



Original Article

Impact of Urbanization on Rural Institutions

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This paper reviews the current state of literature on the impacts of urbanisation on rural development in developing countries, with an emphasis on Sub-Saharan Africa (SSA). Assessments of these effects diverge greatly. While some authors view urbanisation as strongly benefitting rural areas—for instance, through increased demand for agricultural goods and services—others highlight negative effects, such as the loss of livelihoods emanating from displacements and the conversion of agricultural land, which may lead to urban sprawl.

Keywords

Urbanization, Rural Development, Rural Institutions, Urban-Rural Linkages, Agricultural Development, Poverty Reduction, Developing Countries

Introduction

Developing countries have witnessed a persistent rise in urbanisation in recent decades (World Bank, 2018). According to United Nations projections, by 2050, more than two-thirds of the world population are expected to be urban residents; yet the fastest urban growth is in less urbanised regions, particularly in Africa and Asia (United Nations, 2011). There are considerable debates devoted to understanding the nature and impact of urbanisation on rural development outcomes such as on poverty and inequality (Gong et al., 2012; Parnell & Walawege, 2011). The impact of these debates on development policy has changed over the years. In the 1950s, rural development was conceptualised in terms of modernisation processes through industrialisation and urbanisation, whereby development in urban areas was a prerequisite for the transformation of rural livelihoods (Gallin et al. 2002). Traditionally, urbanisation is mostly associated with positive economic outcomes such as higher income and growth. By offering better access to goods and services, employment opportunities, information, and increasing demand for agricultural products (as it creates markets for farmers), urban areas have the potential to stimulate economic growth in general and that of rural economy in particular (Dorosh & Thurlow, 2012). In doing so, they can squeeze out disparities between urban and rural households (OECD [Organisation for Economic Co-operation and Development] & European Commission, 2020) and enhance productivity, growth and living standards. For instance, the integration of urban to rural areas has facilitated both the flow of agricultural goods to cities and of industrial goods and services to rural areas, enhancing the productivity of the agricultural sector and, hence, raising standards of living (Michaels, Rauch, & Redding, 2012). In other words, when well governed, the structural and spatial transformation that follows urbanisation is not only pervasive to the flows of goods and services but also puts countries on a long-term trajectory towards prosperity (World Bank, 2020).



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Urban-rural linkages

Even if the focus of the paper is on the impacts of urbanisation per se, it is important to take into account the role of rural-urban linkages in conceptualising and analysing the effects of urbanisation on rural development.

Rural-urban linkages are bidirectional, complex, and interdependent (Potts, 2017). In addition, since agriculture is the dominant sector in the rural economy, this review focuses more on the impacts of urbanisation on agriculture. In the context of this paper, “agricultural linkages” refers to any impact of urbanisation on agricultural production and productivity, processing and exchange of agricultural inputs as well as the services urban areas provide to rural areas. Furthermore, since the definitions of what constitute “urban” and “rural” varies across countries (Wineman et al., 2020), the results obtained from evaluating the impact of urbanisation depend on how rural-urban linkages are conceptualised, defined, and measured.

Impact channels

Several channels through which urbanisation affects rural development exist. This paper will group these effects into seven and discuss the possible hypotheses associated with them. First, we will discuss the production and consumption linkage effects. Second, we discuss the flow of people or the labour channel. Third, we present the financial linkage effects of urbanisation and how these relate to rural development. Fourth, we discuss the land availability effect of urbanisation on rural development. Fifth, we present the information and knowledge linkage effects of urbanisation. Sixth, we discuss the social interaction effects of urbanisation on rural development. And, seventh, we discuss the environmental externalities effect of urbanisation and how it could affect rural development.

Consumption linkage effects

Rural and urban areas are intrinsically linked. For instance, urban inhabitants depend on food and other natural resources, while urban services are vital for rural communities. This urban dependence on food and natural resources is mainly supplied by the rural residents, demonstrating rural-urban linkages. In other words, urban growth generates higher demand for agricultural products (that is, an income effect) (Allen, 2009). Urban areas also provide easier access to local markets and links to international markets. Transactions of goods and services are one of the key elements of urban-rural linkages. For instances, cities and urban areas are the main consumers of agricultural products, water and other products that would enhance labour productivity, land rental prices, and wage levels in rural areas, thus further increasing agricultural productivity. Agricultural inputs such as fertilisers, farming tools, and household items are among the goods which flow from urban areas to rural areas. As to services, urban centres provide education, health services, and off-farm employment opportunities which help rural households diversify their livelihoods. It is also possible that an increased demand created by urbanisation creates pressure on elements of agriculture production. If such intensification entails ill-applied external inputs, it can lead to environmental degradation hampering agricultural productivity and rural health, while negatively affecting food security and poverty reduction. Moreover, increased demand for certain agricultural products such as meat and cereals may contribute to the loss of biodiversity in rural areas. Furthermore, investment in urban infrastructure and services such as energy, water, communications, and transport that are necessary for agriculture will contribute to rural growth and growth across sectors. The net effect is therefore either positive or negative, depending on socioeconomic, institutional, infrastructural and environmental factors.

Flows of people or labour linkage effects

The flow of people or labour refers to human mobility between rural and urban areas. This may take several forms: temporary, permanent, circular migration, or commuting. Hence, expanding urban areas offers the opportunity to diversify rural economic activities away from agriculture in rural areas, having a positive impact on earnings (Jacoby & Minten, 2009). The effect is expected to be stronger and more attractive in rural areas close to cities due to low transaction costs to travel to the city to work, better markets to trade goods and services more efficiently (which can in turn promote specialisation in particular commodities), and better flows of information. In this case, urbanisation has the potential to improve the well-being of rural communities. Labour flows from rural to urban areas could also reduce the surplus labour (rural labour supply), increasing the amount of land available per capita in rural areas. According to Lewis (1954), such transfer of labour from rural agriculture to urban industries can occur without hampering or affecting agricultural productivity. Given fixed amounts of land, coupled with diminishing marginal returns to land, an increase in land per capita (due to the flow of labour to urban areas) could increase labour productivity in agriculture and the upward pressure on rural wages, a point we discuss further later on.

Financial linkage effects

Financial resources from urban areas are one of the main sources of finance pertinent to unlocking the economic potential of rural communities (Gelb, Kalantaryan, McMahon, & Perez-Fernandez, 2021). Hence urban areas constitute another potentially important economic linkage effect on rural development. Financial inflows from urban to rural areas include micro-credit schemes from financial institutions, remittances, loans, and investments by urban residents, along with investments by governments and aid agencies in the socioeconomic and infrastructural development of rural areas. For instance, remittance is one of the channels which provides significant sources of income for rural families (World Bank, 2020). In addition, urban to rural remittances play an important role in reducing the



resource constraints rural households face in agricultural production and help to reduce the adverse effects of shocks such as droughts or floods (Stark, 1980; Lucas, 1988; Cali & Menon, 2013). Financial capital linkages also refer to the investment linkages which allow locally accumulated capital to be reinvested locally, which in turn provides capital to rural areas. If properly utilised, the effects of such inflows would be positive.

Land market linkage effects

Although rural communities depend on agriculture, at the same time urbanisation displaces agricultural land. The land linkage effects of urbanisation on economic conditions in rural areas can be seen in three ways: Firstly, when agricultural land in peri-urban areas is transformed into built-up land as a result of horizontal urban expansion, such conversion has an effect on both land use value and/or transportation costs and agricultural productivity, affecting rural livelihoods either positively or negatively (reducing farmlands; crop yields) (Holden, Otsuka, & Place, 2009).

Social interaction linkage effects

The social interactions that follow urbanisation is another important channel through which urbanisation affects rural development, yet one that is largely neglected in the literature. On the one hand, urbanisation can result in a change in the social structure-devolution of culture, identity, and a change in social capital (as argued by Putnam). This transformation may weaken social cohesion and/or increase social tensions which in turn affect economic outcomes (Bau, 2021; Fox & Bell, 2016; Hoare, Jacka, & Berk, 2019). By social cohesion, we refer to its three essential dimensions: trust, including social relations; inclusive identity; and orientation towards the common good. Examples of social tensions include migrant families living apart; elderly persons left behind in rural areas; and tensions in urban areas as a result of new arrivals crowding out limited public services. On the other hand, urbanisation may result in frequent interaction, cooperation, and a better exchange of ideas, as discussed above. This could further enhance social interactions within society, as well as between rural and urban residents (Cali & Menon, 2013). Likewise, development in urban markets and business networks between rural and urban or between sectors will enhance social interactions that can help rural economic development.

Environmental linkage effect

Moreover, rapid urbanisation often leads to negative externalities such as waste despoilment of the natural environment, the increased incidence of the outbreak of disease, pollution, biodiversity loss, climate change, and the deterioration of soil and water conservation, among others (Thyberg & Tonjes, 2016). These negative externalities impede the productivity and health of the surrounding rural areas and can have adverse effects on the welfare of rural residents. Some of the adverse effects of urbanisation, which are directly related to rural development, are the deterioration in soil and in water conservation. In addition, urbanisation is associated with high environmental degradation, consumption of energy, and high emission of greenhouse gases (Cai, Yin, & Varis, 2018; Kalnay & Cai, 2003). This would negatively affect health, productivity and the overall development of a rural economy. The role of biodiversity is multifaceted: it plays a crucial role in achieving food security and nutrition; it regulates and supports ecosystem services for agriculture (such as nutrient cycling, soil formation, and rehabilitation, along with habitat for wild species); it makes production systems and livelihoods more resilient to shocks and stress, among other things. However, urbanisation can be a threat to biodiversity conservation which is key for both rural and urban livelihoods (Hoornweg, Bhada-Tata, & Kennedy, 2013). Thus, the overall effects of urbanisation on rural development through these channels can be negative.

Conclusion

It can be both positive and negative, and is most importantly nonlinear. The reason it is conditional is because countries need to be well-placed to reap the benefit of urbanisation (that is, they need to have conducive infrastructure and institutional settings along with strong political commitment and leadership). It is heterogeneous because the magnitude of effects depends on factors such as the quality of institutions, available infrastructure, and policy reforms, among others. The development effects of urbanisation and urban processes in raising rural living standards are heterogeneous (differing by scale and size, degree of integration between rural and urban areas, by countries' historical and geographic characteristics, and so on). On the positive side, if coupled with appropriate urban-rural development policies and institutions (policies and institutions that support interdependencies and cooperation between rural and urban areas, incentivise the efficient use of resources and promote participation of all stakeholders) urbanisation can lead to the release of rural land for agricultural production and pave the way for improved agricultural commercialisation. This in turn increases the agricultural supply of marketable surpluses, the demand for inputs and services, and facilitates the adoption of new agricultural technologies, all leading to improved agricultural production and productivity (Tadesse & Sakketa, 2021). In addition, growing urban demand for agricultural products may induce the better adoption of agricultural technologies and the sustainable use of resources. These are all of great importance to rural incomes, poverty reduction or improved food security. Furthermore, smallholder producers and rural consumers rely on urban-based enterprises which provide them varieties of goods and services such as access to markets (both for output and inputs), access to finance, access to information, and extension services. Moreover, rapid urbanisation can also serve as a catalyst for a rise in off-farm employment/business opportunities and the emergence of small businesses which are important for the growth of agriculture and inclusive development. On the positive side, if coupled with



appropriate urban-rural development policies and institutions (policies and institutions that support interdependencies and cooperation between rural and urban areas, incentivise the efficient use of resources and promote participation of all stakeholders) urbanisation can lead to the release of rural land for agricultural production and pave the way for improved agricultural commercialisation. This in turn increases the agricultural supply of marketable surpluses, the demand for inputs and services, and facilitates the adoption of new agricultural technologies, all leading to improved agricultural production and productivity (Tadesse & Sakketa, 2021). In addition, growing urban demand for agricultural products may induce the better adoption of agricultural technologies and the sustainable use of resources. These are all of great importance to rural incomes, poverty reduction or improved food security. Furthermore, smallholder producers and rural consumers rely on urban-based enterprises which provide them varieties of goods and services such as access to markets (both for output and inputs), access to finance, access to information, and extension services.

Moreover, rapid urbanisation can also serve as a catalyst for a rise in off-farm employment/business opportunities and the emergence of small businesses which are important for the growth of agriculture and inclusive development. On the negative side (in some cases), urbanisation *without* economic transformation has often resulted in persistent poverty in big cities, low real wages in rural areas, poor utilisation, or exploitation of resources. Our findings also suggests that there is the need to reform the way programmes are designed so as to expand the positive welfare impacts and inclusiveness of urbanisation as well as to reduce the negative externalities which ensue when urbanisation is rapid. One way to do this is to improve rural-urban linkages through improving infrastructure (health, education, and transport); improving urban public service delivery to rural areas; improving participatory programmes and policies; and improving the participation of rural communities in modern agricultural value chains. The question of what social, political and institutional conditions in rapid urbanisation are conducive to which kinds of rural-urban development approaches have yet to be thoroughly explored in the literature, although some insights have begun to emerge. From the review, it seems that in the phase of rapid urbanisation, institutional (including land tenure and access to resources) and political reforms (such as decentralisation) are more important for improving the welfare of rural households than technical solutions alone. Most importantly, since African countries will continue to urbanise, the path that urbanisation will take and how the development of cities will affect the overall wellbeing of rural communities which currently constitute more than 70 per cent of the population remains to be seen. Therefore, it is vital to note that any strategy aimed at reducing urban poverty or stimulating growth needs to acknowledge the importance of such policy in generally helping to reduce rural poverty, and vice-versa.

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