholesale grain markets in the two municipalities (Butwal and Bhairahawa) in the district and sell the grain from their small stores. In this respect, the grain enterprises are very similar to the vegetable trade discussed above.

Some of the grain sold by the enterprises is produced locally, but it was impossible to quantify the amount because of the difficulty in tracing the origin of the grain. Nevertheless, the entrepreneurs' gross estimate is that 50 per cent of beans come from the local economy, while 60 per cent of wheat is from other districts in Nepal. But rice is almost exclusively from India.

All grain traders were found to have expanded into groceries. The "grain" enterprises that existed before RUPP were mostly groceries in the first place.

4.4.5 Chickens

RUPP supports two types of poultry enterprise: those that raise poultry and sell chickens and eggs, and those that sell chicken meat. Most are in the second category, and these (i.e. the chicken meat shops, locally known as fresh houses) were selected for the study of linkages. The RUPP-supported or created chicken meat shops are located mostly within the municipal area.

Fresh houses buy chickens from nearby poultry farms; they then process the meat and sell it from shops. Four of the five fresh houses surveyed in this study bought all their chickens from the local market. One fresh house located on the fringe of the district bought from a major market outside the district (in the month preceding the survey). On average, each enterprise bought 3-12 chickens each day. After processing, the entrepreneurs sold to both householders and restaurants nearby. As with the other types of enterprise discussed, the fresh houses comprise the lowest tier in the distribution chain.

4.5 Determinants of linkages with the local economy

The previous section described the general nature of RUPP enterprise linkages. To that end, it drew a general map of the source and destination of the input and output of different types of enterprise (for both the municipality and the rural market centres). It gave a general indication of the strength of linkages of the enterprises. But the question remains: under what circumstances do enterprises develop strong linkages with other productive units in the local economy?

The questionnaire survey of a random sample of RUPP enterprises provided a quantitative exploration of the determinants of the strength of linkages; thus, this study considered *the proportion of total purchase from the local economy* as the indicator of magnitude of linkage.

To understand the linkages with the local economy through purchase, this study takes into account only the characteristics of the enterprises. It does not consider the characteristics of the host economy in which the enterprises are located. In other words, this study uses the characteristics of the enterprises as opposed to the “contextual” variables (such as level of surplus or production deficit in the economy, number of enterprises of each type in the economy, etc.) Such contextual variables are important characteristics of the system within which the small enterprises reside. So, obviously, they could have provided a better understanding of how enterprises work and interact with the local economy. But no information on them exists from the usual sources such as official publications, and collecting information on them was both time-consuming and fraught with inaccuracies. Therefore, only the characteristics of the enterprises were used as potential explanatory variables in the statistical analysis.

The major findings of the study reveal that *location of the enterprises* (categorized as urban core, urban periphery or rural) did not yield any significant¹⁸ differences in the proportion of total purchase that is local.

The *gender of the entrepreneur* was also found to have little impact on the proportion of total purchase that is local. It is generally expected that a female-headed enterprise would be more likely to purchase and sell more in the local economy since women tend to have less time to travel. But the study found no significant differences in local purchase between male and female entrepreneurs.¹⁹ A number of “anthropological” insights can explain this partly. Even when an enterprise was officially female-owned, a male would still help occasionally with some part of the enterprise’s operation. However, time contributions from male members of the household were not decisive (as illustrated by low correlation coefficients between “person-hours from male members of household” and purchase from local economy).

Type of activity was found to be the most important explanatory variable.²⁰ Posthoc tests confirm that any category of enterprise had a significantly different mean of local purchase (percentage of total) from at least three other categories.²¹ Milk enterprises were purchasing nearly 100 per cent of their inputs from the local economy, while it was estimated that less than 50 per cent of vegetables

¹⁸ Significance of the F-statistic in ANOVA = 0.533

¹⁹ Significance of t-statistic in “difference-of-means” test as high as 0.833.

²⁰ Significance of the F-statistic in ANOVA = 0.004.

²¹ In the regression analysis of the “proportion of local in total purchase” on dummy-coded “enterprise type” variables, vegetables, buffalo, and grain revealed significant inverse relationships.

sold by the enterprises were from the local economy. This finding, that some activities had stronger local linkages than others, has a major policy implication as to what type of enterprise to support.

4.6 Challenges and achievements of RUPP enterprises

- Most enterprises contributed significantly to poverty alleviation of the entrepreneurs, but indirect linkages in terms of job creation and profits are considerably limited.
- RUPP has considerable success in creating enterprises that are accessible mostly to the poor. The amount of support available to group enterprises is generally small (typically US\$ 270–335), which ensures that only the poor have the incentive to apply. But this also means that the enterprises are not big enough to have any meaningful effect through linkages with the hinterland. As mentioned previously, reinvesting any profits is difficult for the entrepreneurs since the profits are barely enough for household expenditure. It must be mentioned that a significant number of enterprises (both those created by RUPP and those pre-dating RUPP) are undertaken by the non-poor.²² Also, a small number of special enterprises were offered higher loan amounts by RUPP. In Butwal municipality, a large milk-marketing cooperative was offered approximately US\$ 1,400, which enabled them to buy a chilling vat for storing milk. The average loan amount was also slightly higher for technology transfer enterprises than for group enterprises dealing in produce.
- With the exception of milk trading, most enterprises had some leakage. For example, the grain traders were practically part of the distribution network for imported grain, and the goat traders (live goats and meat) were buying mostly from a regional market 60 kilometres away rather than from the hinterland. Despite such instances of leakage, the enterprises in their own small way were creating outlets for produce in the hinterland.
- The strict eligibility criteria for a RUPP loan, i.e. trading or producing goods and services that link urban and rural economies, leave aspiring entrepreneurs (i.e. potential loanees) with very few choices for type of enterprise. Moreover, in the case of home-based manufacturing such as papadums, snacks etc., the small scale of RUPP enterprises puts them at a significant disadvantage compared to factory-based manufacturers. A number of enterprises that RUPP created actually closed down after being unable to make profit.
- The well-known vulnerabilities of small enterprises were also observed in the case of RUPP enterprises. They are often vulnerable to competition, and poor entrepreneurs may be challenged at the outset to acquire business technical know-how. This study found that most of the failed enterprises had been owned by entrepreneurs who had no prior experience of running an enterprise. On the other hand, of the successful RUPP enterprises most had some prior experience or had existed before RUPP offered them a loan. Furthermore, in most prosperous enterprises, the debt: equity ratio was much lower than in the case of failed enterprises. The study also revealed that the poor had the least resilience as entrepreneurs. Illness or an unexpected loss could shut down the enterprise because they had no other asset to fall back on.

²² Revealed by a lower debt: equity ratio for the enterprise.

- Most enterprises are trading enterprises as opposed to processing or manufacturing enterprises. Although contexts vary, it would not be irrelevant to point out that the township and village enterprises in China during the reforms of the 1970s were mostly manufacturing and processing enterprises. Individual small trading enterprises generally have little to contribute to increased trade, as post-production activities enjoy economies of scale. But small trading enterprises fail to generate economies of scale even when information services (which is economies of scale at an institutional level) such as market prices are provided.
- The enterprises are supply driven. Necessary capital, training and motivation need to be generated to create and sustain the enterprises. It is generally mentioned in the literature that as the small enterprises are dispersed, there is generally little economies of scale in terms of technical support schemes, credit disbursement and loan repayment collection. RUPP's successful community mobilization has removed a number of the diseconomies of scale as a result of sparse locations, as TLOs and community mobilizers perform multiple tasks in the locality.

4.7 Conclusion: the role of RUPP in the creation of growth linkages

The study of RUPP-Butwal, as described in this chapter, reveals that RUPP's modality addresses several components of the framework outlined in Chapter 2. RUPP modality emphasizes community mobilization, which is the foundation and starting point for the social and political transformation of rural regions. RUPP also helps create enterprises, with the purpose of invigorating the economy, and has contributed to some small-scale infrastructure projects.

Of RUPP-Butwal's interventions, the community mobilization project appears to be the most successful. But without exhaustive geographic coverage in the Rupendehi district, the project is consolidated only in some settlements. RUPP's infrastructure projects are also small scale and, as such, only facilitate productivity and trade in a limited way. The enterprises created by RUPP-Butwal have generally been beneficial to the entrepreneurs, in many cases helping them increase income and rise out of poverty. Yet because of their small size and the hostile political scene in Nepal, they have generally not been able to create strong multiplier effects in the local economy. All these provide important lessons for rural regional development, an issue taken up in the concluding chapter of this paper.

5. Future directions for RUPP and rural regional development

The central question in the development of rural regions is raising productivity and retention of enough multiplier effects within the local economy (comprising small towns and rural areas in a contiguous micro-region). The examination of RUPP-Butwal in general, and the enterprises in particular, provides important insights into the local dynamics of reciprocal linkage creation. In this chapter, we examine this in the context of Rupendehi district. The discussion also identifies opportunities for improvements to RUPP.

5.1 Generation and retention of multiplier effects

While this requires more than one necessary condition, productivity increase can fairly be identified as the basic condition. As has been identified, RUPP's small budget does not allow it to make large investments in agricultural infrastructure (e.g. irrigation). Moreover, as municipalities are the primary vehicles for implementation of RUPP, villages outside the municipality's jurisdiction are beyond RUPP's operational reach at the moment. This leaves RUPP with manufacturing, processing and trading enterprises as the vehicles of generation and retention of multiplier effects.

In the process of creating and supporting such enterprises, this study identified some opportunities for improvement that are described here.

5.1.1 Economic activities to support

Over the past few years, important lessons have emerged regarding the nature of linkages to support. Certain types of enterprise were found to have considerable "leakage" (e.g. grain and, to some extent, vegetables) since they mostly comprise the bottom tier of the distribution chain of imported produce. On the other hand, trading enterprises such as milk provided an important channel for marketing local produce. Given the almost scale-neutral nature of milk production, the creation of large cattle farms is not necessary. Rather, RUPP has the opportunity to help more households to start rearing livestock in *small-scale* household-based production units. The creation of small-scale milk enterprises is viable since most of the official municipal area is rural and has the potential for rearing cattle. In the villages, this is even more so.

RUPP's effort to create and support technology transfer enterprises has created a strong potential for dairy products. RUPP has the capability to move into marketing support for such milk product producers.

5.1.2 Increased loan amount

Although many small-scale productive activities are scale-neutral, in some cases larger enterprises will be more efficient regarding multiplier effects. For example, small-scale food processing enterprises that RUPP helped form were too small, even for cottage-based industries, to survive. In the absence of a detailed investigation of these enterprises, it can only be inferred from interviews with RUPP officials that such small-scale processing enterprises needed to be bigger than a RUPP loan of US\$ 200 could establish. But the desirable scale of operation can only be established through further research. Increased loan amounts need to be administered in such a way that pitfalls, such as serving the rich and powerful only, can be avoided.

5.1.3 Clustering of enterprises

As described earlier, most RUPP enterprises are very small. To help create a stronger multiplier effect and local linkages, there is an opportunity to develop institutions and inter-enterprise cooperation. Since its inception, RUPP has tried and has succeeded in creating enterprises, but its guiding philosophy is to ensure that the enterprises grow into independent profit-making entities with no dependence on continued financial support from RUPP. This explains why RUPP generally offers no more than two years financial support to the enterprises.

But there are opportunities for doing more. As identified in Chapter 2, the small enterprises, in isolation, cannot take full advantage of the production and marketing potential. Processing (manufacturing) and/or trading enterprises that depend on local resources, both present and potential (such as milk, pulses, buffalo), can improve their productivity and profitability if supported by common institutions and inter-firm cooperation (commonly known as clustering). For example, in the case of milk-based enterprises, there is room for provision of storage, training on preparation of dairy products, and information for better marketing (both within and beyond the local economy). Currently, RUPP's objectives and modality do not have this component. Further study can identify the nature of support required for production and marketing of different economic activities.

5.2 RUPP–Butwal: lessons learned and issues for the future

5.2.1 Community mobilization

One of the most important contributions of RUPP has been the creation of community mobilization. The relationship between community mobilization and productivity growth might not be easily discernable, but it provides the basic building block on which to base enterprise clustering, further social capital, and initiate participatory governance. As mentioned earlier, the Ministry of Local Development is in the process of making TLOs recognized by law.

5.2.2 Removing fragmentation of efforts

RUPP's considerable success in achieving its objectives has not been complemented by other government and donor programmes in the region. Despite the statutory requirements of the Local Self-Government Act of 1999 and Rules of 2000, municipalities function almost independently of the district development committees (DDCs) and the village development committees (VDCs). As per the statutes, the DDCs are required to play a leading role in the development of the districts, but in Rupendehi, as in most other districts in Nepal, the DDC is yet to exert its power and influence for reasons that include the inertia of centralized planning, the lack of able manpower and a lack of resources.

There is socioeconomic interdependence between the adjoining administrative areas (such as VDCs, municipalities), yet there is currently no political or administrative coordination to optimize the potential cross-jurisdictional planning. The Local Self-Governance Act (LSGA) of 1999 and Rules provides for an Advisory Committee to be jointly appointed by *VDCs and municipalities*. But no apparatus has been suggested for planning across districts.

The (trained) personnel and logistics developed by RUPP were transferred to local government in 2004. Such internalization of RUPP modality into urban local government function is an important contribution towards sustaining the foundations provided by RUPP, while doing away with any remaining central (Kathmandu-based) administration of RUPP modalities. As the programme in Kathmandu devolves authority to the municipalities, the rural regional development efforts, in effect, are dependent on the efficiency of urban local government. This modality is consistent with RUPP's motto of "urban-based local development". Still, as is already becoming evident, municipalities have jurisdiction over urban areas only, while RMCs are separate local government bodies.²³ With DDCs still lacking staff and resources, there remains a void in the institutional context of rural regional development in Nepal. One of RUPP's most important contributions is at least partial removal of this void.

Although beyond the scope of the field study, it is fair to say that different development programmes can have a greater cumulative effect if they complement each other. For example, the Decentralized Financing and Development Programme (DFDP), with its infrastructure provision, can complement RUPP's enterprise creation and community mobilization in a particular village. The Participatory District Development Programme is another programme that can establish complementarity and synergy with RUPP.

5.2.3 Widening of geographic coverage

RUPP does not cover the poorest rural market centres and villages in the district (located in the south and southwest, and inhabited by ethnic and linguistic minorities), which is a major shortcoming (Figure 5). One major selection criterion for municipalities and RMCs to be included in RUPP was the flow of goods and people between different centres. The Butwal Market Zone Delineation Study, conducted in 1999, found little flow between Butwal and the VDCs in the southern and southwestern parts of the district, therefore no rural market in this area was brought under RUPP. Such selection criteria clearly preclude a synergistic and more even development of the region.

Until the beginning of the third phase in 2004, RUPP worked only in those rural wards (smallest electoral and administrative units) that are in and around the RMCs, rather than in all the wards in a village (cluster of settlements). Thus, the households residing in the other areas of the district do not have access to RUPP's support. However, they do, on paper at least, have access to other programmes such as PDDP.

5.2.4 Inclusion of all urban residents

The poorest groups could not be brought under the auspices of RUPP. The poor migrants squatting in the municipality were not eligible to be members of TLOs, which precludes them from any further benefits of RUPP. They cannot form enterprise groups and are not eligible for training and loans. In Phase III (2004–2007), RUPP has started addressing this need. Nevertheless, the speed of such mobilization is much slower than the rate of community mobilization achieved during 1999–2001.

²³ After the "internalization" of RUPP into municipalities, the salaries of the community mobilizers (market centre facilitators) in the RMCs were briefly suspended, as municipalities were unwilling to pay RMC employees. A special provision from RUPP provided the salaries for the MCFs.

5.2.5 Directions for future research

In the five years since its inception, RUPP has received acclaim for its achievements in community mobilization, enterprise creation and facilitation of good local governance through training of personnel at different levels. It is time now for RUPP to look into the wider economic impact of its activities in the districts and rural regions they are working in.

Future research should focus on better identification of the type of enterprise to support. This can be done by identifying further the existing and potential production and marketing linkages of different product types (snack making, dairy products, timber products, etc.)

There is also a need to study RUPP's impact beyond the enterprises that it has created or supported. This paper provides a small window into RUPP's impact on local development. More extensive studies are needed to understand the strengths and weaknesses of the modality of the programme, and evaluation criteria will need to be established. Indicators of the success of enterprises in raising the income of (loanee) entrepreneurs are easy to formulate, however quantifiable indicators for a local economy with rural-urban synergy are somewhat more difficult to specify. The framework laid out in this study, nevertheless, can provide a guideline.

5.3 The future of rural regional development

From the literature review and the study of RUPP's activities in the district of Rupendehi, it appears that the creation of linkages and multiplier effects is the most important strategy. The dynamics of such linkages are to be understood in the specific local contexts, nevertheless there are hallmarks of successful linkages creation. These have been identified in this study, but more detailed criteria for the evaluation of a successful rural regional development programme can be established through more detailed research. Some such broad criteria, as identified in the framework and in the study of Rupendehi include level of local trade, retention of multiplier, geographic spread of new economic activities, and extent to which the poor are reached.

The emergence of rural-urban linkage projects may have followed the demise of state-led management and development as practiced under the logo of integrated rural development (IRD), but rural regional development with rural-urban linkage as the policy locus will very often require no less intervention. Physical infrastructure, although occasionally over-emphasized, is immensely important in productivity increase. Investments in such infrastructure as roads, irrigation, educational facilities, health services etc. might be crucial for the development of productive potential in rural areas. In recent times, rural development practitioners around the world have frequently voiced the need for such investments. Their claims are equally valid for the district of Rupendehi, and Nepal in general.

In the case of the district of Rupendehi, in the past the lack of transportation stood in the way of agricultural marketing to Kathmandu. Therefore, large quantities of vegetables and grain had to be imported from India, creating a disincentive for production in districts such as Rupendehi. Now, improvements to the East-West highway have created marketing opportunities for producers in these districts. Among other productive investments, irrigation infrastructure can substantially improve productivity. With the Tinau River running through the district, irrigation water should be easier to obtain than in many other districts. It is difficult to see how RUPP, with its small budget, can extend into such activities, though.

It is understandable that the promotion of synergistic linkages between villages and towns needs to take advantage of the resource base of the region. As described earlier, Rupendehi has primarily an agricultural economy, but nearly half the arable land is not irrigated. Thus, there remains the potential for productivity increases in agriculture, although this potential cannot be tapped through the creation of trading enterprises. Even agricultural marketing enterprises cannot create enough incentives for peasants to increase productivity. Furthermore, Rupendehi has a small average farm size and a quarter of the households are landless or marginal farmers. Productivity increases, under current level of entitlement to produce, will also fail to substantially benefit the landless agricultural workers.

RUPP modality's ability to address such development challenges is clearly limited. But to be fair to RUPP, it runs on a small budget²⁴ that precludes heavy investment in infrastructure. RUPP's commendable success in community mobilization and pooling community funds for infrastructure provision cannot bring about extensive infrastructure improvements since the amount of money pooled in poor communities is generally low. The funds at the disposal of RUPP do not allow it to go beyond small infrastructure projects.

The future of rural development depends on both "productive" investment and "social" investment (meaning investment in health, education, institutional capacity building, creation of civil society etc.) As the case of Rupendehi shows, without such investment, it is likely that development will achieve, at best, fragmented successes. To increase the efficiency of the rural production system, for the poor to benefit from such increased productivity, the need for such investment needs to be given due consideration.

²⁴ UNDP's input to RUPP's third phase (2004-2007) has been allocated at US\$ 1,913,679.

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