

Chapter 7

The Role of Small and Intermediate Urban Centres in Regional and Rural Development: Assumptions and Evidence

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Introduction

Since the early 1960s, small and intermediate urban centres have attracted the attention of policy makers and planners. Different theoretical approaches have underpinned such interest and the related policy interventions. Early views of the role of small and intermediate urban centres in regional and rural development fell within the general paradigms of modernization and dependency theories. In the first, small urban centres are seen as centres from which innovation and modernization would trickle down to the rural population. Hence, the most effective and rational spatial strategy for promoting rural development is to develop a well-articulated, integrated and balanced urban hierarchy. This network of small, medium-size and larger urban centres is described as ‘... locationally efficient – it allows clusters of services, facilities and infrastructure that cannot be economically located in small villages and hamlets to serve a widely dispersed population from an accessible central place.’¹

The pessimistic view echoes the ‘urban bias’ debate, and originally argued that small urban centres contribute to rural impoverishment and are the ‘vanguards of exploitation’ of the rural poor and of extraction of natural resources by external forces which, according to the case, may be colonial powers, multinational enterprises, central governments, local administrators and élites. Such exploitation can only be avoided where there is an egalitarian class structure and free access to land, and ‘... where the stimulus to urban growth results in activity primarily by the people and for the people themselves’.²

More recent views adopt a wider perspective and describe uneven development processes as the root of regional inequalities as well as rural–urban and intra-rural dis-

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parities.³ Although the role of small and intermediate urban centres is not explicitly discussed, the economic and political primacy of large centres and metropolitan regions goes hand in hand with the peripheralization of poorer regions. Recent work in sub-Saharan Africa describes the increasing significance of rural-urban linkages in the livelihoods of rural residents, including occupational and residential transformations, as the mainly negative consequence of pressures on small-scale farming systems accompanied by declining opportunities and high costs of living in the cities.⁴ Both views suggest that the role of small and intermediate urban centres in the development of their surrounding rural region is largely dependent on power relations and development strategies at the national and global levels.

Despite the central role often ascribed to small and intermediate urban centres in regional planning, there is little evidence to corroborate or refute their alleged capacity to trigger development or to act as centres of regional extraction. This paper summarizes the potential role of small and intermediate centres, as implicitly assumed by many policies and programmes. This is then discussed in the light of the available, and relatively limited, empirical evidence, with specific attention to small and intermediate centres' roles in more equitable regional development and in rural and urban poverty reduction.

The potential role of small and intermediate urban centres in regional and rural development

The commonly stated spatial aims of regional planning policies assume that small and intermediate urban centres contribute to regional and rural development in four main ways:

- *By acting as centres of demand/markets for agricultural produce from their surrounding rural region*, either for local consumers or as links to national and export markets. Access to markets is a prerequisite to increasing rural agricultural incomes, and the proximity of local small and intermediate centres to production areas is assumed to be a key factor in their potential role.
- *By acting as centres for the production and distribution of goods and services to their rural region*. Such concentration is assumed to reduce costs and improve access to a variety of services, both public and private and for both rural households and enterprises. Hence, services include agricultural extension, health and education (and access to other government services), as well as banking, post, services of professionals such as lawyers and accountants and lower-order services such as bars and cafés, and wholesale and retail sales of manufactured goods from within and outside the region.
- *By becoming centres for the growth and consolidation of non-farm activities and employment* through the development of small and medium-size enterprises or through the relocation of branches of large private or parastatal enterprises.
- *By attracting rural migrants* from the surrounding region through demand for non-farm labour (and perhaps decreasing migration pressures on some larger urban centres).

The empirical evidence available shows great variations in the extent to which small and intermediate urban centres fulfil these roles. Much of this relates to the specific context in which such centres develop, to land-owning structures, to the quality of transport and communications links and to the structural conditions prevailing at the international, national and local levels. In addition, many centres show high levels of economic and population growth but, at the same time, increasing levels of social differentiation and little evidence of poverty reduction.

Small and intermediate urban centres as markets for regional agricultural produce

Whether small and intermediate urban centres develop as markets for rural producers, and especially for small-scale farmers, depends on a number of factors. These include farming systems and access to natural resources and labour; accessibility and affordability of transport, road infrastructure, and storage and processing facilities; the presence of local urban demand (obviously much influenced by population and income levels) and links with a wider network of markets; and the relations between producers and traders. The greatest stimulus for small and intermediate urban centres from agriculture tends to be where crops or other products generate a high income per hectare and where the land-owning structure is not too inequitable (so there are many farmers earning adequate incomes).⁵

In agricultural regions dominated by large-scale commercial agriculture, most small and intermediate urban centres do not have major roles as markets for agricultural produce. Large volumes of cash crops produced under this type of farming system mostly bypasses local centres while the low wages paid to local workers generates little demand for goods and services. This is especially the case for export-oriented cattle-raising and for certain crops which are shipped directly to larger centres and ports, with little or no new economic activities developing in smaller urban centres (see Box 7.1). Even where small and intermediate local urban centres function as administrative and service centres for farmers, fluctuations in world markets can result in stagnation or decline. In Ghana's cocoa-producing Central Region, the collapse of international prices for this commodity triggered population loss in small towns. Where this fell below the threshold of 5000, the settlements were reclassified as villages: as a consequence, between 1970 and 1984 the total urban population of the Central Region fell from 28.5 to 26.5 per cent, while national rates of urbanization continued to grow.⁶ Similarly, it is likely that low prices for coffee on the international market have brought serious economic problems to many 'coffee towns' that had originally developed and often boomed during periods when world prices were higher.

Despite the generally limited role of small urban centres in regions dominated by commercial farms, they can nevertheless play an important role as local markets for low-income rural residents, albeit as part of a survival strategy rather than as engines of economic growth. The small town of Banket, in Zimbabwe, lies in a rich agricultural zone. It was established in the colonial era to serve the needs of white commercial farmers, and with a population of 10,000 it still serves as a service centre for the surrounding

Box 7.1 *Cattle-ranching and regional urban centres in Huetar Norte, Costa Rica*

Huetar Norte is primarily a cattle-producing region for foreign markets, although since the implementation of structural adjustment programmes in the 1990s this has been complemented with export-oriented crops. Generous credit facilities were allocated to cattle-ranching in the 1970s, supported by loans from the World Bank, which had made the production of regular quality hamburger meat the keystone of its credit policy in Central America. Large ranchers were preferred over smallholders, increasing inequality in the land-owning structure. Indeed, cattle-ranching caused much rural unemployment, especially among the growing number of landless labourers and evicted smallholders, in turn triggering occupation of forest lands and soil erosion.

Moreover, despite the fact that 21 per cent of national cattle stock grazed in this region, no large slaughterhouses or small rural facilities were located in Huetar Norte. Bypassing the regional centres in favour of the capital city, San José, was the result of a powerful alliance between export ranchers in Huetar Norte and politicians and state bureaucrats in San José. Broadly speaking, government policy induced the rapid exploitation of regional natural resources at the expense of sustainability and of the employment and incomes of a considerable proportion of the region's population. While local centres such as Ciudad Quesada have grown, mainly on the basis of the provision of credit services, this growth can be defined largely as parasitic. The creation of wealth as value added and of employment in the processing of the region's main agricultural produce has, on the whole, bypassed regional small and intermediate urban centres.

Source: Romein, A. (1997) 'The role of central places in the development of regional production structures: The case of Huetar Norte, Costa Rica', in Van Lindert, P. and Verkoren, O. (eds) *Small Towns and Beyond: Rural Transformations in Small Urban Centres in Latin America*, Thela Latin America Series, Amsterdam

rich commercial farms. Waged farm workers are among the poorest of Zimbabwe's population, earning far less than the national rural food poverty line and the total consumption poverty line. When there is a need for quick cash, for example, to pay school fees, finance a funeral or buy basic necessities, farm workers take commodities to the market in Banket. This activity is not regular, however, and because of the tight work schedules, workers often send children or unemployed relatives to town.⁷

In general, small and intermediate urban centres are far more likely to play a role as markets for agricultural produce from the surrounding region in areas where small and medium-scale farming prevail.⁸ While these types of farming systems imply some equality in access to and distribution of land, availability of labour can be an equally significant constraint for producers with limited capital to invest in mechanization. Box 7.2 illustrates how in West Africa the issue of labour often overlaps with land tenure systems, and also how strong demand for relatively high-value horticultural produce from nearby urban centres can provide profitable returns from small farm plots.

Demand from urban-based consumers is obviously as important as supply factors. Demand in small urban centres can be limited by incomes and by the fact that, in many

Box 7.2 *Secondary land rights and farming in central Mali*

Secondary land rights include sharecropping, tenancy and borrowing of land under customary tenure systems (land management and allocation by traditional authorities such as village chiefs and village councils). Secondary rights are often seen as exploitative, as they do not give permanent tenure rights to users. However, in some circumstances they can benefit both secondary and permanent rights holders. In the village of Baguinéda, in central Mali, secondary rights allow small-scale farmers to hire migrant workers in exchange for temporary rights to cultivate own plots. The system is highly structured, with specific days of the week allocated to working as labourers and others to working on the borrowed land. Two aspects are central to the functioning of the system: first, land tenure in the village is almost exclusively under the customary system and controlled by the village council, allowing for secondary rights allocation. Second, the strong demand from nearby urban markets for horticultural produce, in which the village specializes, makes cultivation of even a small plot relatively profitable and therefore attractive to migrants.

Source: GRAD (2001) 'Potentialités et conflits dans les zones péri-urbaines: le cas de Bamako au Mali', Rural-Urban Working Paper 6, IIED, London

instances, residents are likely to grow at least part of the food they consume. But in larger administrative centres, demand from civil servants and government employees can raise demand for staples and higher value-added crops from the surrounding region.⁹

Rural producers' physical access to the markets in small urban centres and the extent of these urban centres' connection to wider networks of regional, national and international urban centres are key influences on their development. Availability and affordability of transport is important not only in connecting producer areas to local urban centres but also in connecting local small and intermediate urban centres to other actual and potential markets. The location of small urban centres is therefore critical. In many cases, urban centres located on road axes, along railways and rivers, or in coastal areas have better links with wider market networks. Indeed, national and regional urban systems always reflect the dominant transport system, although often also showing the influence of transport systems that have been superseded (for instance, the 'railway towns' and 'river ports', even when road transport now predominates¹⁰). Border centres also often incorporate elements of underground trade networks, especially where pricing policies result in significant price differences for cash crops. This is, for example, the case on the border between Ghana and Côte d'Ivoire, where cocoa and coffee prices are sufficiently different to encourage smuggling.¹¹

Recent case studies in northern and southern Tanzania show the importance of regional and national urban networks. Himo, in the north of the country, is a vibrant market for local producers. Most farming is small scale and Himo acts as a collection centre for a large number of small farmers. Produce is then shipped to other Tanzanian towns, including the primate centre, Dar es Salaam, and across the border to Kenya.¹² By contrast, the town of Lindi, in the south, has a very limited role as a market for local produce. This is due partly to the poor state of the roads within its region, making trans-

port costs prohibitive for small farmers, but this also extends to the connection between Lindi and other urban centres in the region, and even with the primate city. Lindi is thus a declining centre, and the main locally produced cash crop, cashew nuts, is exported in its raw form by agents who collect it directly from the villages and ship it to international markets, with little if any value added retained in the region.¹³

However, while infrastructure is certainly important, improving spatial linkages does not necessarily have a positive impact on marketing of agricultural production. The vertically integrated and centrally controlled marketing operations that prevailed in the agricultural sector from the 1960s, and in many cases up to the implementation of structural adjustment programmes, were usually linked to poor prices for local producers – thus limiting farmers' incomes and opportunities to re-invest in farming. In many countries, monopolistic practices still prevail in buying rural produce; moreover, increased supply may dampen prices, and rural settlements may compete against each other if they have no clear comparative advantage in marketing their products.¹⁴

This points to two key issues: the first is rural producers' access to information on markets, including price mechanisms, fluctuations and consumer preferences; the second, overlapping with this, is the role of traders. Market information can dramatically transform small farmers' practices and help them adapt production to demand while, at the same time, maximizing the use of their resources.¹⁵ Information can be provided by local traders and by migrant relatives with access to urban markets. The recent, dramatic increase in the use of mobile phones facilitates such exchanges and may especially benefit low-income producers. Recent research shows that in villages around Kampala, Uganda's capital city, almost 20 per cent of rural households have access to mobile phones. These same households could not afford the costs of fixed-line phones.¹⁶

But for the majority of small farmers, traders are the main link with urban markets. Although traders are often perceived as exploitative, they often provide a vital link for small and diversified production flows that are not sufficiently profitable to attract large-scale trading organizations.¹⁷ Moreover, small farmers' limited access to formal credit means that traders often have an increasingly important role as providers of credit. However, with the exception of export crops, trade in agricultural produce is rarely controlled by large, well-capitalized traders. Especially for horticultural produce, the marketing system is often dominated by small-scale traders, even in the case of wholesale dealers and especially in sub-Saharan Africa. In West Africa, traders are usually women who tend to establish personal relationships with both producers and retailers. In this way, financial exchanges are embedded in wider social relations that provide the basic rules for the trust needed for commercial transactions. The major problem confronting most of these traders is limited financial liquidity, which makes them (and, as a result, their creditors) vulnerable to market losses. This problem is compounded by poor physical infrastructure and lack of storage and processing facilities.

The role of traders in the development of small and intermediate urban centres deserves to be better understood. To do so, the category of 'traders' should be broken down to facilitate the identification of specific roles and, eventually, of support interventions. But in many cases, a better understanding is also necessary to regulate the institutional structure of markets, as monopolistic practices or local mercantile oligopolies that control flows of goods tend to bypass local urban centres and re-invest profits outside the region.¹⁸

The role of small and intermediate urban centres in the distribution of goods and services to their rural region

In this section, we limit the discussion to commercial services, i.e. those that develop based on demand from producers and consumers. By goods we mean both household consumption goods and items related to agricultural production inputs. It should be noted, however, that basic services also have a major impact on livelihoods, as they may improve or negatively affect individuals' and households' capabilities.

The role of small and intermediate urban centres in the distribution of services and goods is at the heart of growth centre and central place policies and programmes. These are based on the concept of urban hierarchy, whereby size plays a key role in the types of services provided by different urban centres. Hence, investments in intermediate urban centres are assumed to spread to and stimulate smaller centres which, in turn, provide a limited range of lower-order services and goods to the rural region. However, empirical evidence does not confirm that the size of urban centres necessarily relates to their economic role within their surrounding region. This is because size tells very little about the economic structures and potentials of the rural region and the nature of the links between urban centres and their surrounding rural region.

Two main factors influence the role of small and intermediate urban centres as providers of services and goods to their rural region. First is the nature of rural economic activities and, related to this, the income levels and purchasing power of the rural population. Second is the capacity of local enterprises to develop to meet this demand and the demand from those living in the urban centre. The quality and nature of the services and goods provided must be able to respond to local demand in the face of competition from elsewhere; even enterprises in thriving smaller urban centres can be undermined by competition from larger urban centres and cities, especially when these are located sufficiently close and transport links are reasonably accessible, efficient and affordable.

A broad-based demand for goods and services depends on rural and urban economic activities that generate adequate incomes spread across the local (both rural and urban) population of the region. Many small and intermediate urban centres (and many large cities) developed because of such a broad-based demand – usually generated by high-value crops. But where incomes are low (because of low-value crops or because prices for formerly high-value crops are depressed), demand is not only constrained in terms of quantity. Since low-income households and individuals usually also have limited time available for purchasing goods and services, they often combine trips to urban centres in order to make the most of their visit. This means that small urban centres which only provide a limited range of such goods and services are often bypassed in favour of larger centres (see Box 7.3).

For most small and intermediate urban centres, increasing rural incomes is a precondition for their development, based on their being focal points in the provision of services and goods to the rural population. This, in turn, is linked to land ownership structures: for example, much of the dramatic decline in rural poverty in Vietnam in the 1990s is attributed largely to land allocation reforms, which have given farmers security of tenure and more freedom to manage and work the land and to determine what crops to cultivate.¹⁹

Box 7.3 *Market behaviour in a low-income region of the State of Mexico*

The region surrounding the intermediate centre of Tejupilco, about 120km from Mexico City, has very limited socio-economic development, with much of the rural population living at near-subsistence levels. The transport network is also poorly developed. Tenure is a problem, and most rural households have either insufficient land to engage in cash crop production or are landless and rely on seasonal migration for their incomes. Rural settlements are mainly hamlets of less than 1000 inhabitants, interspersed with a substantial dispersed population. A periodic market system, with different prices and goods on offer, takes place in various settlements, the largest of which has a population of 10,000. This small urban centre also offers a range of permanent services, including secondary education institutions, farmer supply agencies, banks, a municipal centre, doctors and dentists, lawyers and accountants.

The structure of periodic markets is the consequence of traders adapting to low demand and trying to maximize profits. Consumers have to adapt to such a system in order to minimize their cash and time costs. As a result, there is no simple correlation between distance to markets and the frequency of shopping trips. Low-income rural consumers adapt by organizing their visits to urban centres to fit in several purposes, including the purchase of goods, the use of services, social visits, in some cases the sale of their own produce, and temporary work. This means that larger regional centres are more likely to be the destination of such trips, as they offer a wider range of opportunities.

Source: Morris, A. (1997) 'Market behaviour and market systems in the State of Mexico', in Van Lindert, P. and Verkoren, O. (eds) *Small Towns and Beyond: Rural Transformations in Small Urban Centres in Latin America*, Thela Latin America Series, Amsterdam

To a large extent, the nature of agricultural produce also affects demand for goods and services from the farming population. Labour-intensive and high-revenue produce such as horticulture is more likely to increase incomes for a large number of small and medium-size farmers. By contrast, cattle-ranching requires limited labour but high capital investment for the acquisition of large land holdings. The small labour force cannot provide sufficient demand to stimulate the production of goods and services in local small and intermediate urban centres, while the wealthy few are more likely to rely for household consumption on larger urban centres selling a wider variety of specialized goods and services. Even when the number of those employed in farming is relatively high, their incomes need to be sufficiently high. In Zimbabwe, waged farm workers are among the poorest of the country's population and, although they depend on local small urban centres for essential services such as health care and for the purchase of clothing and other basic items, their purchasing power is so low that it can only support the urban informal sector.²⁰

Services and goods for agricultural production rather than for household consumption have been affected by economic reform and adjustment since the 1980s. On the demand side, structural adjustment was meant to increase producer prices and, in some cases and for some commodities, this did occur. For example, in Zimbabwe, maize

prices increased in the 1993–1994 season. Since this increase was greater than that of the price of fertilizers, the use of fertilizers also grew. However, this only applied to larger farmers with a marketed maize surplus, whereas small farmers, who rely on subsistence agriculture and non-farm activities and who must purchase at least part of their maize for household consumption, did not benefit from the staple crop's price increase and therefore were not in a position to purchase more agricultural inputs and increase their own production.²¹

With declines in demand, the supply of agricultural inputs by enterprises based in small and intermediate centres has also been affected. Moreover, the impact of rising costs of imports, often compounded by currency devaluation, have hit many activities related to agricultural production: for example, rural transporters, grain grinders, mechanics, welders and photographers have, in many cases, suffered from the high costs of equipment and materials. Indeed, even locally manufactured inputs often have some import content, for example, scrap metal for blacksmiths' tools.²² Especially in sub-Saharan Africa, the demise of statal and parastatal marketing boards has affected small farmers' access to credit, often severely. With the costs of agricultural inputs and consumer goods rising faster than the prices of agricultural produce, both small-scale farmers and the small-scale urban enterprises that rely on their demand have been affected. To some extent, credit provision has been taken up by local traders, as described earlier.

Overall, trade and services are an important component of non-farm activities in small and intermediate urban centres, and especially in smaller settlements they are often closely related to agricultural production. This may consist of buying farm produce and selling it in local urban and rural markets, or shipping it to other markets outside the region; it may also consist of selling goods, both agricultural and non-agricultural, to farmers and households whose main source of income is derived from

Box 7.4 *Urban-based trade and services in northern Tanzania*

Himo is a thriving small market town in northern Tanzania, close to the border with Kenya. It is a collection and distribution point for smaller markets in the Kilimanjaro region, and a large proportion of the produce is sold either directly by producers or by small traders to larger operators, who take it to Dar es Salaam and other regional centres in the country or across the border to Kenya. Himo also receives produce from other Tanzanian regions and manufactured goods from Kenya. On market days, the town is hectic, with produce arriving from near and far, and traders, middlemen, porters and food vendors all trying to cash in on the trade.

Services related to the market are the main source of income for the town's residents, and include about 40 bars, 40 guesthouses and around 70 shops, as well as small slaughterhouses and petrol stations. This concentration of services attracts not only traders but also farmers from surrounding villages, where there are often just a few small shops and no bars.

Source: Diyamett, B., Diyamett, M., James, J. and Mabala, R. (2001) *The Case of Himo and its Region, Northern Tanzania*, Rural-Urban Working Paper 1, IIED, London

farming. Both small and intermediate urban centres also provide recreational services to the population of their surrounding region, including bars, restaurants, hotels and guesthouses, cinemas etc. The link with agricultural production is clear as, in many cases, customers are farmers who come to town to sell their produce or to buy inputs (or, in many cases, do both), and traders travelling between market towns.

The scale and extent of provision of goods and services to rural consumers by enterprises located in small and intermediate urban centres is closely linked to income diversification and to employment opportunities in non-farm activities, which are often located in local urban centres. This is especially important in smaller urban centres, which are unlikely to attract branches of large private and parastatal enterprises due to their limited demand.

Small and intermediate urban centres, livelihood diversification and non-farm activities

Definitions: In this chapter, we define rural non-farm activities as all activities outside the agricultural sector. This excludes wage or exchange labour on other farms (sometimes classed as 'off-farm'²³) but includes services and manufacturing related to the transformation and processing of agricultural produce, as well as non-related services and manufacturing activities. It also includes all forms of work – self-employment, wage employment, full-time, part-time, formal, informal, seasonal and occasional non-farm income-generating activities. These may take place in a variety of locations: in the home, in rural-based workplaces and urban-based ones requiring workers to commute, and in a number of different places, as is the case for itinerant activities such as trading.

It is generally agreed that in most rural locations, there has been an increase among rural households in the time devoted to, and the income share derived from, non-farm activities, although diversification is not new. Nor is it a purely rural phenomenon, and the reliance of hundreds of millions of urban residents on agriculture, either for household consumption or as an income-generating opportunity, is well documented.²⁴ However, national employment data tend to underestimate the importance of diversification, as they usually record only people's primary activity. This neglects the fact that individuals are more likely to engage in multiple activities rather than rely on only one, and that there will often be variations over time, either seasonal (and therefore dependent on changes in the labour demands of different activities) or related to individuals' life courses (such as, especially for women, different demands on their time from childcare, caring for older people etc). Recent survey data on employment patterns in southern Tanzania show that 67 per cent of respondents living in villages and in the intermediate town of Lindi are engaged in more than one income-generating activity, including both farming and non-farm activities.²⁵

Information on rural households' income share derived from non-farm activities is usually based on relatively small and location-specific household or enterprise surveys. Rarely is there national data, and even where they are available, usually informal sector activities are omitted, including home-based work and petty trade that can be a significant part of non-farm income-generating activities for low-income groups. Available

studies show that the proportion of rural households' incomes derived from non-farm sources, including migrant remittances, is between 30 and 50 per cent in sub-Saharan Africa, reaching as much as 80–90 per cent in some regions, such as southern Africa. In south Asia, the proportion is around 60 per cent.²⁶ In Latin America, non-farm income constitutes roughly 40 per cent of rural households' incomes.²⁷

The reasons for the increase in income diversification and non-farm employment

The reasons and determinants of diversification are the subject of intense debate. A key question is whether diversification is the result of growth in both agricultural and non-agricultural sectors or, rather, the result of decline and stagnation in farming.²⁸ In the regional planning tradition of the 'virtuous circle' of rural-urban economic development, diversification is an essential element of a theoretical model that emphasizes efficient economic linkages and physical infrastructure connecting farmers and other rural producers with both domestic and external markets (see Box 7.5)

As is often the case, there are several variations of this stylized model, although the critical element is that it is agricultural growth that spurs growth in rural non-farm employment. A more sombre view of diversification sees it as one dimension of a wider process of de-peasantization. This is described as an overall sectoral change involving the rapid shrinkage of the proportion of the population engaged in farming and residing in rural settlements. In this context, non-farm activities concentrate in over-competitive and poorly paid services such as petty trade.²⁹

Box 7.5 *Income diversification in the virtuous circle of rural-urban development*

The virtuous circle of rural-urban development envisions a mutually reinforcing pattern of linkages between an urban centre and its hinterland, which spurs the growth of both agriculture and non-farm activities. The three main stages in the model can be summarized as follows:

- first, rural households earn higher incomes from the production of agricultural goods for non-local markets, and this increases their demand for consumer goods;
- this leads to the creation of non-farm jobs and income diversification, especially in small urban centres close to agricultural production areas;
- this, in turn, absorbs surplus rural labour, raises demand for agricultural produce and, in so doing, boosts agricultural productivity and rural incomes.

Source: Evans, H. E. (1990) *Rural-Urban Linkages and Structural Transformation*, Report INU 71, Infrastructure and Urban Development Department, The World Bank, Washington, DC; UNDP/UNCHS (1995) *Rural-Urban Linkages: Policy Guidelines for Rural Development*, Paper prepared for the 23rd Meeting of the ACC Sub-committee on Rural Development, UNESCO, Paris, 31 May–2 June 1995

A review of the main reasons behind the growth in rural non-farm employment in different nations and regions suggests that diversification is a response to a variety of factors. These can be divided broadly into 'push' (or constraints) and 'pull' (or opportunities) factors. However, this is more an analytical distinction, and empirical evidence shows that, in most cases, diversification is driven by a combination of both.

For example, in some regions of China and in the densely populated Red River and Mekong deltas in Vietnam, increases in rural non-farm activities are primarily the consequence of large labour surpluses in the agricultural sector. However, it should also be stressed that in both countries, such labour surpluses emerged after the demise of the commune farm system in the 1979–84 period in China, and post-1986 in Vietnam. As households took over responsibility for farming, production levels increased and, in high-potential regions, this contributed to a decline in rural poverty and to increased demand for non-agricultural goods; at the same time, however, land scarcity gave rise to unprecedented migration to small and large urban centres.³⁰

In Brazil's central plains, since the early 1970s export-oriented agro-industry has taken hold with highly mechanized crops such as cotton, and has swept aside the traditional production of staples by sharecroppers, small tenant farmers and rural squatters, forcing them to find employment in non-farm sectors.³¹ In much of sub-Saharan Africa, the growth in non-farm occupations since the implementation of structural adjustment derives as much from the need for cash to cover user fees for basic services as from the decline in farming incomes and, in some locations, the emergence of new types of employment in services for international tourism.³² The latter are, in most cases, not the consequence of endogenous development but of the internationalization of trade, production and services. Similarly, the development of many small and intermediate urban centres in northern Mexico, and the related growth in non-farm employment among their populations and that of the surrounding rural regions, is not locally induced but is based on foreign investment and production for international markets in *maquiladoras*.³³

Diversification patterns, inter-household and intra-household differences

Given the broad variations in the reasons behind diversification, and the ways in which local contexts affect both constraints and opportunities, it is useful to look at diversification patterns in relation to their potential contribution to poverty reduction and to greater equity.

A first distinction can be made between poor and vulnerable households and individuals, and better-off households and individuals. This cuts across both rural settlements and urban centres, as it is increasingly recognized that diversification and access to both rural and urban resources is important for residents of both areas. On the other hand, there are also significant differences in the ways in which different households straddle the rural-urban divide, and in how this contributes to their security and wealth.

Diversification can be described as an accumulation strategy for households with farming assets and with access to urban networks, who often re-invest profits from

urban-based activities in agricultural production and vice versa, resulting in capital and asset accumulation. But for other groups, rural non-farm activities can be determined by lack or loss of land, labour or capital in what can be described as a 'survival strategy' that aims to reduce risk, overcome seasonal income fluctuations, and respond to external and internal shocks and stresses.³⁴ Land ownership can become increasingly unequal, as large farmers and wealthier urban households purchase land rights from smallholders who cannot afford to buy inputs and who have limited access to credit.³⁵ As a result, the poorest households become less able to spread risk as they lose farming as part of their portfolio of activities. Indeed, reliance on non-farm income sources is much higher than average among rural residents with limited or no access to farming resources, such as, in many nations, women and the landless. But at the same time, households that rely on farming only can be considered a high-risk category, especially in rainfed-agriculture areas where they are susceptible to climatic vagaries.³⁶

As wealthier households' diversification of activities consolidates, multi-activity takes place at the household level, where individuals specialize in specific sectors of activity but resources are used to facilitate investments across sectors. By contrast, poor and vulnerable individuals lack the skills and education to specialize in any activity and must engage in a multitude of low-paid income-generating occupations to make ends meet.

At the intra-household level, gender and generational relations are likely to have a significant impact on the ways in which different groups engage in diversification. In Tanzania, domestic trade liberalization has opened up opportunities in local small-scale trade. These have been taken up especially by young women, who are otherwise expected to work as unpaid labour on their family's farm, which they would not expect to inherit; but young men are also moving out of farming, as petty trade replaces agriculture as their main activity. Their reasons for doing so are not only the decline in farming incomes but also frustration at the almost absolute control still held by the older men over land and farming decisions.³⁷ At the same time, widespread access to information, changing financial expectations and a view of farming as 'un-modern' also have a profound impact on employment patterns in many 'rural' areas. Hence, in densely populated south-eastern Nigeria, which also has a comprehensive network of small and intermediate urban centres, young men in rural settlements are expected to find work, at least for a period of time, in nearby urban centres – should they decide not to do so, they risk being derided for being lazy.³⁸

New non-farm employment opportunities can have a profound impact on traditional social structures. For example, in South India, young men from landless low castes who find employment in urban centres openly defy the caste system as they are no longer dependent on their upper caste, land-owning employers for a living.³⁹ While these transformations should be welcomed for breaking up unequal social relations, their economic and social consequences are still not sufficiently understood. What is clear is that the assumption that rural households and communities are relatively stable units of production and consumption is no longer valid, and that this needs to be taken into account in the formulation and implementation of rural development initiatives.

The nature of rural non-farm employment and the role of small and intermediate urban centres

Only a minor proportion of rural non-farm activities are in the manufacturing sector, usually around 20–25 per cent.⁴⁰ Moreover, this is likely to decline due to competition from cheaper imports: for example, in northern Tanzania, labour-intensive vegetable oil-processing by women's groups is undermined by imported oil from Singapore.⁴¹ In south-east Nigeria, traditional cloth-weaving has long been an additional source of income for local women and one which had managed to retain a market niche in the face of competition from imported goods; but lack of backward linkages with agriculture (for example, local production of cotton yarn) and insufficient local infrastructure (such as unreliable electricity supply in the rural settlements) are major constraints on production.⁴²

Services and trade typically provide a much larger share of employment and income. Both tend to concentrate in small and intermediate urban centres and have benefited from liberalization and the demise of central marketing boards for agricultural commodities, which controlled trade as well as most transport services between rural settlements and urban centres.⁴³ Manufacturing in small and medium-size enterprises has also increased in response to the contraction of large formal sector enterprises, although many rural non-farm enterprises employ fewer than five workers and suffer from constraints which can hamper their growth. These range from shortage of capital, limited demand, poor marketing ability, inadequate space, and lack of information, technology, skills and management capability.⁴⁴

Small and intermediate urban centres can help overcome such constraints, and may stimulate the growth of these enterprises by offering markets large enough to capture economies of scale and agglomeration for many types of non-farm enterprises. Higher levels of infrastructure also help reduce production costs and facilitate access to markets and communications. This fits well with the current growing interest in clustering and industrialization and in local economic development, where local and regional institutions, usually located in small and intermediate centres, can play a key role in supporting local actors and connecting them to national and international agencies and markets.⁴⁵

Clusters are defined as sectoral and spatial concentrations of firms, which benefit from a range of localized external economies that lower costs for clustered producers. These include: a pool of specialized workers; easy access to suppliers of specialized inputs and services; and quick dissemination of new knowledge. Clustering is thought to be particularly relevant in the early stages of industrialization by helping small enterprises to grow in small steps, as producers can concentrate in stages rather than on the whole production process, and rely on horizontal linkages with other specialized enterprises to complete the process.⁴⁶ But a proactive, consciously pursued joint action around issues and problems of common concern is essential for positive cluster development, and collective efficiency is the critical concept.

Emerging issues in the literature now identify trade networks that give access to non-local markets, and effective sanctions and trust as key elements for clusters to develop. In Indonesia, clusters are often located close to roads and rural centres, and

traders and middlemen link producers to distant markets, provide materials and equipment, pass on essential technical information and offer advances for labour. In countries with poor infrastructure, weak information systems and cultures that place high value on face-to-face communication, geographical location is a key element of clusters.⁴⁷

Much of the literature on industrial clusters in low- and middle-income countries draws from Asian and Latin American experiences and, while the consequences of clustering for inter-firm production and social relations and, ultimately, for sustained economic growth is extremely mixed, it is even more so for African nations (see Box 7.6). For example, growth can vary widely, from artisanal clusters serving only local markets to highly dynamic clusters with deep inter-firm division of labour, entering international markets. Moreover, clusters are internally differentiated and, in many instances, large firms emerge and have important roles, raising the issue of the need for vertical, as well as horizontal, integration.

Box 7.6 *Limitations to cluster development in Africa*

The ability of small enterprises to achieve agglomeration economies through clustering (and therefore through collective efficiency or collective action) has been widely documented and discussed in the Latin American and Asian literature. In Africa, experiences have been generally much less impressive. There seem to be a number of reasons for this.

First, small African enterprises seem to cluster primarily to reduce the costs of attracting more customers. This, however, is done in a passive way, as there is no collaboration in marketing and most enterprises continue to sell directly from the workshop. Traders and middlemen are missing in these clusters, and so is their role in knitting together successful clusters and as agents of change.

Second, African small enterprises rarely specialize vertically. Enterprises specialize in specific products and cover the full production process. Exceptions are sharing large orders with other enterprises, although still covering the whole process, and renting out excess capital equipment capacity to other enterprises. The lack of vertical division of work is likely to be due to the often extreme market instability in which the small enterprises operate.

Third, successful Asian and Latin American clusters often comprise a whole town and include large and small enterprises, traders and service providers. African clusters are more narrowly described as small enterprise areas within a town, which limits access to new technology and larger markets – mirroring the limited interactions between large formal sector enterprises and small informal sector ones so common in Africa.

Source: Pedersen, P. O. (2003) *The Implications of National Level Policies on the Development of Small and Intermediate Urban Centres*, IIED, London

Key issues in non-farm employment in small and intermediate urban centres

Empirical evidence shows that diversification of income sources is not a transitional phenomenon but, rather, a persistent one with great potential for poverty reduction. This means that while support is necessary for the development of non-farm activities, and especially that of small and medium-size firms which represent the majority of such activities, it is also important to ensure that at the same time, households are able to retain a foothold in farming. Indeed, diversification into commercial agriculture by wealthier urban residents suggests that farming as a secondary activity is an essential part of accumulation strategies.⁴⁸ The nature and form of non-farm activities depend on a combination of macro-economic environment at the international and national levels and local conditions, including governance. A pre-condition for the effectiveness of local governance is its integration with national planning. The key issues for policy are summarized as follows.

Recognize the potential that often exists for forward and backward linkages with agriculture to support non-farm enterprises' activities. There are often possibilities to stimulate regional economic growth and development through a closer linking of the non-farm sector to agriculture (especially particular high-value crops that have possibilities for local value added), especially where agriculture remains the main occupation for much of the population. Far too little attention has been given to this in 'small and intermediate urban centre' policies, which tend to give little attention to agriculture. Farming and personal services, as well as simple consumer durables, should be an essential output of non-farm enterprises located in small urban centres.

Ensure that small and micro-entrepreneurs have access to markets, to outside capital sources, to basic education and to essential technical knowledge. Small and especially intermediate urban centres can be key providers of such services. However, different types of small enterprises have different requirements for policy support. For micro-enterprises, access to working capital is often key, while for larger enterprises non-financial constraints are often more critical, especially those relating to access to markets and marketing skills. Entrepreneurs' gender may also affect the type and needs of enterprise, and women may want to fit their business plan around domestic responsibilities.⁴⁹ Local policy making and implementation is more likely than national planning to respond to the locally specific variety of needs, especially where local governance systems make local politicians and bureaucrats more responsive and accountable to local citizens.

Respond to competition from larger and international firms by identifying local opportunities. Globalization and market liberalization can negatively affect small and micro-enterprises that cannot compete with cheaper imported goods. Small and micro-enterprises usually do not have the capacity or the information to identify bottlenecks and comparative advantages for the whole sector. Institutional support is therefore key to enabling them to better understand constraints and opportunities in local and non-local markets and, where possible and desirable, become better integrated in national and international supply chains.⁵⁰

Support trade and networking activities based in small and intermediate urban centres to encourage links between the local and rural economy and the national and global econo-

mies. Traders are a vital link between farm and non-farm enterprises, and between local markets and national and external ones. They also often provide credit and technological advice to producers. Many small urban centres function primarily as market towns, but more support should be given to traders as agents of change rather than merely seeing them as exploiters of both producers and consumers.

Ensure that natural resource management responds to the needs of both farming and non-farm activities. In many instances, there is latent or even open conflict in the use of natural resources such as land and water for agriculture or for urban residential and non-farm productive activities. Especially for small urban centres in the proximity of large urban conurbations, competition for natural resources can benefit large urban-based firms and higher-income residents at the expense of low-income 'rural' residents. For example, industries relocated in peri-urban areas can occupy agricultural land or discharge polluting effluents into water used for domestic and agricultural use by rural settlements and small urban centres.⁵¹ Non-farm enterprises located in small and intermediate urban centres can also have a negative impact on the local environment. In China, in the mid-1980s, township and village enterprises were responsible for one-third of gas emissions, one-sixth of water pollution and one-sixth of solid wastes produced in the country.⁵² In Vietnam, rural industrial zones are planned to facilitate small enterprises' access to infrastructure and environmental protection measures such as water treatment for weaving firms; however, there is a real risk that home-based micro-enterprises may not afford to move to these zones.⁵³ Local governments are in the best position to assess local needs and priorities and implement a wide range of initiatives to respond to them, provided they have the legitimacy, the resources and the capacity to do so.

Small and intermediate urban centres and regional rural-urban migration

One of the key potential roles of small and intermediate urban centres is that of attracting rural migrants from their surrounding region through demand for non-farm labour. This would increase local opportunities for income diversification and, at the same time, decrease pressure on larger national urban centres. But the credibility of this role has often been undermined by unrealistic government policies that seek this as an end, but without the policies to strengthen their economies that would actually make this happen.

Since migrants tend to move to centres where they have more chances of finding employment (and reasonably priced accommodation), flows towards small and intermediate urban centres are influenced by national macro-economic strategies and public investment patterns. In many nations, infrastructure and other basic facilities have been provided principally to areas which are judged to have high growth potential; even where they existed, explicit dispersal policies that were meant to support smaller urban centres were often undermined by spatial biases in macro-economic and sectoral policies, including trade, industrial and agricultural policies.⁵⁴ For example, the development of export-oriented industries, which are normally located close to major ports and large cities, function as major poles of attraction for migrants.⁵⁵

It is also important to note that migrants are not usually the poorest groups, especially for long-distance migration. This is because moving requires resources: financial means are needed to pay for transport, and social networks are as, if not more, necessary to provide migrants with information on opportunities at destination and with a safety net during the first period there, including accommodation and learning new skills. Hence, the poorest rural residents tend to move locally or, at most, within the region.⁵⁶ Their destinations are often other rural areas, where they can sell their labour in agricultural work, often on a seasonal basis. In recent years, networks and demand from employers have stimulated international migration directly from the villages; for example, in northern Mali it is not unusual for men to move to West African coastal destinations several hundreds of kilometres away and, increasingly, to overseas destinations such as the Middle East and North African countries. Since this involves substantial financial costs, migrants tend to stay away for several years before returning home, which can result in labour shortages on their family farms.⁵⁷

An essential pre-condition for migrants moving to small and intermediate urban centres within their region is the availability of employment, especially in non-farm sectors such as trade, services and manufacturing. Indeed, the growth of many such centres is historically linked to their role as market towns for the surrounding agricultural regions and, in many cases, this role also explains the economic and demographic decline of some towns (see Box 7.7).

Many small and intermediate centres show fluctuations similar to those of Dimbokro, which underline their vulnerability to macro-economic changes or changes in transport systems. One of the reasons for demographic decline is that migrants stop moving to these urban centres, or indeed move out of them in search of better opportunities in more dynamic locations. However, the exact contribution of migration to urbanization, including the growth of small and intermediate urban centres, is usually underestimated. This is due in part to the fact that migrants may not be officially reg-

Box 7.7 *The interlinked fortunes of a small town and its rural region in Côte d'Ivoire*

The town of Dimbokro, in Côte d'Ivoire's 'cocoa belt' was founded less than a century ago and developed out of 'sheer luck and political will'. It was first chosen by the colonial army as a stopover point on the way north; and despite the unhealthy location, it was selected as one of the very few railway towns while other, busier centres were not included in the network. In the 1940s, production of cocoa and coffee for export in the surrounding region transformed the small administrative district town into an important commercial crossroads busily involved in import-export activities. However, dependence on the plantation economy was the downfall of Dimbokro, when production moved towards the western 'frontier' and road transport replaced rail transport. After growing from fewer than 10,000 to over 31,000 inhabitants between 1956 and 1975, the population of the town stagnated in the following decade.

Source: Bredeloup, S. (1997) 'Dimbokro, the typical Ivorian town or the absence of rural-urban interaction?' in Baker, J. (ed) *Rural-Urban Dynamics in Francophone Africa*, Nordiska Afrikainstitutet, Uppsala

istered as urban residents, either because they consider their stay as temporary or because of administrative restrictions (the population of China's urban centres has long been under-counted because 'floating populations', who have no formal right to work there, are not included); and in part because the availability and reliability of national-level data for the calculation of estimates of the components of urban growth – natural growth, internal migration and reclassification – are limited. In many nations, population censuses do not include specific questions on movement.⁵⁸

Factors affecting destination choices

Despite these problems, migration is increasingly recognized as an essential component of the livelihoods of most households in low- and middle-income nations.⁵⁹ While migration can be considered as a household income diversification strategy involving the spatial movement of at least one of its members (with different individuals engaging in farm and non-farm activities in different locations), in some cases the choice of destination underlines the need to rely on both rural and urban resources in the same location. For example, research in sub-Saharan Africa suggests that movement of retrenched formal-sector workers from large urban centres to small and intermediate ones in the 1980s may have been determined by the better opportunities provided by less densely populated centres to combine urban and peri-urban agriculture with other urban-based non-farm occupations.⁶⁰

Another recent significant transformation in migration patterns is the increase in the number of women, especially young unmarried ones, moving independently – that is, not following male relatives. In part, this is because of demand in 'new' sectors, such as export-oriented manufacturing firms and the growing service industry. The first are often located in major urban centres, hence migrants from rural areas bypass local urban centres.⁶¹ Demand for workers in the service industry is more evenly distributed across space, since it includes waitressing in local bars and restaurants (often major employers in small and intermediate urban centres, especially market towns) and work in international tourist resorts. This category also includes the 'entertainment' industry, often a euphemism for prostitution. Whatever the reality of the job, however, there is often a strong stigma attached to female employment in places which are mostly considered disreputable. As a result, many young female migrants tend to move to places further away from their home areas and avoid the local urban centres, so that they will not risk ruining their own and their family's reputations.⁶²

Gender also affects decisions to migrate from rural to urban areas for women who, through widowhood or separation, head their own households. For rural women who find themselves without a male partner, economic survival can be problematic since they usually have only limited access to land, and work in rural non-farm activities is often confined to the most marginal and low-paid sectors.⁶³ In Honduras, 26 per cent of female heads of households in urban *barrios* are migrants who arrived in the cities alone with their children. Young, separated women find it most difficult to survive alone financially in rural areas since, on separation, rights to land tend to remain with men. Their main options are thus to move to areas with better non-farm employment oppor-

Box 7.8 *The impact of accommodation restrictions on poor migrants in Brazil's central region*

Brazil's medium-size urban centre of Rio Verde is located in the agri-business central region. While the growth of the centre has attracted many white-collar, middle-class workers from larger urban centres, the majority of migrants are expelled tenant farmers struggling to find local housing and employment. Since the early 1980s, with increasing urban growth and competing demands for urban space from middle-class migrants, local authority officials have introduced restrictions on the size of plots and the ways in which the land can be used in low-income housing projects. This negatively affects residents' opportunities for diversification through renting, secondary housing, small shops or restaurants, subsistence plots or orchards.

Source: Chase, J. (1997) 'Managing urban settlement in Brazil's agro-industrial frontier', *Third World Planning Review*, vol 19, no 2

tunities or return to live with their parents as embedded sub-families, if resources are sufficient.⁶⁴ This does not exclude migration to the local urban centres, provided local non-farm work opportunities exist. In Biharamulo, a small urban centre with a population of 20,000 in north-western Tanzania, almost 30 per cent of urban households are headed by women, compared with only 7 per cent in the surrounding villages.⁶⁵

Other considerations affect the choice of migration destinations and are also closely related to the different priorities of different groups. In Mexico, the migration of middle-class households from Mexico City to intermediate urban centres is explained as a response to both increased economic opportunities for skilled workers, following the relocation of many firms, and to negative perceptions of the capital city's environmental conditions and air pollution levels. By contrast, low-income households' concerns with access to land and home ownership, which may be more easily achieved in some peri-urban settlements of large urban centres, eclipses any other environmental perceptions, and movement continues to be directed largely towards the capital city.⁶⁶ Indeed, particularly in Latin America, spatial control by planners and local élites can be much tighter in small and intermediate urban centres than in larger ones, and informal settlements and alternative land use by the urban poor may not be tolerated (see Box 7.8).

Employment in small and intermediate urban centres, migration and mobility

Whether migrants move to small and intermediate urban centres rather than to larger cities depends on the income-generating opportunities (both 'formal' and 'informal') available locally and on the reasons why migrants move in the first place. In areas where tenant farmers and smallholders are expelled from rural areas because of increasing concentration of land in large, mechanized commercial farms, migrants tend to come from the surrounding region essentially because they often lack the networks and financial

means to reach larger, more distant urban centres. A comparative study of migrants in three small and medium-size urban centres in northern Mexico, Costa Rica and Bolivia shows that migrants from the surrounding rural areas, who have limited skills and education, are overwhelmingly concentrated in low-skilled and low-income occupations – hence they have little job stability, limited purchasing power and lack the propensity to save. These very poor migrants have recently arrived in the urban centres and several members of their households engage in a variety of income-generating activities, often more than one in the case of adults. By contrast, these towns also attract a significant group of professional migrants coming from other urban centres, and whose presence in small and intermediate urban centres is part of a career path, usually as employees of large private and parastatal firms who run branches in such centres.⁶⁷

While low-income rural households who lose their farming assets and have no access to alternative income-generating activities have little option but to move to urban centres, in most cases rural residents prefer to live in their home villages and benefit from the opportunities provided by the local urban centres by increasing their mobility.⁶⁸ This, of course, requires the availability of affordable transport. In south-east Nigeria, low-income people commute regularly from the villages to the intermediate town of Aba to work as domestic workers, gardeners and so on.⁶⁹ This allows them to grow their own food and generally to spend less cash than they would need to by living in the town. Commuting also helps avoid labour shortages during specific times in the farming season, which are often associated with migration.⁷⁰ In China, research in Jiangsu Province in the mid-1980s showed that although the change in migration regulations attracted migrants to small towns, especially from within a small radius, the number of commuters was more important than the number of those who had actually moved. Daily commuters from the surrounding rural villages accounted for up to 43 per cent of the daytime urban population.⁷¹

Better transport facilities are a key element of livelihood strategies based on diversification of activities and reliance on both rural and urban resources. The latter is such an important aspect of how poor groups reduce their vulnerability that poverty reduction policies should focus primarily on increasing the opportunities for diversification. Recent research on mobility in Uganda and Zimbabwe suggests that while planning should include far greater attention to access to services, work and basic needs where people reside, thus cutting down on time-consuming, energy-draining and disruptive movement, there is also a need for more sensitivity in addressing the mobility needs of poor groups. Since low-income groups tend to move primarily by walking, this should include the construction and maintenance of dedicated safe walking paths; moreover, efforts should be made to lower the cost of public transport to increase access to poor groups, with local authorities preventing the development of monopolistic or oligopolistic conditions within public transport services.⁷²

Conclusions: the role of small and intermediate urban centres in equitable regional development and poverty reduction

There is a considerable potential role for small and intermediate urban centres in regional and rural economic development. However, their capacity to trigger equitable regional development – that is, balanced across different regions and benefiting all groups – is much influenced by the region's internal characteristics (including the natural resource base, population density and infrastructure), land ownership patterns and economic, social and cultural transformations at the local, national and international levels. At the international level, the positive role of small and intermediate urban centres is supported by access to international markets for small and medium-size producers, with stable commodities prices; and by foreign investment that supports local production and imports that do not compete with locally produced goods. At the national level, important factors include a not too unequal distribution of and access to land; regionally balanced growth strategies, including satisfactory provision of infrastructure, credit facilities and advisory and training services for small and medium-size producers (both in agriculture and in trade and manufacturing); and basic service provision reaching small and intermediate urban centres, adapted to local needs. They also include revenue support to local governments (smaller urban centres' potential to attract new investment being considerably influenced by the competence of its government) and a regulated institutional structure of markets that restricts monopolistic and oligopolistic practices.

At the local level, governance that is accountable and with adequate resources and capacity is essential to identifying local needs and priorities and responding to them. This includes supporting forward and backward linkages between agriculture and services and industry located in local urban centres; and the regulation and management of local natural resource use.

Most successful small and intermediate urban centres have developed when most of these conditions were present, although of course there are also many cases of such centres growing in contexts which can be described as exploitative of the surrounding rural region. These centres are usually more vulnerable to the vagaries of international markets, and in many cases suffer economic and demographic decline after periods of growth. Figures 7.1 and 7.2 summarize the interrelations between the international and national contexts and local governance, and their impact on rural-urban linkages and small urban centres' roles.

However, even successful small and intermediate urban centres may not play a significant role in poverty reduction unless specific attention is given to the needs and priorities of poor and vulnerable groups.

With regard to *small and intermediate urban centres' role as markets for agricultural produce*, it is certainly true that access to markets is essential for small-scale farmers. However, this could remain limited to very low-level transactions unless farmers are able to respond to demand from urban-based consumers (and traders). This implies stable access to natural resources (land and water), labour, financial resources and affordable agricultural inputs. Small and medium-scale traders often play a crucial role in collecting

International context: access to international markets for small and medium-sized producers, with stable commodities prices. Foreign investment supports local production, imports do not compete with locally produced goods.
National context: equitable distribution of and access to land; regionally balanced growth strategies including satisfactory provision of infrastructure, credit facilities for small and medium-sized producers, and basic services (education, health, water and sanitation); revenue support to local government; regulated institutional structure of markets.
Local governance: accountable, with adequate resources and capacity; identifies local needs and priorities and responds to them; supports forward and backward linkages between agriculture and services and industry located in local urban centres; regulates local natural resource management; integrated with national planning.

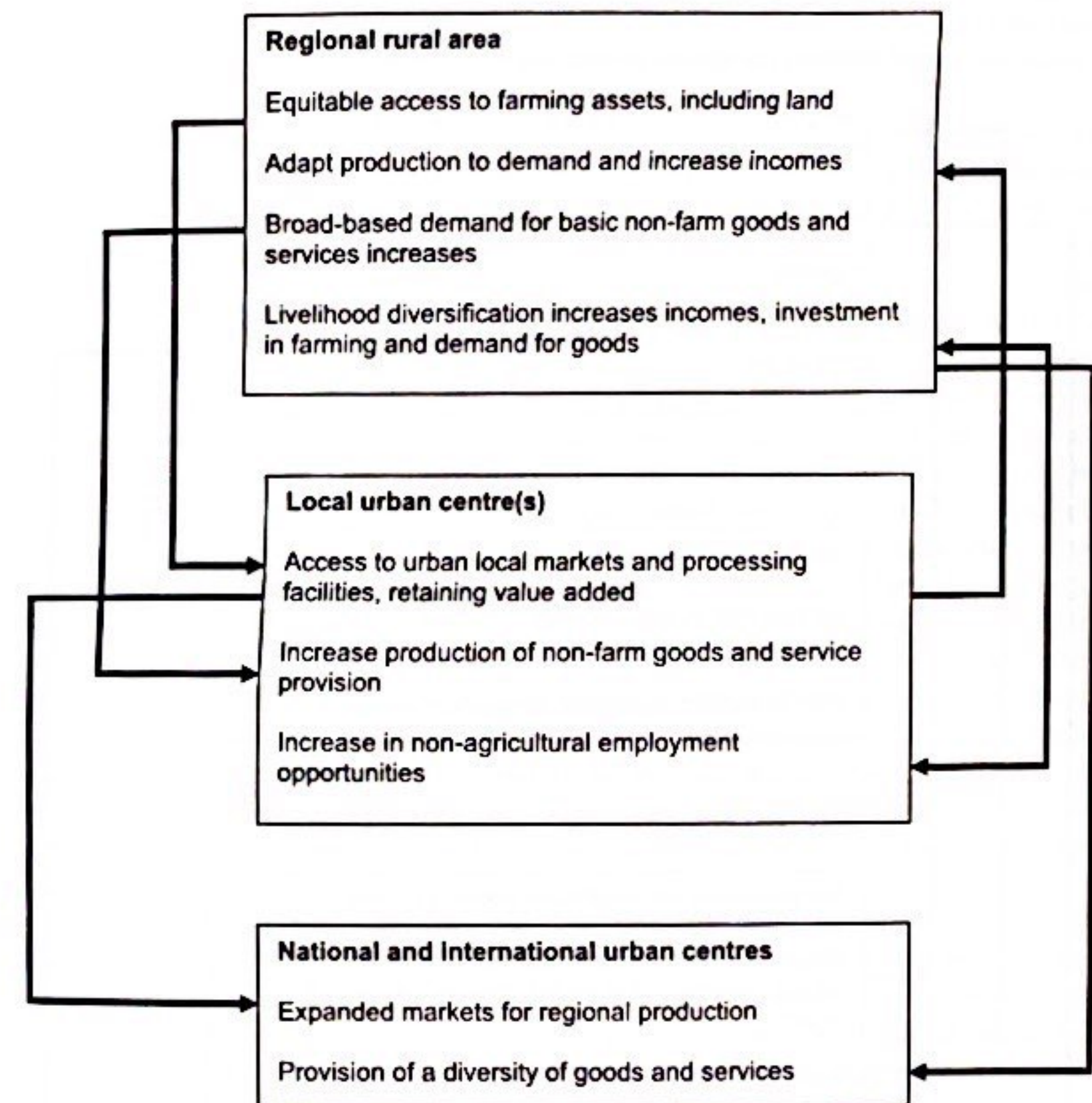


Figure 7.1 Positive rural-urban interactions and regional development

International context: limited access to international markets for small and medium-sized producers, unstable commodities prices; foreign investment concentrates in large-scale export production, imports compete with locally produced goods.

National context: inequitable distribution of and access to land; regionally imbalanced growth strategies including limited provision of infrastructure, credit facilities for small and medium-sized producers, and basic services (education, health, water and sanitation); lack of support to local government; unregulated institutional structure of markets.

Local governance: unaccountable, with inadequate resources and capacity; not integrated with national planning.

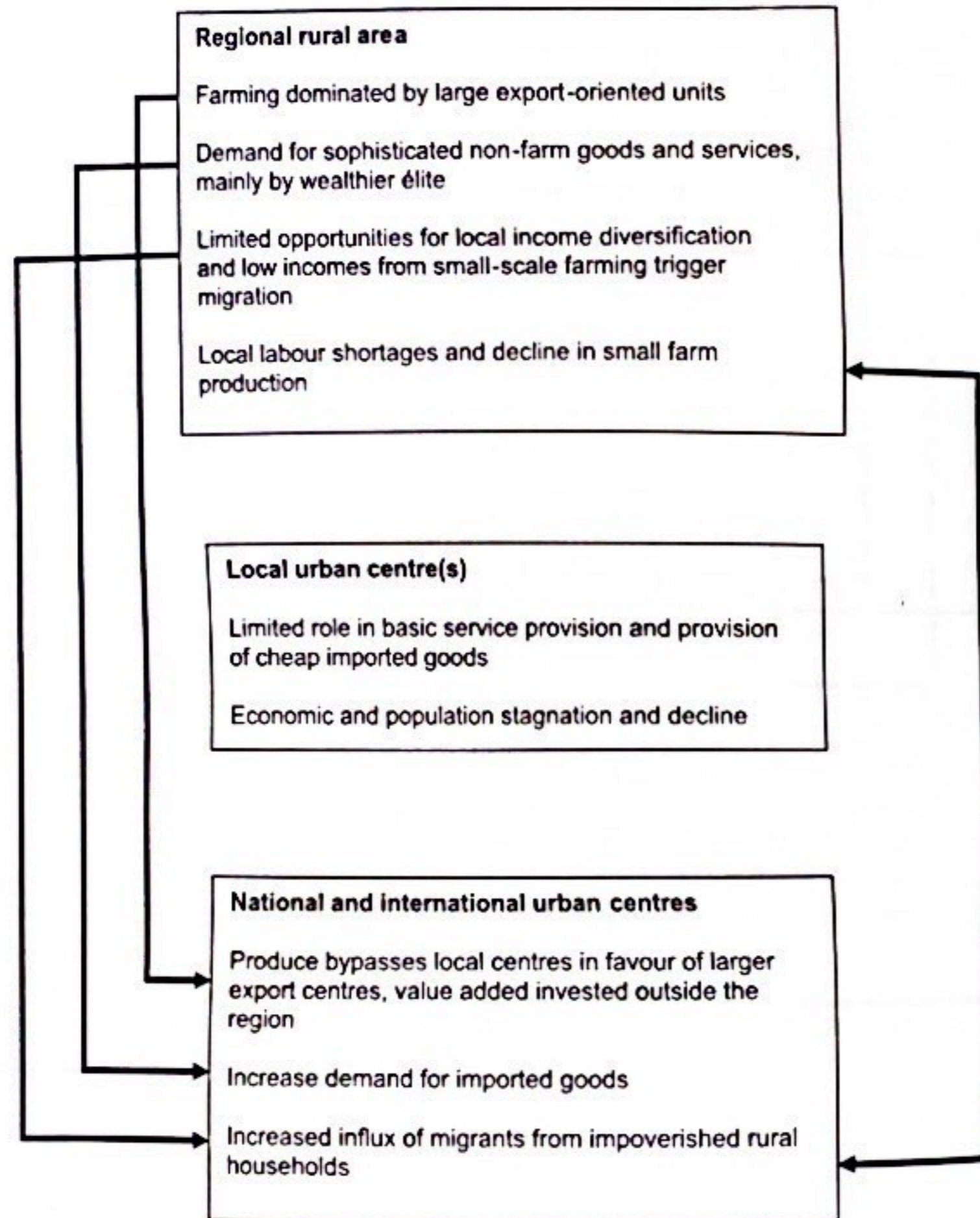


Figure 7.2 Negative rural-urban interactions and regional development

and channelling produce from diverse and often geographically dispersed small farms; in many cases, they are also a major source of credit and information for small farmers. But small traders are often ignored or viewed with suspicion by policy makers, and the lack or limitation of affordable transport and storage facilities make them especially vulnerable to losses.

Small and intermediate urban centres' role in *the distribution of goods and services to their rural region* only becomes significant where there is a broad-based demand, that is where the income levels and purchasing power of the region's population are sufficiently high and stimulate local production, trade and services. Where incomes are low, households tend to combine several activities in their visits to urban centres, which means that small centres are often bypassed in favour of larger towns that offer a wider range of goods and services. Moreover, in regions with highly skewed income distribution, demand from the wealthy few also tends to bypass local centres, since these cannot provide the specialized goods and services demanded by this group.

Livelihood diversification and non-farm activities are important for all income groups, although a useful distinction is that between the wealthier households who diversify for accumulation and the poorer individuals or households who diversify as part of their survival strategies (often because they have lost their job or income source in agriculture). As a result of rising cash needs and of generally declining revenues from farming, income diversification into non-farm activities is increasingly significant in rural settlements, especially among younger generations and often (although not always) revolving around local urban centres. Especially where the majority of the region's population remains involved primarily (but not only) in smallholder agricultural production, non-farm activities based on forward and backward linkages with agriculture are more likely to stimulate regional growth and to benefit all groups. It is also important to ensure that small and micro-enterprises, where low-income groups concentrate, have access to markets, outside capital sources, basic education and technical knowledge, and are given institutional support to identify local opportunities that enable them to respond to competition from imports. And finally, since the diversification of income sources is so important in the livelihoods of poor and vulnerable groups, it is crucial to ensure that they have access to opportunities both in farming and in non-farm activities – and, in many cases, this involves careful management of natural resources by local governments, for example, by making sure that land and water are not allocated to residential and industrial use at the expense of farming.

Regional rural-urban migration often concentrates in small and intermediate urban centres, although there are many exceptions to this. Since migration requires financial and social resources (migrant networks), it is usually the poorest groups who move locally. Small and intermediate urban centres are able to attract rural migrants if they offer employment opportunities – although the poorest rural migrants usually also have limited education and skills other than farming, and end up in the lowest paid urban jobs. Constraints on accommodation in local urban centres can severely limit poor migrants' ability to diversify their income sources, for example, through subsistence agriculture and home-based income-generating activities. Many rural residents (from both higher- and lower-income groups) prefer to commute into town rather than move, as this helps retain a foothold in farming. Where distances between rural settlements

and local urban centres are not too great, investment in transport facilities that respond to the needs of low-income groups are likely to benefit them by increasing their options, and will to some extent reduce pressure on small and intermediate urban centres – and by extension on larger towns and cities.

Notes

- 1 Rondinelli, D. (1985) *Applied Methods of Regional Analysis: the Spatial Dimensions of Development Policy*, Westview Press, Boulder, CO.
- 2 Southall, A. (1988) 'Small towns in Africa revisited', *African Studies Review*, vol 31, no 3.
- 3 Parnwell, M. (ed) (1996) *Uneven Development in Thailand*, Avebury, Aldershot.
- 4 Bryceson, D. (1999) *Sub-Saharan Africa Betwixt and Between: Rural Livelihood Practices and Policies*, ASC Working Paper 43, Afrika Studiecentrum, Leiden
- 5 See Hardoy, J. E. and Satterthwaite, D. (eds) (1986) *Small and Intermediate Urban Centres: Their Role in National and Regional Development in the Third World*, Hodder and Stoughton, London, especially Chapter 6; also Satterthwaite, D. and Taneja, B. (2003) *Agriculture and Urban Development*, paper prepared for the World Bank and available at www.worldbank.org/urban/urbanruralseminar/.
- 6 Songsore, J. (2000) *Towards a Better Understanding of Urban Change: The Ghana Case Study*, Urban Change Working Paper 2, IIED, London.
- 7 Kamete, A. K. (1998) 'Interlocking livelihoods: Farm and small town in Zimbabwe', *Environment and Urbanization*, vol 10, no 1.
- 8 See, for instance Manzanal, M. and Vapnarsky, C. A. (1986) 'The development of the Upper Valley of Rio Negro and its periphery within the Comahue Region, Argentina', in Hardoy and Satterthwaite (eds) op cit.
- 9 Douglass, M. (1998) 'A regional network strategy for reciprocal rural–urban linkages', *Third World Planning Review*, vol 20, no 1.
- 10 However, in part this is because many of the urban centres that developed because they were on the railway or river were also among the first centres in their region to be connected to developing road systems.
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