

The purpose of these *Key Sheets* is to provide decision-makers with an easy and up-to-date point of reference on issues relating to the provision of support for sustainable livelihoods.

The sheets are designed for those who are managing change and who are concerned to make well-informed implementation decisions. They aim to distil theoretical debate and field experience so that it becomes easily accessible and useful across a range of situations. Their purpose is to assist in the process of decision-making rather than to provide definitive answers.

The sheets address three broad sets of issues:

- Service Delivery
- Resource Management
- Policy Planning and Implementation

A list of contact details for organisations is provided for each sub-series.

## Overview of the debate

Over the past decade, the debate relating to rural–urban linkages has focused on:

- The nature of the production, consumption and investment linkages between urban and rural areas, and their recent changes.
- The changing position of smaller towns in migration flows, and how to enhance their role in absorbing rural migrants, in order to stem the flow to large cities.
- How to stimulate local (clusters of) economic activity, containing growth within regional business systems that involve rural as well as urban actors.
- The role of small centres in supplying services to rural areas.
- Further topics include: the demise of rural service-centre planning and its implications; the impact of decentralization policies on local economic development, and the changing nature of urban–rural fringe areas, especially around large cities.

## Key issues in decision making

The classic ideal view of rural–urban linkages is one of symbiosis. In a distinct geographical area:

- Towns function as service centres for their rural hinterlands, offering outlets for rural products, public and commercial services, and employment opportunities;
- Rural areas provide raw and processed materials, labour and demand for urban goods and services.

This complementary relationship has changed in many countries. While peripheral areas may retain the traditional clear distinction between urban centres and their rural hinterlands, expanding core areas increasingly show more diffuse patterns of interaction. More people combine different income sources and environments in their livelihood. As a result, increasing integration and interaction blurs the traditional urban–rural divide, giving way to diffuse ‘network’ regions.

**Changing linkages** Changing patterns of governance undoubtedly have implications for rural–urban linkages, especially in the more remote areas. For instance, decentralisation is driven by the notion that local levels of government respond better to local needs, but how well does this work in practice? New investment and service provision may be particularly limited by fiscal constraints: even if central government authorises local governments to levy taxes, are local governments prepared to risk unpopularity by taking this up? On the other hand, do they stand to lose some autonomy if they remain dependent on transfers of central funds?

In economic terms, three types of rural–urban linkages are usually distinguished: *consumption* linkages (demand for final products), *production* linkages (‘backward’ or ‘forward’ supply of inputs among businesses), and *financial* linkages (e.g., rents extracted by urban landlords, remittances by migrants, rural savings channelled through urban institutions).

An important issue for effective policies is which linkages matter locally, and how they may be mobilised for local economic development efforts:

- The poorest areas may have little more than consumption linkages.
- Production linkages emerge in more diversified settings, e.g., where rural workshops start to supply parts to urban factories.
- Financial linkages appear in all settings, but with different outcomes for rural economies.
- The rise of network societies may contribute to bypass effects, when financial flows link rural areas directly with distant, larger cities at the expense of local towns.

**Migration and small-town production** The flow of migrants from the countryside to towns is a major theme in rural–urban linkages. Small towns tend to have limited production structures, and are often less engaged in production than in consumption and distribution. Their production tends to be small-scale, catering to local low-income clients or attracted by local raw materials or cheap labour. Employment is typically concentrated in commerce and services, and frequently the public sector is more prominent than in larger cities. A number of issues arise from these characteristics:

- Do better economic conditions actually result in jobs for low-skilled rural job seekers, and not just for skilled urban workers (nurses, teachers, managers)?
- Does an enhanced production structure increase competition for local entrepreneurs? When local markets grow, they may attract businesses from elsewhere (market penetration).
- Are policies sufficiently tailored to local conditions? Policy makers should avoid a ‘one size fits all’ approach.



## Experience and expertise

- Centre for Development Research (CDR), Copenhagen
- Development Planning Unit (DPU), University College London
- Institute of Development Studies, Utrecht University
- Institute of Social Studies (ISS), The Hague
- International Institute for Environment and Development (IIED), London
- Overseas Development Institute (ODI), London
- World Bank: Urban-Rural Linkages and Interactions  
<http://lnweb18.worldbank.org/essd/essd.nsf/ruraldevelopment/portal>

## Rural-Urban Linkages *continued*

**Regionally embedded clusters** The production structure of smaller towns needs strengthening in order to reduce poverty and offer sufficient opportunities for local (urban, rural) economic growth. This can occur through a series of mechanisms:

- In most cases, this outward shift of activity is focused on areas not far removed from the major urban areas. Competitive pressures through rising costs (financial linkages) may cause certain production activities (especially labour-intensive and low-value-added segments) to transfer from cities to smaller towns and rural areas. In better-integrated areas, the population tends to grow in both towns and the countryside. Fostering integration may promote growth and reduce poverty in backward regions that are not too remote from existing economic centres.
- Higher demand for local services and products may raise incomes through consumption linkages – often because more people in a household are working, rather than through better wages.
- Business growth results in more demand for suppliers and (simple) business-support services, such as in logistics, catering, cleaning, security, etc. (production linkages).

Recently, much attention has focused on the role of 'clusters' in local economic development: concentrations of functionally linked businesses in a particular geographical area. Given the right conditions, clusters enhance the competitiveness of the regional economy through a mix of mutual rivalry on the one hand, and effective common institutions and collective action on the other.

- The cluster concept shows how enterprise growth may encourage regional development through local linkages, keeping the gains of growth within a regional business system.
- Hence, how can policy foster the rise of dynamic enterprise clusters, in a context that is often not conducive? Frequently, large numbers of undifferentiated small producers catering to low-income clients offer little scope for division of labour.
- The emergence of locally embedded business systems is often hindered by the fact that industries producing for world markets tend to be dominated by external buyers and retailers.
- Can effective public-private partnerships contribute to 'locally embedded' growth? Such partnerships provide a forum for concerted local action, and serve as an interface between local actors and potential external partners. They may vary in scope and scale, but will likely include a 'one-stop' office for entrepreneurs, offering information, support to obtain licenses, credit and subsidies. They will likely have to address issues of skills training and innovation.

**A new agenda for rural service centres** In many countries, the state has withdrawn from its previous role as a supplier of services and infrastructure. Increasing international competition induces governments to emphasise the development of major cities, leaving small towns to fend for themselves. There, as an unintended side-effect, commercial delivery systems are not always viable, resulting in declining services in peripheral areas. This undermines the ability of small towns to offer suitable conditions for entrepreneurial activities, adding to the stream of rural migrants heading for the cities. A key policy issue is hence:

- How to maintain essential services in areas where private parties cannot operate, to keep them viable for residents?

## Key literature

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Key Sheets are available on the Internet at: [www.odi.org.uk/keysheets/](http://www.odi.org.uk/keysheets/)  
or through the websites of DFID and the Netherlands Ministry of Foreign Affairs



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July 2002