



Global Donor Platform
for Rural Development

Platform Policy Brief

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•••• Mind the Gap: How to improve rural-urban linkages to reduce poverty

Platform Policy Briefs are designed to inform and guide members in the delivery of assistance in agriculture and rural development.

They are derived from our hot topics and should be seen in conjunction with the Joint Donor Concept on Rural Development (www.donorplatform.org/content/view/104/149/).

Global Donor Platform for
Rural Development

Tackling rural poverty,
together

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SUMMARY

Economic and social activities transcend a strictly rural-urban divide. Strengthened rural-urban linkages will offer growth and poverty-reducing benefits that span different geographic spaces, and development strategies need to reflect this dynamic relationship between rural and urban areas. Given the spatial inequalities plaguing many developing countries and urban-biased government policies of the past, we must learn to correct these spatial distortions so that resources like labour, capital and goods can move freely within economies. We need to take into account the territorial dimension of development and base spatially-balanced development strategies on a thorough understanding of the relationship between rural and urban areas.

POLICY RECOMMENDATIONS:

- Donors' portfolios must be **harmonised spatially** in order to avoid duplication of interventions and to help support synergies between rural and urban investments. In other words, the impact of interventions on sectors and areas along the space should be internalised within donor institutions.
- Resource allocation needs to counter past **urban bias** and take into account the specific needs of urban and rural areas, depending on existing disparities. This requires clear government priorities in regional policy and the implementation of **redistributive approaches** without compromising overall growth opportunities.
- Promoting the development of **small towns** is an effective way to create significant synergies between rural and urban areas. Improved infrastructure and services, such as better accessibility, would reduce transaction costs not only for the growing urban populations but also for the surrounding rural population.
- Appropriate **institutions** are needed to reduce artificial barriers to the free flow of goods, services and information. Institutional and technological innovations such as farmer cooperatives and ICTs are examples of ways to reduce the transaction costs of services and to enhance the visibility, market power and political representation of rural residents.
- **Financial markets** need to be spatially integrated and provide a diverse range of services adapted to the rural context.
- Public spending policies in developing countries need to help improve access to **non-farm employment, diversification and rural-urban migration** in rural areas.

BACKGROUND

INTRODUCTION

Rural and urban areas are interconnected economically, financially and socially. In the same way, poverty in many developing countries and regions spans both rural and urban areas (Figure 1 and 2). Currently, approximately 75% of the developing world's poor live

Figure 1.
Rural and urban poverty rates in selected developing countries, in percent.

Source:
World development
report indicators 2007

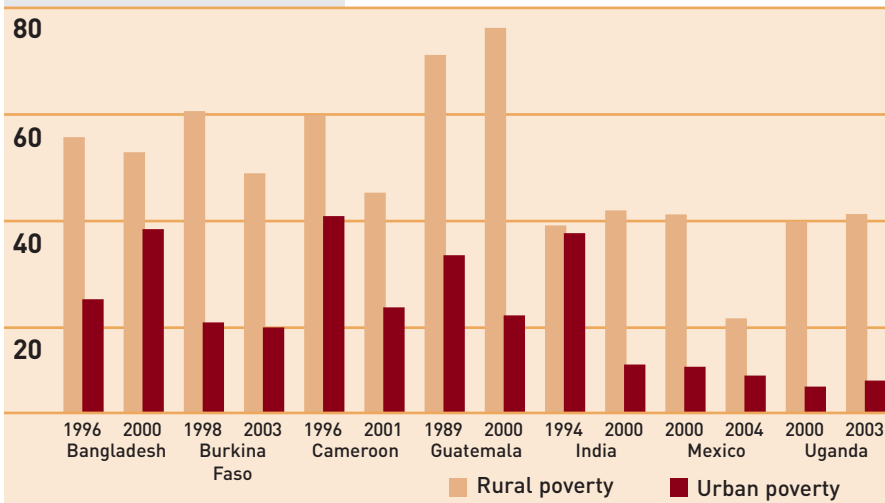
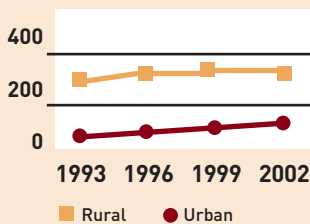


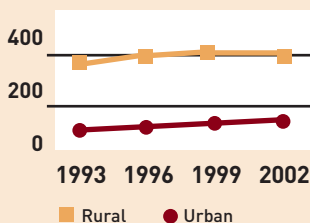
Figure 2.
Number of rural poor, in millions

Source: Ravallion, Chen and Sangraula, 2007

Sub-Saharan Africa



South Asia



in rural areas and will continue to do so for several decades, but recent population trends point to the urbanisation of poverty in many developing countries (Ravallion, Chen and Sangraula, 2007).

Given the spatial indiscriminate and dynamics of poverty trends, development strategies need to aim at improving spatial linkages and synergies rather than focus on the “separateness” of urban and rural areas. The question remains, however: How can developing countries harness rural-urban linkages to reduce poverty and increase economic growth? This brief examines, first, the reasons for the rural-urban imbalance and, second, ways to correct it.

CONTEXT

A number of politically- and spatially-induced factors have segmented rural and urban areas in many developing countries.

First, the spatial remoteness of rural areas creates high transaction costs for rural production and service provision relative to the small size of most rural operations. This results in shallow and fragmented financial services, for example. In Sub-Saharan Africa, rural living standards like school enrollment and neonatal care lag behind urban rates, and there is no evidence that this situation is improving (Sahn and Stifel, 2003). At the same time, rural residents lack the opportu-

nities for political engagement offered to urban residents.

Second, many past development strategies have been based on a spatial dichotomy that equated urban with “modern” cities and rural with “backward” farmland, often treating agriculture as a resource pool to finance urban development. This paradigm has also further contributed to urban-centered social service provision.

Third, a number of explicit and implicit restrictions, like strict residency restrictions on access to employment and social services alongside social barriers, such as ethnicity, gender, and language, have also impeded migration flows; isolating rural migrants from many urban opportunities and contributing to the creation of urban slums.

Fourth, the benefits of emerging global trends such as trade liberalisation and agro-industrialisation have not flowed evenly within developing countries (Rodriguez-Pose and Sanchez-Reaza, 2005). In fact, free market-driven globalisation, whereby rich countries apply high tariffs and export subsidies, has had a developmentally-distorting impact especially upon agriculture-based developing countries, widening the rural-urban divide further.

CHANGING CONCEPT OF SPATIAL DYNAMICS

Because migration, information, consumption, production, and capital flows transcend a strictly rural-urban divide and rely on both “rural-based” and “urban-based” resources, development strategies should reflect this dynamic relationship. The development community needs to view development issues along a broad spatial continuum with backward and forward flows and interactions rather than treating rural and urban areas in isolation (Garrett, 2005). Rural residents stand to gain from market and migration opportunities, given that urban areas not only serve as sources of demand for rural farm and non-farm products but also offer prospects for higher-paying employment. At the same time, urban areas can gain from these linkages as well, with rural areas serving as both an outlet for urban goods and as a stable source of affordable food. In addition, agriculture and rural development also has the potential to create jobs in cities through value-added services.

ANALYSIS:

How to bridge the rural-urban divide to reduce poverty and promote growth

Strengthened rural-urban linkages offer growth and poverty-reducing benefits that span different geographic spaces. It is important to analyse how policy-makers can correct the previously mentioned spatial inequalities and distortions so that resources like labour, capital and goods can move freely along the continuum.

Public Investment: Because developing countries have limited resources, public investment decisions should take into account spatial synergies. Past studies on public spending in China found that investments in less-developed rural regions had a larger overall growth impact than similar investments in urban areas, with rural investments also contributing to decreased regional inequalities. Moreover, investment in rural roads had a larger impact on rural and urban poverty than investment in urban roads (Figure 3). These results support the conclusion that certain types of investments have poverty-reducing impacts that span the spatial continuum.

Financial Markets: Through increased access to capital, rural residents can stabilise consumption patterns, better manage risks and initiate income-generating activities. However, past reforms addressed the symptoms rather than the causes of inadequate rural financial services by subsidising short-term agricultural credits (World Bank, 2005). Instead, sustainable rural financial institutions require long-term, flexible planning mechanisms to build capacity and knowledge. Donors should focus on market-based approaches to facilitate access to pro-poor financial services, e.g. micro and supplier credit tools offering alternative financing mechanisms (OECD, 2006). Transaction costs can also be reduced through spatial integration as well as institutional and technological innovations adapted to rural circumstances (Ritchie, 2007). Moreover, financial services should go beyond lending to include savings, insurance and payments (e.g. remittances).

Institutions: Appropriate institutions are needed to alleviate the information asymmetries that prevent rural residents from participating in economic and policy-making processes. A number of institutional innovations, such as embedded services within value chains, can reduce transaction costs and increase communication flows. Furthermore, producer organisations, in the form of, for example, cooperatives, allow rural residents to pool their risks as well as “political power”, miti-

gate transaction costs, and break into national and regional markets (Holloway et al., 2000). Moreover, information and communication technologies (ICTs) can improve knowledge and enhance training, by collecting, storing, and sharing information and skills between farmers, extension/advisory services, information providers and researchers, resulting in greater choices of livelihood strategies (Chapman and Slaymaker, 2002). In this process, all actors can be innovators, intermediaries and receivers of information and knowledge.

Diversification of rural economies: Non-farm rural economic activities – including agroprocessing, manufacturing and service delivery – are a major source of income and employment, accounting for 40-45% of average rural household income in Sub-Saharan Africa and Latin America (Barrett et al., 2001). These activities are especially important in countries where landlessness prevails, since they offer the rural poor alternatives to traditional land-dependent activities. In order to promote rural non-farm growth, policymakers need to identify key engines of regional growth, build flexible institutional coalitions and focus on sub-sector-specific supply and value chains. The promotion of functioning markets for business development services is one way to guarantee that rural nonfarm businesses receive the services they need to reach and thrive in their respective markets.

Labor Markets/Migration: Internal migration within developing countries is a fundamental part of rural transformation. Past studies have found that rural-to-urban migration in India and China not only has the potential to improve the well-being of the migrants, but can benefit rural areas through remittances and improve rural land/labour ratios (Taylor, Rozelle and de Brauw, 2003). For example, seasonal and temporary migration is one example of a strategy adopted by rural residents to diversify their income sources. Better transportation infrastructure and a more accommodating political environment are therefore necessary to encourage this cyclical and less-permanent migration. Furthermore, antidiscrimination policies need to be implemented that prevent urban employers and social service providers from creating a two-tiered system within cities that favours urban residents (Fan et al., 2005).

Development of small towns: Small and medium-sized towns are an important intermediary point along the rural-urban continuum, linking and benefiting both rural and urban areas through various types of economic and social provisions (e.g. Satterthwaite and Toscali, 2003; Wandschneider, 2004). Indeed, small and medium-sized towns not

Figure 3:
Number of poor reduced by road investments in China (per million yuan)

	Urban Poor	Rural Poor
Urban roads	8	50
Rural roads	27	820

Source: Fan and Chan-Kang (2005)

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only serve as intermediaries on the way to the capital, but also have specific functions in a system of hierarchical centres themselves. More specifically, small- and medium-sized towns and cities act as service delivery nodes to rural areas and link the rural economy with external input and output markets, thereby reducing transaction costs. Small towns can also serve as a stepping-stone or an end-point for rural residents by absorbing some of the agricultural labour surplus and alleviating the pressure put on already congested metropolitan centres. However, poverty cannot simply be shifted from farms to small and medium-sized towns, and development strategies should take into account the specific issues facing these centres.

CONCLUSION

A better understanding of the rural-urban linkages in developing countries and how public policy and investments affect these linkages have important implications for poverty

reduction efforts. More spatially-balanced development strategies should therefore be based on a thorough analysis of relations between urban and rural areas and take into account the territorial dimension of development. Fluid and unobstructed linkages between sectors and regions need to be enhanced and rural residents must acquire the resources, institutions, and mobility to participate in markets as well as policy-making processes. Policies should take into account and harness the dynamic nature of the rural-urban relationship by adapting to shifting economic, political and social conditions and encouraging the flow of goods and resources across sectors and locations within developing countries. Moreover, given that development issues extend from isolated farms to urban centers, and everything in between, development strategies need to reflect this continuum. A more spatially-integrated economy allows for not only increased economic efficiency but also greater equity within developing countries.

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