

Leveraging the rural-urban nexus for development



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INTRODUCTION

The world cannot afford a future where rural areas are synonymous with social and economic marginalization. Current trends make this obvious – as the rural population grows and becomes younger, it is imperative to boost rural economies and jobs. As the world becomes more urban, rural sectors need to be transformed so that they can more efficiently and sustainably provide greater amounts of food, clean water and environmental services. And as urban and rural economies grow more interdependent, they also need to be better connected to each other to generate positive dynamics of sustainable development.

The current debate on the post-2015 global agenda for sustainable development is an excellent opportunity for decisionmakers to address these issues and to leverage these trends. While many of the needed actions and responses are local and context-specific, a shared global agenda can encourage attention to rural-urban inequalities and the persisting prevalence of poverty in rural areas. It can affirm the role of the rural sector with respect to inclusive and sustainable growth, and encourage responsible investments in the rural space and in the flow of goods, money and services between rural and urban areas – and vice versa. Finally, the post-2015 development agenda can foster better rural-urban connectivity by promoting investment in the soft and hard infrastructure that enables this flow and directing it towards inclusive growth benefiting rural and urban areas in a balanced manner.

KEY CHALLENGES

Today's world differs greatly from what the architects of the Millennium Development Goals (MDGs) faced. It suffers more severe environmental pressures, with some planetary boundaries already crossed, and a deteriorating natural resource base. It is more unpredictable – with

Table 1 Rural and urban extreme poverty rates (share of population below US\$1.25/day)

	1990		1996		2002		2008	
	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban
East Asia and Pacific	67.5	24.4	45.9	13.0	39.2	6.9	20.4	4.3
Europe and Central Asia	2.2	0.9	6.3	2.8	4.4	1.1	1.2	0.2
Latin America and the Caribbean	21.0	7.4	20.3	6.3	20.3	8.3	13.2	3.1
Middle East and North Africa	9.1	1.9	5.6	0.9	7.5	1.2	4.1	0.8
South Asia	50.5	40.1	46.1	35.2	45.1	35.2	38.0	29.7
Sub-Saharan Africa	55.0	41.5	56.8	40.6	52.3	41.4	47.1	33.6
Total	52.5	20.5	43.0	17.0	39.5	15.1	29.4	11.6

Source: World Bank (2013). Global Monitoring Report 2013. Washington, DC.

erratic weather and volatile commodity prices. It is also more crowded, heading towards over 9 billion people by 2050, and more urban. For instance, the urban share of the population in Latin America and the Caribbean is now 79 per cent, while in sub-Saharan Africa and in South Asia – the two regions where poverty and hunger are concentrated – it is 37 and 31 per cent, respectively.¹ By 2050, almost 70 per cent of the world population is projected to be in urban areas;² in developing countries minus China, the percentage is likely to be around 60 per cent. However, in sub-Saharan Africa, only about 45 per cent of the population will be urban in 2030, and about 56 per cent in 2050.³ In South Asia, the rate will be around 52 per cent in 2030, while in Latin America and the Caribbean it will be over 80 per cent.⁴ Although different patterns of urbanization will occur in different countries, everywhere, policymakers will face the challenge of planning, feeding and governing larger and more numerous cities.

Urbanization is not, however, just about cities growing in size, but also about new ways to manage natural resources and landscapes, and new forms of interaction between rural and urban economies. For rural dwellers, the growth of urban areas can bring new claims on their natural resource base, competition and even conflict. It can, equally, bring income opportunities linked to the development of new supply chains serving urban markets, and urban jobs accessible via migration or commuting. Combined with endogenous factors such as deterioration of the natural resource base or demographic growth, urbanization and related processes can profoundly affect the economic and social fabric of rural areas, with variable impacts on rural poverty and development. In many parts of the world, decentralized urbanization has fostered positive dynamics of inclusive growth in rural areas. This has been achieved through the decentralization of selected manufacturing and service industries in rural towns and hinterlands, as well as through growing urban demand for goods and services produced by the agriculture sector, where the vast majority of poor rural people in developing countries operate. However, in many developing countries, urban economies have not been able to generate these positive dynamics, given the limited development of the manufacturing sector, or the failure to create sufficient numbers of decent jobs to absorb large cohorts of rural labour. Moreover, the growth of cities is often accompanied by encroachment into agricultural land, and by pressure on water resources and ecosystems that also sustain rural economies and livelihoods.

Across the world, urbanization has been accompanied by stronger linkages between rural and urban areas, with more intense flows of people, money and goods across the rural-urban interface. For example, there has been a massive growth of remittance flows globally and between urban and rural areas in developing countries,⁵ linked to the flow of people within countries and across borders – today, almost 1 billion people globally are migrants, most of them in their own countries. The growing integration of food supply chains is another example of stronger linkages affecting, in particular, rural areas well connected to urban centres.

1 See <http://data.worldbank.org/topic/urban-development>, data 2012. For trends see: http://esa.un.org/unup/Analytical-Figures/Fig_1.htm

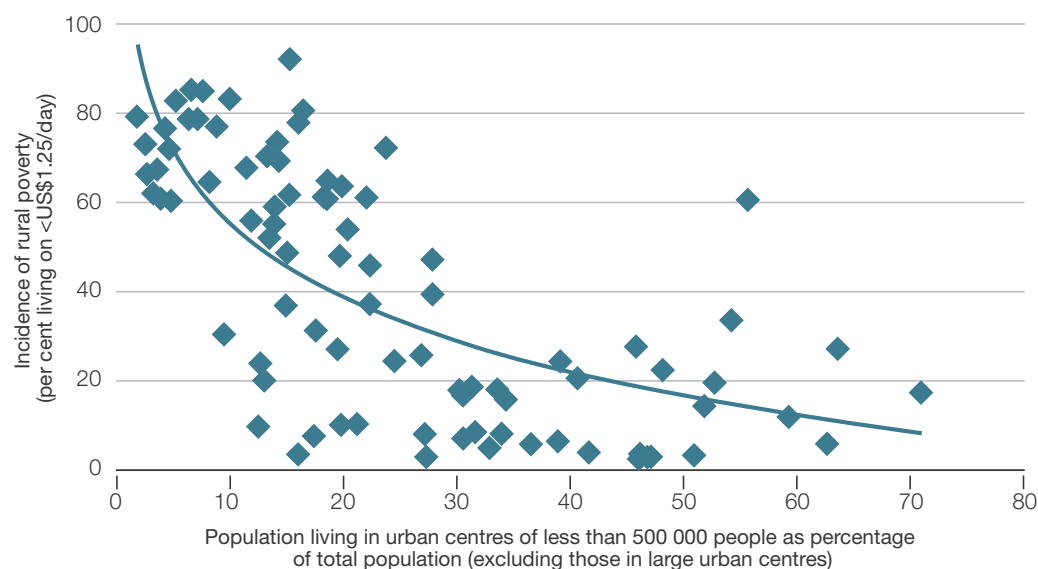
2 UN-HABITAT's new State of the World's Cities Report 2008/9: Harmonious Cities.

3 CIRAD, "A new emerging rural world. An overview of rural changes in Africa," 2013.

4 <http://esa.un.org/unpd/wup/CD-ROM/Urban-Rural-Population.htm>

5 The global estimate for recorded flows was over USD 400 billion for 2012, but a large part of remittance flows are unrecorded.

Figure 1 Rural poverty incidence and dispersed urbanization



Source: Reproduced from IFAD (2011), *Rural Poverty Report 2011*. Rome.

However, rural-urban connectivity remains woefully inadequate in many regions – in terms of services, infrastructure and institutions facilitating the smooth flow of goods, people, money and information. For infrastructure alone, the gaps are immense – particularly where the geography renders the challenge of bringing roads, energy and water supply systems to all rural areas a very expensive, long-term proposition. The institutional dimension of connectivity that relates to the governance of rural-urban flows is also full of gaps such as the weakness of institutions that underpin food supply chains, migration and remittance flows, and financial services in general.

These connectivity gaps can result in underinvestment in agricultural supply chains or in financial services covering rural areas. They can also result in rural people having to engage in urban economies or rural-urban supply chains on very unequal terms. Gaps related to the governance of ecosystem resources spanning rural and urban areas such as watersheds and river basins can also result in the interests of poor rural communities having little or no weight in decision-making processes, and in possible trade-offs among competing claims and uses of these resources not being resolved.

The impact of all these challenges is felt not only in rural areas but also in cities – today, millions of young workers migrate every month from rural areas to cities in search of jobs and better lives, often joining the urban underemployed, living in metropolitan slums, and holding precarious and poorly paid jobs. As the rural population ages in many parts of the world, rural areas lose the human capital needed to drive the necessary transformation of rural sectors towards greater productivity, sustainability and inclusiveness. These are all needed to ensure that the denizens of future cities enjoy an adequate supply of food, water, environmental services and all the other goods and services they require from rural areas.

ENTRY POINTS AND APPROACHES FOR A POLICY AGENDA

An agenda addressing these challenges will vary across contexts, depending on local opportunities and problems faced by the rural sector and on how urbanization is developing. In broad terms, the main areas of work to address these challenges from a policy perspective include the following (in no particular order):

- **Redressing rural marginalization** through inclusive governance and specific attention to social inclusion, redressing inequalities, and ensuring equal opportunities for all rural dwellers, including marginalized groups such as women, indigenous peoples and ethnic minorities. Effective decentralization processes and community-driven development often provide important entry points to achieve this.

Key findings from an IFAD-World Bank study of international remittance flows to Asia

The Asian continent is the source of nearly 60 million migrant workers who sent almost US\$260 billion to their families in 2012. This represented 63 per cent of global flows to developing countries. An estimated 70 million Asian households benefit from these flows – one out of every ten.

Seven out of the top ten remittance-receiving countries are in Asia: India, China, the Philippines, Bangladesh, Pakistan, Viet Nam and Indonesia (in order of magnitude). More than half of the population in these countries is rural. Nine countries have remittances exceeding 10 per cent of GDP, including Tajikistan, with more than 50 per cent. (...)

Transfers take place through a network of over 350,000 payment points in the 22 countries studied. India, China and the Philippines account for 75 per cent of all payment points in Asia. Although the clear majority of the region's population lives in rural areas, 65 per cent of payment locations are in urban areas. The legal and regulatory frameworks in most countries allow banks alone to make foreign currency payments. Even though the average costs of sending money to Asian markets are below the global average, remittances to rural areas are still much more expensive. (...)

Banking institutions, mostly through their money transfer operator (MTO) agents, handle 75 per cent of all transactions. In many countries, particularly in rural areas, retail stores are playing an increasing role as payout locations. Post offices are active payers in more than half the countries studied, with a major presence in China and Indonesia. These post offices may account for a 5 per cent share in the remittance payment market. Microfinance institutions currently play a more limited role, making up less than 2 per cent of all payment points. Nevertheless, they often have greater rural presence than banks, and offer a wider range of financial services to underserved clients. MTOs are increasingly making use of mobile transfer services. (...)

Although reliable data are lacking on the financial inclusion of Asian remittance-receiving households, most live outside the world's financial system, particularly those from rural areas. As a result, these households have limited access to savings accounts and other financial instruments that can help build assets. Providing remittance-receiving households with more options for using their money will also leverage the development impact of remittances on the communities where they live. Effective financial inclusion requires a strong commitment to support financial literacy programmes for remittance-receiving households. Diaspora savings constitute a significant opportunity to invest in local communities, provided viable mechanisms are made available and sound opportunities are offered. Improving food security through diaspora investment is already a promising trend, which can be brought to scale.

Source: IFAD and World Bank (2013). *Sending money home to Asia*. Rome.

- **Promoting investment in the rural sector** by creating an enabling environment for increasing rural productivity and job creation. The quality of such investment is critical – incentives and safeguards are needed to ensure that investment builds assets that help rural economies become more sustainable, inclusive and resilient and not just more productive.
- **Improving rural-urban connectivity** by facilitating linkages among rural and urban economies through: better infrastructure for transportation and communication, etc.; sound institutions governing rural-urban value chains, financial and migration flows spanning rural and urban areas; and ecosystems shared by cities and rural hinterlands.⁶

Policy practice around the rural-urban nexus typically combines actions in all of these areas of work, and there is no general recipe for how to combine or sequence these actions.

⁶ T. Forster and A. Getz (2013). *City regions as landscapes for people, food and nature*. Draft paper for EcoAgriculture Partners, October 2013 (unpublished draft).



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Successful experiences may greatly vary, depending on country-level and local political agendas, and drivers of economic growth.

One set of experiences combining actions in all three areas relates to the integrated governance of rural-urban territories, often linked to decentralization. While diverse in focus and approach, territorial development approaches are often similar in that they are multi-sectoral, based on multi-stakeholder platforms promoting the inclusion of diverse voices (including marginalized groups), and simultaneously focus on building the capabilities of different actors (both rural and urban) and on managing competition or conflict. In addition, territorial development approaches are often underpinned by an understanding of space that is based on a web of economic, social, political and cultural interactions,⁷ recognizing the contribution of different groups and sectors to the economic life of a territory. The bond keeping each space together can be a shared natural resource base such as a river basin, watershed, or forest area that creates interdependencies across the rural-urban interface. It may also be a corridor where goods and services move between two major localities or towards a point of communication with external markets. Alternatively, it can be an urban centre around which a rural hinterland develops as a provider of agricultural goods or through relocation of manufacturing and services. Often, strong rural-urban linkages and economic diversification are equally important for the economic viability of a territory.⁸

Enabling policies and public investments can complement and help promote rural investments, taking advantage of rural-urban linkages in a given space. The development of the “milk territory” in southern Chile during the 1980s and 1990s, for instance, was largely due to public investments in infrastructure (e.g. roads and electrification) and public programmes incentivizing recovery of degraded soils and improving farm irrigation, drainage and animal health – all of which facilitated private investment. Close integration of rural and urban

7 See J. Quan, J. Davis and F. Proctor (2006). “Rural development from a territorial perspective: lessons and potential in sub-Saharan Africa.” Background paper for the *World Bank World Development Report 2008*.

8 For instance, in a study of the territorial distribution of economic growth, poverty reduction and reduction of inequality in Mexico, it was observed that the municipalities experiencing growth with both poverty and inequality reduction generally had a robust and diverse economic basis and were close to important industrial corridors or urban centres. See A. Yúnez Naude et al. (2009). “México: Consumo, pobreza y desigualdad a nivel municipal. 1990-2005.” Documento de Trabajo N° 31. Programa Dinámicas Territoriales Rurales. Rimisp, Santiago, Chile.

IFAD and payment for environmental services in Asia and Africa

Payment for environmental services (PES), including watershed restoration and maintenance, are potential sources of substantial financing to support rural communities' management of their natural assets, and to provide benefits to downstream water users or other communities. But while it may be simple enough to identify those who provide environmental services and the beneficiaries of those services, creating contractual relationships between them has proven thorny.

Recent work in Africa tested innovative techniques for promoting PES through negotiated environmental service contracts with poor communities based on the principles of 'willingness to provide services' and 'willingness to pay.' This work was funded by an IFAD grant to the World Agroforestry Centre (ICRAF) – Pro-poor Rewards for Environmental Services in Africa (PRESA) – which is linked to IFAD investment projects in Guinea, Kenya, Uganda and the United Republic of Tanzania.

Similar work with ICRAF is ongoing in Asia, where the Programme for Developing Mechanisms to Reward the Upland Poor of Asia for the Environment Services They Provide (RUPES) is currently active in 12 sites in China, Indonesia, the Lao People's Democratic Republic, Nepal, the Philippines and Viet Nam. In Indonesia alone, over 6,000 farmers in 18 communities received permits to grow coffee while protecting the forests. Providing communities with clear land tenure rights gave them the incentive to maintain or restore environmental services, such as replanting and managing forest areas. One community negotiated with a private dam operator to reduce silt in the river by applying soil protection techniques on their plots in return for a micro-hydroelectric machine for energy supply. The company then engaged in negotiations with communities upstream of other dams. The activities also benefit lowland communities by protecting the watersheds, and they shore up carbon sinks. These activities are providing further evidence that PES incentives do not necessarily need to be financial, but can be provided in the form of secure land rights.

Source: IFAD (2012), Environment and Natural Resource Management Policy. Rome.

economies in the area contributed to fostering upstream and downstream linkages, and diversification around the dairy industry, creating a virtuous circle of inclusive growth.⁹ Enabling policies and public investments can also encourage shifts in practices that enable rural areas to supply urban centres with the goods and services they need, while creating opportunities to reduce rural-urban inequalities.

One example with promising potential going forward is represented by policies and institutions facilitating rewards for environmental services – a tool that IFAD has supported in several countries, in partnership with governments, communities and others. For instance, payment for watershed services is an investment mechanism for upstream farmers to practise water management that generates benefits for downstream water users. In Kenya, for example, an IFAD-supported project is promoting the use of this tool in the area around the Sasumua dam, which provides Nairobi with 20 per cent of its fresh water needs, but whose water flow has been negatively affected by agricultural activities causing water sedimentation and contamination. Partnerships are being promoted with land owners to implement sustainable land management with terracing and use of grass waterways, and a rewards-based approach is being piloted under the Water Resources Management Authority.¹⁰

There is a vast set of examples of how rural-urban connectivity can be promoted. In several emerging economies, including China, public investment in rural infrastructure (not only roads, but also energy supply networks, including renewable energy and off-grid systems) has been an important component of growth strategies that have enabled rural diversification and decentralized urbanization, fuelling both rural growth and overall development. In the face of rapid urban growth and the increasing integration of many economies into international and regional markets, investment in infrastructure linking rural and urban areas has gained great

9 G. Escobar, C. Mladinic, R. Sanhueza and O. Díaz (2007). "Rural territorial development. The milk territory in southern Chile." Background paper for the World Development Report 2008.

10 See www.presa.worldagroforestry.org/about/site-overview



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prominence in many countries and it is also informing South-South cooperation. Another key entry point for rural-urban connectivity is the development of agricultural supply chains that span rural and urban areas, which can also offer opportunities for market integration for poor rural producers, notably smallholder family farmers. Different types of public and private actors are involved in the development both of rural-urban infrastructure and of agricultural supply chains, at times – and indeed increasingly – through various partnership arrangements. This includes not only national and international public actors but also local institutions. For instance, cities in all continents are developing innovative approaches to ensure urban food security that are based on joint planning and investment with rural institutions and producers, underpinned by integrated landscape management approaches.

Alongside infrastructure and supply chains, flows of people, money and information are also key entry points for better rural-urban connectivity. IFAD's experience in facilitating remittance flows and their productive investment, for instance, shows the immense potential impact that financial inclusion linked to people's mobility between rural and urban areas can have on rural growth.¹¹ This is an area where great progress is possible and much needed going forward. Similarly, promoting information flows through modern information and communication technologies (ICTs) has proven to be a very powerful approach to better linking rural and urban areas and also to improving the terms on which rural producers engage with urban markets, and enabling farmers to access technical knowledge or be promptly alerted in the event of climatic hazards. Technology-based information flows also hold potential to foster access to education in rural areas across the developing world, providing rural people with the tools to take advantage of increased mobility.

11 See www.ifad.org/remittances

The Diaspora Investment in Agriculture (DIA) initiative

Global diaspora sends home over US\$450 billion to families in developing countries every year. Through these remittances the diaspora plays a vital role in the development of their respective countries of origin by fostering investments, tourism, trade, philanthropy, knowledge transfers and crossborder relationships. Although remittances used for agricultural purposes in rural areas are estimated to be relatively small – up to 5 per cent of the entire amount – this still represents four times the global official development assistance (ODA) that goes to agriculture.(...)

In recognition of the important role played by the diaspora to foster economic growth and its potential to enhance the resilience of fragile communities, the United States Department of State and the International Fund for Agricultural Development (IFAD) have launched the DIA initiative. This major partnership seeks to leverage the contributions of migrant workers and encourage their engagement in sustained economic development through investment in agriculture, particularly in rural areas. The DIA initiative works to foster job growth in local communities, contribute to poverty reduction and curtail the need to migrate by:

- Encouraging the global diaspora to invest in sustainable agricultural projects with real potential to impact the lives of poor rural people.
- Enabling diaspora investors, diaspora organizations and actors on the ground to build the capacity necessary to undertake cross-border investments and gain access to markets for traditional products.
- Stimulating agricultural production and reducing import dependency to enhance food security.

Source: Diaspora Investment in Agriculture (DIA) initiative, <http://www.ifad.org/remittances/pub/dia.pdf>

IMPLICATIONS FOR THE POST-2015 DEVELOPMENT AGENDA

The post-2015 development agenda is expected to inform policies and investments at various levels in key areas for sustainable development. It is important that this agenda include goals, targets and indicators that focus attention on reducing rural-urban inequalities, investing in the rural space, and promoting better rural-urban connectivity, taking advantage of urbanization and the rural-urban nexus.

How to do this? Three points particularly deserve consideration by the architects of the post-2015 development agenda. First, systematic rural-urban disaggregation of targets and indicators is imperative to encourage balanced, evidence-based policies and investments in rural areas and at the rural-urban interface. This disaggregation should include not only access to basic services (education, water, sanitation), but also any possible goals related to social and economic inclusion (e.g. employment, gender equality, social protection). Second, the new agenda should promote rural-specific targets or indicators under possible goals related to connectivity – notably, infrastructure, energy and migration. Third, the agenda should encourage integrated and inclusive governance of the rural-urban nexus, by ensuring that issues such as inclusive ecosystem governance, responsible agricultural investment, and inclusive value chains are part and parcel of the discussion on the implementation of the new agenda.



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