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BEYOND RURAL URBAN

Keeping up with Changing Realities

The labels "urban" and "rural" fall far short of capturing the dynamism and diversity of reality. Conjuring up visions of crowded cities and isolated countryside, they suggest separate worlds and ways of living. They mask the many ways urban and rural overlap and intertwine, as well as the variety of livelihood strategies within urban or rural areas. Imagine, for instance, the diversity of conditions and connections along a continuum from the "very rural" to the "very urban"—from isolated farms to villages and small towns to intermediate cities and regional centers surrounded by farmland to large cities, megacities, and their relentlessly growing peripheries.

Policies built on presumptions of separateness or on traditional notions of urban and rural livelihoods diminish the possibilities for economic growth and poverty reduction. More effective policies will take the diversity of livelihoods along the continuum into account and also appreciate the differences among urban and rural areas and the links between them.

Focusing on the connections between urban and rural areas can help to reframe our understanding of development in these areas. We can see that rural and urban lives and livelihood strategies span rural and urban geographies in integrated and interdependent ways. With better understanding of the current reality of urban and rural areas and the connections between them, policies will better reflect the ways people actually live. Policies will take into account the different livelihood strategies, links, and localities that exist across "urban" and "rural." And they will be able to promote synergies—such as market exchange—that benefit all, no matter where they live.

WHAT IS HAPPENING?

Greater access to information technology, better roads, and improved education, among other factors, are helping to change and strengthen connections between urban and rural areas (see Briefs 1, 2, and 3). Places do exist that correspond to the conventional vision and are "more rural" or "more urban," but increased flows of people, goods, services, information, income, and even waste and pollution contribute to a blurring of sectors and space. Thus, we should be careful that terminology doesn't unintentionally reinforce separateness or stereotypes and thus mislead analysis.

The food and agricultural system illustrates the complexities of urban-rural connections and the ways such complexities challenge attempts to divide policy actions into separate "rural" and "urban" spheres. Rural farmers, for instance, sell their products at both rural and city markets. Urban farmers raise and sell fruits, vegetables, and livestock. Urban shopkeepers look to rural residents as customers for food and nonfood items and for agricultural inputs. Rural laborers migrate to nearby towns for work during the lean season. Rural dwellers complement farm income with proceeds from industries such as handicrafts or food processing. Agricultural production itself has benefited from more direct connections with urban-based agribusinesses and supermarkets that provide technical assistance, credit, and information on consumer demand (Briefs 1 and 3).

Appreciating how the food and agricultural system integrates urban and rural areas and links agricultural production with industry and services gives a new perspective to other trends that seem to suggest agriculture is not so important—that agricultural production is declining as a percentage of many countries' economies and that the proportion of average rural household income from nonagricultural production activities is rising.

With a rural-urban "lens," we see that the food and agricultural system will in fact be important to the livelihoods of both urban and rural dwellers for some time to come. Take highly urbanized Argentina, Brazil, and Chile as examples. In these countries, agricultural production's contribution to the economy is relatively small (less than 10 percent of GDP), but agriculture and food-based manufacturing continue to make up around one-third of GDP (excluding difficult-to-assign components such as services and textile manufacturing).

Furthermore, this lens illustrates how the health of the agricultural sector is important to both rural and urban dwellers. Individuals can earn income directly from agricultural production or indirectly by participating in various jobs in the system that agricultural production supports in urban *and* rural areas, such as grocers, factory workers, and truck drivers. And, especially in more rural areas, the incomes of these workers increase demand for other goods and services provided by others not directly connected with agriculture.

MISMATCH OF PERCEPTION AND REALITY

These connections are not new, but they do seem to be increasingly important. Unfortunately, perceptions and policies do not seem to be keeping up. Many policymakers and researchers still hew to the rural-urban divide. They may not fully appreciate the importance of rural demand to urban businesses, the significance of income from nonagricultural production activities to rural households, or how, through remittances from seasonal or permanent migrants, rural households use links with cities to diversify their income sources. Economic models and national development strategies often reinforce spatial and sectoral divides, categorizing analysis or policies as urban and rural and assuming a corresponding division of industry and agriculture. In the past, such a division may have been a useful simplification; now it fails to reflect reality in important ways.

Institutional arrangements tend to do the same. Actions of public authorities can overlap and contradict. With some exceptions, such as MetroManila in the Philippines, governance structures generally fail to appreciate the interdependence of cities with surrounding areas. Assessments by the United Nations Development Programme in Nepal, for instance, show that conventional approaches to planning—dividing locales into rural and urban—impeded information flows and coordination between national, district, city, and village planners. Urban planners focused on urban infrastructure; rural planners focused on export markets and ignored ties to domestic ones.

WHAT WE NEED TO UNDERSTAND

The mixtures of "urban" with "rural" activities are not anomalies but the reality of livelihoods in rural and urban areas today. Separating rural and urban or setting them against one another overlooks connections and potential development synergies. Training a rural-urban lens on policies makes clear that rural and urban development is not an either/or proposition.

For example, a rural antipoverty strategy that focuses specifically on raising agricultural output can miss important issues of distribution and development, especially if it favors generating gains from large producers. How will small farmers and the landless fit with such a strategy? Will the strategy increase incomes and employment for them or worsen their prospects and actually encourage greater migration to cities? Without solid connections to local market towns and cities, how will agricultural producers, transporters, and traders even profit from increased output? And how will urban consumers reap the benefits of potentially lower food prices? A rural-urban lens suggests it is critical to focus on various components of the entire food and agricultural system, not on agricultural production alone (Brief 1).

As another example, a rural-urban lens raises cautions about national development strategies that strongly favor rural-urban migration or urban industrial growth as a solution to poverty (Briefs 1, 2, and 3). For example, even with rapid rates of rural-urban migration, a large proportion of the population remains in rural areas. What strategy will provide the engine of development for them? How will an urban-focused strategy take into account industrial production in small towns and rural villages? Or regard the essential role that intermediate-size cities play in connecting urban areas with rural goods and labor markets?

A rural-urban lens illuminates the present reality of livelihoods and connections that such policies should consider. For instance, rural-urban migration may indeed play an important role in reducing poverty. But population shifts can take generations. In tracking rural Filipino households over the past decade, one study found that a substantial majority of first-generation children stayed in rural areas, continuing to live with their parents or moving to another rural village. Many of those who did move to urban areas went to small and intermediate-size cities, not large metropolitan areas (Brief 2). Policies will need to address both urban and rural poverty for many more years and may need to pay more attention to rural villages and smaller towns and cities.

In addition, policies that promote the integration of rural and urban areas, and provide capacities and opportunities to individuals and households, can help people escape from poverty where they are, rather than simply helping them move. A study of two rural Vietnamese villages over the past decade, for instance, suggests that strong links with larger cities helped them successfully face significant economic and social change, transform their economies from traditional rice production, and continue progressing out of poverty. One village shifted to more varied crops, which they were able to sell in nearby urban centers. The other moved out of agriculture altogether to concentrate on handicrafts—again depending on urban links to reach domestic and international markets (Brief 1).

WHAT WE NEED TO DO

We may need *new language and new typologies* to comfortably distinguish differences in livelihood strategies and conditions within urban and rural areas as well as between them. Policymakers may no longer find it helpful to think of urban as "industry" and rural as "agriculture" but need to consider how to support economic and livelihood systems all along the urban-rural continuum.

Policymakers may need to *focus more on "systems" and less on "sectors."* They should pay more attention to economic activity and urban-rural integration within economic and political "catchments," including natural "regional economies." Thinking regionally will likely lead to greater support for the ways in which market towns and small and medium-size cities contribute to urban and rural well-being. It may also help policymakers consider development strategies in a more holistic way and move away from traditional divisions.

This highlights the importance of *understanding livelihoods and poverty contextually* so as to devise policies that cope with differences in problems, capacities, and opportunities. In addition to well-functioning markets, households need to have appropriate capacities and resources if they are to adapt successfully to economic and social change. Different participants within these systems—small farmers, the landless, migrants, or the urban poor, for example—may require different economic and social policies and investments.

Policies will need to *take dynamics into account*. Effective policies will adapt to shifting economic, political, and social conditions. Policies that support urban-rural integration and provide appropriate public investment to encourage the flow of goods and resources across sectors and locations are important steps in that direction. A more integrated economy offers more choices and allows individuals and households to pursue their own best path out of poverty, depending on particular conditions, resources, and opportunities. For instance, smallholders in Vietnam proved resilient and creative in the face of change, as long as they had the basics: access to markets, information, security of tenure, and the opportunity to generate alternative, nonfarm incomes (Brief 1).

Given appropriately integrated planning, growth of urban and rural areas will not be antagonistic but complementary, enhancing and enlarging links and providing even greater opportunities for different groups in different locations. Migration and the rise of nonfarm activities will then become the results of positive transformations, rather than desperate coping strategies.

Of course, this assumes that *authorities have the means to encourage local and regional input into policies, programs, and plans*. To benefit from such input, they may need to adapt governance structures to coordinate government action both vertically and horizontally, as well as connect with other actors, including the private sector and civil society. Effective planning today may require examining the role of the smaller towns and intermediate-size cities in supporting regional economies and linking rural areas with even larger urban ones. These smaller towns and cities, in any case, are major destinations for migrants and still provide the most common urban experience for most rural folk (Briefs 1 and 2).

Holding up a rural-urban lens to development is useful for illuminating new ways of thinking about development strategies and about urban and rural transformations, particularly as urbanization and migration continue, as rural livelihoods diversify, and as the agriculture and food system becomes more complex. Both rural and urban livelihoods can benefit from this perspective, but only if it leads to improved and closer interactions, not continued separations in mindsets, policies, and institutions.

— James Garrett

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FOR FURTHER INFORMATION

- Livelihoods Connect: Urban and Rural Change
  http://www.livelihoods.org/hot_topics/UrbanRural.html
- International Institute for Environment and Development
  Rural-Urban Working Papers Series
  http://www.iied.org/urban/pubs/rururb_wp.html
- ID21 Development Research Database (Search: rural urban)
  http://www.id21.org/urban/index.html
- *Environment and Urbanization*
  April 1998. Vol. 10 (1). Beyond the rural-urban divide.
  April 2003. Vol. 15 (1). Rural-urban transformations.
  http://www.iied.org/human/eandu/eandu_details.html

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BRIEF 1

DYNAMIC LIVELIHOODS

Making the Most of Rural-Urban Connections

Economic, political, and social changes have altered the landscape of both urban and rural areas—as well as the interactions between the two—faster than perceptions and policies can keep up.

Policymakers, for instance, often view rural and urban separately. In addition, the conventional policy mindset in low-income countries can perceive rural areas as backward, populated by subsistence farmers who need to be replaced by large-scale, mechanized agribusinesses.

But these stereotypes often do not fit. Most agricultural producers, for example, are connected to markets, earn substantial nonfarm income, and pursue a wide range of livelihood strategies. To make the most of the potential and diversity of current livelihood strategies, rural and agricultural policies need to take today's realities into account.

Recent research provides insights into how rural conditions and livelihood strategies are changing, often in response to ongoing processes of economic transformation and urbanization. The research highlights the importance of close connections with urban areas and suggests how policies and programs can support the positive dynamics of change.

FINDINGS

1 Livelihood strategies are not static. They change constantly, reflecting new opportunities and challenges that emerge as towns and cities grow and as the rural environment becomes more complex. Rural households, even smallholders, can emerge from poverty in a variety of ways.

The Red River Delta in Vietnam has undergone major economic and social transformation over the past decade. Hanoi and other urban population centers have grown; roads and communications in the region have measurably improved. With higher incomes, consumer demand has diversified; rural producers now reach urban and export markets more easily.

A study of Nhat and Ngoc Dong, two villages in the Red River Delta, illustrates two successful—and very different—responses to these changes. Less than 10 percent of residents in both villages live in poverty.

In Nhat, residents have shifted away from subsistence rice farming toward intensive, high-value production of fruits and vegetables. Some households also combine farming and nonfarm activities.* On average, farming and animal production now provide half of household income. Nonfarm activities generate another 27 percent.

With additional income from nonfarm activities, households can invest in improved technologies. Their nonagricultural activities therefore directly increase the productivity of their agricultural ones.

The villagers of Ngoc Dong have pursued a different path. They have moved out of agricultural production almost entirely and now almost exclusively produce rattan handicrafts. (More than 90 percent of rattan is from natural forests, highlighting the need for sustainable management of natural resources.) Handicrafts and other rural occupations today make up nearly 70 percent of average household income. Farming and animal production provide only 6 percent of average household income. Remittances from migration account for only 2 percent.

Further research could extend this type of understanding to other localities, permitting policies to be based on more complete knowledge of the various pathways of transformation, their requirements and potential for sustainability, and the role of smallholders.

** The terms "nonfarm" and "nonagricultural" can be misleading, implying that activities have little to do with farming or agriculture. In fact, they refer only to activities that are not actual agricultural production—even those critically important to farming. For instance, tilling is farm work, but renting someone a plough is considered nonfarm.*

2 Links between rural and urban areas—and local authorities who see the value of supporting regional economies—are often essential to success.

While Nhat and Ngoc Dong chose different livelihood strategies, they have both benefited from improved rural-urban links. With better communications and transport, the villages can tap into demand from regional urban centers and Hanoi, which provides a gateway for exports and connections to the global economy. Farmers can also now access information from nearby agricultural research institutes more easily.

Local authorities were critical to this transformation. They encouraged the building of infrastructure, training for handicraft production, and access to inputs for farmers.

But local authorities need to prepare for more radical change. In Vietnam, with dramatic growth in both population and industry, rural problems have come to resemble traditional urban ones. Authorities face new challenges, such as: How should governments balance investment in both social and physical infrastructure—schools or roads, clinics or communications? How should they deal with household and industrial wastes and pollution, which before could be dumped far away from residences but now may encroach on a farm field or housing plot? New institutions and governing structures may need to be created to face these problems and coordinate responses across levels of government.

3 Rural areas have close economic, social, and political ties with small towns and intermediate cities. Farmers actually sell most of their goods in local market towns. And residents of these smaller urban areas often make their living by selling goods and services to rural producers and consumers.

Rural migrants often move to smaller towns and cities rather than larger urban areas. Such towns and cities are important destinations in their own right, not just way stations between rural and more urban locales.

Policymakers tend to focus on large cities when thinking "urban," overlooking the importance of small towns and intermediate cities. Yet these smaller towns and cities—which can range from a few thousand to tens of thousands of people—host a huge amount of economic exchange. They form essential links in the market chain between more rural and more urban areas.

A study of 15 villages in rural Ethiopia found that rural households purchase about half their agricultural production inputs in local market towns and cities and sell 25 to 75 percent of their crops and livestock there. Rural women sell most of their crafts and make over half their purchases of basic items like matches and fuel in these localities. Strikingly, these are largely the only urban areas where rural households undertake economic exchange. Aside from remittances, rural dwellers have few direct links with more distant urban centers, including the capital.

The study found that better access to market towns and cities increases both economic activity and household welfare. The closer that rural residents live to these towns and cities, the more likely they are to purchase inputs or sell a variety of products. Improving the connections with these towns, through better roads for instance, leads to faster growth in household income.

Though often overlooked, local market towns and cities are linchpins in the connection between urban and rural areas. They are in fact where most rural residents experience urban life, and they will continue to be major destinations for rural migrants in many countries in the coming decades, outpacing even the growth of megacities.

POLICY INSIGHTS

To spur development and poverty reduction, governments need to look beyond conventional concepts of "urban" and "rural." They would do well to recognize and support the variety of connections across rural and urban areas, as well as the diversity of successful development strategies that mix elements of both.

Wise investments and leadership that understands the reality of current rural-urban connections can help:

- smallholders find new production opportunities and transition to new production patterns;
- assist households to diversify livelihood strategies beyond agricultural production;
- support smaller towns and cities in promoting market exchange between urban and rural households; and
- facilitate local authorities' capacities to manage natural resources and meet the needs of regional economies, including securing support from higher levels of government.

Text written by James Garrett based on the following background papers:

Dercon, Stefan, and John Hoddinott. 2005. *Livelihoods, Growth, and Links to Market Towns in 15 Ethiopian Villages.* FCND Discussion Paper No. 194. Washington, D.C.: IFPRI.

Thanh, Hoang Xuan, Dang Nguyen Anh, and Cecilia Tacoli. 2005. *Livelihood Diversification and Rural-Urban Linkages in Vietnam's Red River Delta.* Rural-Urban Series Working Paper No. 11. London: IIED, and FCND Discussion Paper No. 193. Washington, D.C.: IFPRI.

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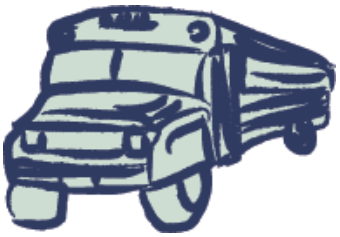
BRIEF 2

MOBILITY, MIGRATION, AND RURAL-URBAN CHANGES

Each year millions of people in low-income countries uproot themselves from rural homes to take their chances in a new setting. But who are these migrants? Where do they go and why? What becomes of individuals and families when they move?

Recent studies in Bangladesh, the Philippines, and Vietnam provide insights into the reasons for migration and how migration can play a part in a household's strategy to escape poverty. They indicate an urgent need for policymakers to understand that migration and mobility need not be threats. On the contrary, migration can offer opportunities for economic growth and livelihood security.



FINDINGS

1 Migration is a fundamental part of rural livelihood strategies and rural transformation—not simply a way to escape rural areas.

Individuals and families have long used migration as a strategy to improve their welfare in the face of change. But a permanent move from rural to large urban areas is only one of many ways rural residents incorporate migration into their lives.

Many rural migrants actually stay in rural areas. A study of generational change and migration in rural Mindanao, the Philippines, conducted a series of surveys over a 20-year period. The study found that a large proportion of children of the original respondents did not move to urban areas but remained in rural locales. Sixty-two percent of men and 44 percent of women stayed in their parents' home or their parents' village. Another 14 percent of men and 17 percent of women went to other rural areas.

At the same time, of those who moved to urban and peri-urban areas in the Philippines, many (46 percent) went to smaller cities and towns, not major metropolitan areas. Only a bit more than half (54 percent) migrated to major metropolitan areas in the region or elsewhere in the Philippines.

2 There are different forms of migration, and each can contribute to successful rural development as households diversify their livelihood strategies across space and sectors.

Seasonal and temporary migration can be more immediately important to livelihoods than permanent migration. In Vietnam and Bangladesh, as in many other low-income nations, many rural residents migrate in the low season to neighboring intermediate cities to find jobs in construction or as rickshaw drivers, for example. This strategy diversifies income sources and makes up for lost income from agricultural work.

Better roads and transportation networks encourage this more cyclical, less-permanent migration by shortening the time it takes to get to urban centers. With improved roads, residents of Nhat in the Red River Delta of Vietnam, for instance, have widened their job search to cities and towns once considered too far. Greater mobility of labor has also benefited factories in recently established industrial zones in the region, since they can now draw from a larger pool of job seekers.

Improved transport can also improve the transfer of remittances. Transportation becomes faster and more reliable, potentially reducing the cost and increasing the frequency of sending money home.

3 Destinations and reasons for moving vary by gender and education.

Different types of individuals migrate to different destinations, as experiences in rural Mindanao illustrate. There men who migrate to other rural areas do so primarily to take up farming. Women move primarily for marriage. These rural-to-rural migrants, as well as those who stay in their home villages, tend to be less educated than those who move to urban and peri-urban areas.

For their part, cities and their surrounding areas attract better-educated individuals, partly because young people move to those areas precisely to further their education and partly because they offer more attractive work opportunities for those who have been to school.

4 Permanent migrants to urban areas appear to form separate streams. Some are attracted5 or "pulled" by urban opportunities—and are likely to have qualifications and contacts to succeed. Others are "pushed" by failing prospects in the countryside—they may face a bleak future in the city, too.

Permanent migration from rural areas is not inevitably a "brain drain" that needs to be stopped. If migrants find better jobs in urban areas and send remittances home to their families, migration can improve the welfare of those in the city, as well as those who stay behind.

But positive outcomes are not assured. A review of migration in Bangladesh suggested that, as elsewhere, individuals and households vary in their ability to succeed, largely because of education and contacts. In the Philippines, for instance, women tend to be better educated than men. Female migrants to the city then tend to be more "successful" than males. Over half of female migrants to urban areas enter sales, professional, or managerial jobs. The majority of male migrants, however, end up in lower-income jobs, like manual labor or transportation.

In addition to education, family networks influence migrants' success. In the Philippines, the decision to move usually involves family consultation. First-time migrants to peri-urban and urban areas often move for schooling. Others may migrate to look for work, even if they do not already have a job secured. They may go by themselves, but their parents finance them, and they live with relatives. In Vietnam, too, rural dwellers often use kinship networks to find jobs.

But many migrants from the countryside lack education and urban contacts. They find themselves pushed by a desperate rural life to seek their fortune elsewhere—but, lacking qualifications or connections, they face an uncertain future in the city.

Given this diversity among migrants, it is not surprising that outcomes are diverse as well. Clearly some will succeed, while others remain unable to attain their dreams. The differential success of these migrants may increase inequality in the rural areas due to differences in remittances sent home. Education, gender, destination, and family networks all seem to be part of the differences in migrants' stories.

POLICY INSIGHTS

Migration can take many forms, reflecting the unique circumstances and objectives of the individual or household. Well-designed policies and investments that promote rural dynamism and rural-urban mobility can support migration as a positive choice—rather than undermine its viability as part of a household's strategy to improve well-being.

Governments should pursue policies that:

- support mobility—especially improved transport and communication networks, education, and job training and matching;
- recognize the dependence and integration of small towns and intermediate cities with surrounding rural areas; and
- strengthen regional economies and thereby relieve pressure on larger metropolitan areas as destinations.

Text written by James Garrett based on the following background papers:

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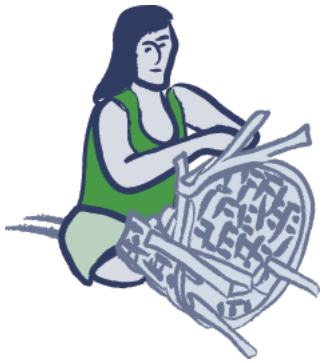
Quisumbing, Agnes and Scott McNiven. 2005. *Migration and the Rural-Urban Continuum: Evidence from the Rural Philippines.* FCND Discussion Paper No. 197. Washington, D.C.: IFPRI.

Thanh, Hoang Xuan, Dang Nguyen Anh, and Cecilia Tacoli. 2005. *Livelihood Diversification and Rural-Urban Linkages in Vietnam's Red River Delta.* Rural-Urban Series Working Paper No. 11. London: IIED, and FCND Discussion Paper No. 193. Washington, D.C.: IFPRI.



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BRIEF 3

POLICIES AND INSTITUTIONS

Removing Barriers to Rural-Urban Exchange

Urbanization, trade liberalization, agroindustrialization, and the rise of supermarkets are among the trends providing farmers in poor countries with new opportunities to participate in local and global markets.

For farmers to benefit from these changes, however, they must have the resources, skills, and information needed to access and participate in these markets. In addition, rural, urban, and export markets must themselves be integrated.

But anachronistic policy mindsets, and unwise policies and investment decisions, can divide rural from urban, break economic, political, and livelihood synergies apart, and leave rural areas behind. Recent research highlights the policies and institutions* needed to remove barriers to rural and urban exchange.

**Here the term "institutions" refers broadly to the set of formal and informal arrangements and rules of conduct that shape human interaction. This brief focuses on institutions that affect interactions in the economic market.*

FINDINGS

1 Policies and institutions need to be grounded in an appreciation of the synergies that exist between urban and rural areas and of the benefits that come from encouraging the free flow of resources between them.

For instance, economic growth strategies of mid-20th century China and India viewed rural and urban areas practically as separate spheres of action. They perceived rural as backward and urban as modern. China's strict controls on migration underscored this separation.

Reforms in China beginning in the late 1970s and in India in the 1990s started to liberalize markets and movement. With more movement of resources, including labor, and better links with urban areas, agricultural growth in China boomed, running at 7 percent per year from 1978 to 1984. Urban industry outsourced work to rural areas, increasing agricultural and industrial output and employment.

2 Market liberalization alone is not sufficient to integrate rural and urban markets. Well-functioning markets also require efforts to minimize the cost of exchange between rural and urban areas. In addition, market actors must have the resources, information, and capacity to participate in the market.

Effective markets increase exchange between urban and rural areas and help both become more productive. Macroeconomic reforms often focus on removing market distortions caused by price interventions. Yet effective markets also require minimizing the costs of exchange, or transfer costs.

Even if market mechanisms work well, individuals and businesses must have the capacity to actually participate in the market. Investment in education and business training, plus better access to credit, can help those who may otherwise be excluded, such as the poor or small farmers, to compete in the marketplace. The legal system must also allow for confidence in and enforcement of contracts.

3 Buyers and sellers will not interact if it costs more to trade than the trade is worth. In many countries, poor infrastructure and institutional barriers increase transfer costs, limiting interaction of rural and urban producers and sellers.

Five major types of transfer costs impede market exchange:

a. Information asymmetry: one participant in the transaction has more market information, especially on prices, than the other, and uses it to his or her advantage
b. Transaction costs: taxes, fees, bribes, and time spent to accomplish transactions
c. Costs of transport and communications
d. Policy-induced barriers: suboptimal institutional arrangements, including governance issues
e. Noneconomic barriers: lack of education or social customs and laws that exclude certain groups, such as ethnic groups or women, or give other groups special advantages

4 Policies and investments to reduce transfer costs include addressing institutional constraints as well as improving infrastructure.

Good transport infrastructure and institutional arrangements help agricultural producers and other businesspeople overcome barriers to the flow of goods, services, and resources between rural and urban areas. Helpful institutional arrangements include mechanisms to coordinate action across tiers of government, appropriate governing structures, laws and regulations, and sound financial and information networks.

Ways to positively address the five major types of transfer costs include:

a. Modernizing the food value chain and reducing intermediaries addresses information asymmetry. With a modernized food value chain, supermarkets and agribusinesses can deal with producers and consumers directly. With fewer intermediaries, traders have fewer opportunities to exploit or garble information, and farmers can reduce the time spent searching for and verifying information. With closer connections to consumers, businesses can give guidance on what should be grown—for example, telling Indonesian producers what kind of green pepper a consumer in Jakarta wants.

Of course, policies must ensure that supermarkets or agribusinesses do not monopolize information, markets, or technologies. Farmers still need to be able to choose which products they grow, verify information independently, and seek the best deal from a variety of clients. Competition among buyers can improve the quality of information.

b. Producer cooperatives can lower transaction costs. Small farmers may need to band together to pool risks and create economies of scale that allow them to compete with larger producers or bargain with vendors who may prefer dealing with only one large producer. Though some cooperatives become managerially top-heavy and welfarist, many provide significant benefits to their members. Dairy cooperatives in Ethiopia have aggregated producers' production to supply the high quantities demanded by city markets. They have also invested in marketing and processing services that did not make economic sense for individual farmers operating alone.

c. Better telecommunications can ease costs of transport and of obtaining information. Reliable, affordable, convenient telecommunications strengthen economic synergies. Producers can access market information they need. Urban businesses can reduce search costs among rural suppliers. In a study of village telephone use in Bangladesh, almost all calls went to urban areas. One-third of calls were for business purposes (getting market information, making deals), 27 percent were to family and friends (sometimes also business-related), and 10 percent were to look for a job. But distance has a major impact on use. Sixty-four percent of individuals who lived in the village with the phone used the phone, whereas only 27 percent of those who lived half an hour away did.

d. Appropriate governance structures can lower policy barriers. Even well-intended policies can create barriers. In Ethiopia, for example, localities received some taxing authority to improve the effectiveness of decentralization policies. Several local and regional authorities, however, set up checkpoints at their administrative borders, charging fees that substantially increased the time and cost it took to transport grain from producer to market.

e. Systematic attention to discrimination based on gender or caste can address noneconomic barriers. Discrimination can limit exchange between urban and rural areas and so reduce competition. Social customs may prohibit women from traveling or working. Local authorities may exclude indigenous or low-caste communities from decisionmaking or restrict certain jobs to specific groups.

POLICY INSIGHTS

Weak market institutions can hinder economic interaction between urban and rural areas. To help resources flow to where they will do the most economic and social good, policies need to:

- overcome misconceptions in planning and decisionmaking processes that separate rural from urban and diminish the importance of promoting urban-rural links;
- complement removal of price distortions in markets with investment in physical and social infrastructure and reduction of institutional barriers to rural-urban trade;
- provide potential market participants, especially marginalized and vulnerable groups, with the mechanisms, knowledge, and right to participate in markets; and
- pay special attention to areas where markets are missing or not competitive and may need regulation or assistance to overcome institutional barriers.

Text written by James Garrett based on the following background papers:

Chowdhury, Shyamal, Asfaw Negassa, and Maximo Torero. 2005. *Market Institutions: Enhancing the Value of Urban-Rural Links*. FCND Discussion Paper No. 195, and Markets, Trade and Institutions Division Discussion Paper No 89. Washington, D.C.: IFPRI.

Fan, Shenggen, Connie Chan-Kang, and Anit Mukherjee. 2005. *Rural and Urban Dynamics and Poverty: Evidence from China and India*. FCND Discussion Paper No. 196, and Development Strategy and Governance Division Discussion Paper No. 23. Washington, D.C.; IFPRI.

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