

Using the Rural Economic and Enterprise Development (REED) framework for analysis and joint action: implications for spatial development



Working paper 1

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Acronyms

Department for International Development (DFID), London, UK

Food and Agricultural Organization of the United Nations (FAO), Rome, Italy

Deutsche Gesellschaft für Technische Zusammenarbeit GmbH (GTZ), Eschborn, Germany

International Fund for Agricultural Development (IFAD), Rome, Italy

Swiss Agency for Development and Cooperation (SDC), Bern, Switzerland

The World Bank, Washington DC, USA

Technical Centre for Agriculture and Rural Co-operation EU ACP (CTA), Wageningen, The Netherlands

1 Introduction

The debate on the nature of rural-urban relations has held a prominent position in development theory and planning since the 1950s. Two reasons for the renewed interest shown by policy makers are firstly, an increase in market-based development strategies which place their emphasis on export-orientated agricultural production and rely upon efficient economic linkages connecting producers with external markets, and secondly, an increasing priority being placed on the decentralisation of resources and responsibilities and the strengthening of local level public institutions (see Tacoli (1998) and Dalal-Clayton (1999)). However, the return to focus on rural-urban interactions has also highlighted the problematic conceptualisation of both rural and urban worlds. Within this dichotomy, policies aimed at alleviating poverty are still framed within the context of either 'rural' or 'urban' poverty. Urban planners base themselves in cities and see urbanisation as the key to regional integration, whilst rural planners tend to regard cities as parasitic and ignore how urban centres might best be brought into rural planning frameworks (Douglass, 1998, p. 3). This spatial anomaly is reflected in the structure of institutions both in the north and south, where some departments (sectoral, municipal, regional government and administrative authorities) dealing with development issues are often sub-divided into 'rural' and 'urban'.

Most development practitioners now recognise the need to have an integrated spatial perspective on rural livelihoods and development, which takes into account social and economic links between rural areas and urban centres. The reality is that households utilise assets and resources that flow from rural to urban and vice versa, and that many households are multi-locational and fluid, operating livelihood strategies that utilise both rural and urban resources. For example, many urban enterprises rely upon inputs from rural areas and demand from rural consumers. At the same time, access to markets and services and employment opportunities in urban centres are crucial for most village households.

The positive impact of rural-urban linkages on local economic development is summarised in the notion of the 'virtuous circle' where rural and urban development are mutually dependent. However, rural-urban linkages are not beneficial in all circumstances. They can increase inequality and the vulnerability of groups with the least assets, particularly where land ownership is unequal and where government policies and subsidised credit institutions tend to benefit already privileged urban élites and large farmers.

The role of rural towns and large urban centres as providers of social services (healthcare, education), utility services (telecoms, energy, water) and infrastructure is critically important. Tracking flows of labour, finance, information and products is also important. With respect to product flows, there is a need to identify the main players along marketing chains and the constraints and opportunities they face.

An understanding of these links offers insights into different policy entry points (at village, small town and city level) with potential to promote integrated rural and urban development, whereby complementarities are exploited and potentially negative linkages minimised. Areas of focus would include policy and regulatory reforms, institutional models for cost-effective provision of business development services, strategies to improve the income and employment potential of local economic activities, key entry points for development of economic and social infrastructure. Whilst many local economic development efforts are undertaken by a wide spectrum of role-players at different levels of government and in the NGO and private sector, there appears to be an urgent need for more integration and coordination. The various dimensions of rural-urban linkages, which will be referred to in this paper, are outlined in Table 1.

Table 1 Dimensions of rural-urban linkages

Dimensions	Detail	Normative criteria: desirable features	Threats
Linkages	Upstream: creating demand for own inputs Downstream: providing other firms' inputs	Activities create (many) jobs and enterprises in the supply chain. Improved market linkages.	SME activities are enclaves with few local linkages - that may be facilitated by good transport and communications. No competitiveness vis-a-vis urban-based input suppliers and output buyers
	Consumption: creating demand for consumption goods	That a proportion of increased incomes is spent locally, stimulating local manufacturing and local services	Consumers spend on 'imports', likely if returns go mainly to rich elites. They may shop in distant regional centres, rather than local market towns.
	Consumption: extra (private) investments in health and education through income generation	Increased incomes also invested in better nutrition of families, child and adult education, primary and preventative health	
	Taxation and transfer: resources for public investments	Broad-based taxes with minimal distortions and disincentives to produce, taxes on assets Governance: efficient, effective, equitable spending of tax revenues - with balance between investment for production and social spending for equity.	Narrow local tax base, with heavy taxes on production and trade - e.g. tax all goods moving through a road barrier, levy high fees for those with market stalls. Funds embezzled, spent on showpieces, awarded to cronies, taxes channelled to towns not rural areas; Price taxes implying worsening rural terms of trade
	Social capital generated through frequent interactions	Interactions within supply ('value') chains build confidence and trust between actors, enabling them to better manages risks in interacting.	Supply chains have few and infrequent interactions. Schisms based on ethnic, religious, political, regional, and family divisions destroy trust.
	Cost effective public service provision	Adequate health and education service provision for dispersed rural population	
	Cost effective utility service and transport provision	Adequate utility service and transport provision for dispersed rural population	
Spatial inequality	Creates jobs and incomes in areas that are economically disadvantaged Builds economies around people: reduces the need to migrate		Best opportunities arise in areas favoured by location and resources.
Poverty	Reduces poverty. Preferably has greatest impact on the poorest of the poor (improves the Sen index).		SME activities controlled by elite groups, generate few jobs, pay low wages, profits expatriated
Social inequality, including gender differences	Reduces economic differences in gender, class, ethnicity, etc. by creating jobs and incomes for the disadvantaged Allows the disadvantaged more voice and confidence, raises esteem		Best economic opportunities go to those with capital and education. Opportunities for monopoly power and for rents to be generated. Few jobs or multipliers created in local economy.

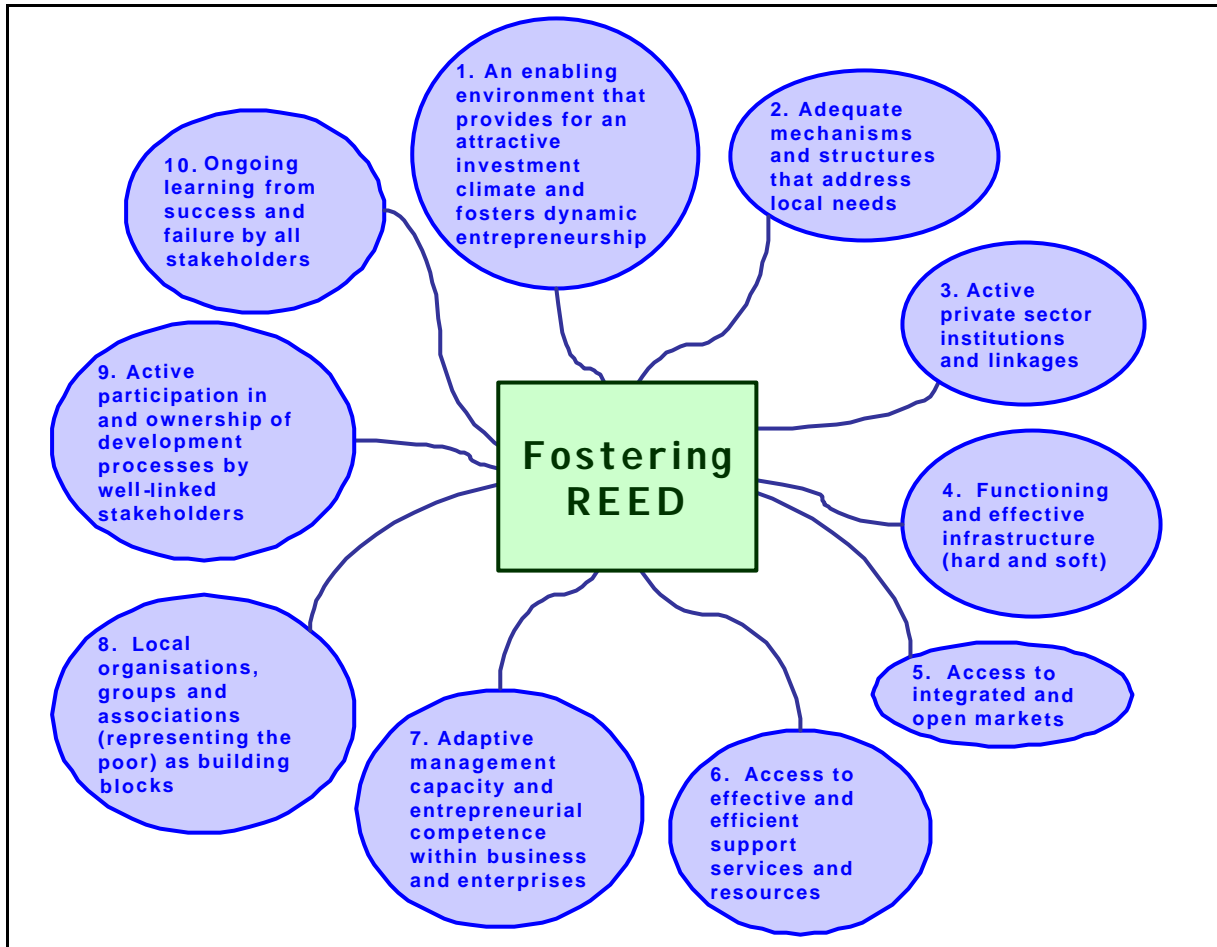
Table 1 shows that there are many dimensions to rural-urban linkages. As Satterthwaite and Tacoli (2003)ⁱ show, there is great variation in the extent to which these linkages promote economic growth as they relate to the development of small urban centres, land-owning structures, the quality of transport, and communications links, public service provision and the structural conditions prevailing at the international, national and local levels. Although there are many interdependencies between the linkages shown in Table 1, they can be broadly classified into four groups/clusters:

1. Policies and institutional framework,
2. Infrastructure, services and markets,
3. Entrepreneurial competence, and
4. Stakeholder involvement and linkages.

This paper aims to elaborate a framework, which brings all of these elements together and provides a conceptual frame for other approaches that address enterprise promotion, rural-urban linkages and economic development in rural areas (see Phillipson, 2004)ⁱⁱ. An example of such an approach is the 'Blue Book' on business development services, compiled by an international working group.¹ The four clusters outlined above form the backbone of a framework for fostering Rural Economic and Enterprise Development. Although initially conceived as an approach focusing on rural areas, the framework may be refined to focus more broadly on rural-urban and local economic development. The framework is still evolving and offers potential insights for local economic development; it needs deepening but has the potential to be used locally and spatially to identify rural-urban drivers of change and growth. The framework for fostering Rural Economic and Enterprise Development (REED) which is based on the analysis of successes and experiences of programmes and projects by an international group of practitioners from different professional backgrounds and countries is an example of a more holistic and spatial approach to local, rural and urban development. The framework, which tries to address the shortcomings of the traditional rural-urban dichotomy, is comprised of ten cornerstones for successful intervention, covering the policy and institutional dimension, access to infrastructure, services and markets, entrepreneurial competence and stakeholder links. The cornerstones presented in Figure 1 are:

¹ *Business Development Services for Small Enterprises: Guidelines for Donor Intervention*, "The Blue Book", ed. by Kris Hallberg, Jim Tanburn and Gabriele Trah, September 2000.
<http://www.ilo.org/public/english/employment/ent/sed/bds/seminar/present/trah/>

Figure 1: Rural Economic and Enterprise Development Cornerstones



Although project and programme initiatives aimed at improved economic and enterprise development is incorporated within the Rural Economic and Enterprise Development framework, it looks beyond particular interventions by focusing on the institutional architecture. Thus, even where particular interventions make sense, the right institutional architecture will be vital to its success; particularly in supporting the private sector. With the increased emphasis that government institutions and donors place on local economic development, enhanced rural-urban linkages and growth, it is of paramount importance to (where necessary) streamline the institutional framework, and/or improve coordination to optimise efforts and reduce duplication between different role-players for the benefit of enhancing economic growth and the development of the private sector.

The Rural Economic and Enterprise Development framework enables development practitioners to adopt an integrated spatial perspective to rural development and rural-urban linkages by being holistic, adopting a broad spatial perspective and particularly in terms of linkages whether institutional, private sector or producer based. Indeed, the Rural Economic and Enterprise Development framework could be more explicit in understanding the need for enhanced and effective rural-urban linkages as part of a local economic development strategy.

This paper will focus on how the Rural Economic and Enterprise Development framework explains these linkages and what should inform the application of the framework? The paper will also examine the role of the different stakeholders in fostering rural-urban linkages and pro-poor rural economic and enterprise development. The initial focus will be to understand the positive

and negative effects of rural-urban linkages on poor people's livelihoods and to identify key drivers of local economic growth and development.

2 The Rural Economic and Enterprise Development conceptual framework

In November 2002 GTZ invited practitioners from a wide range of international NGO, private sector, government and multilateral institutions to participate in a joint donor initiative (GTZ, DFID, SDC, IFAD, World Bank, CTA and FAO) to develop a conceptual framework and project tool for the fostering of Rural Economic and Enterprise Development (REED) in developing countries. Recently revised rural development strategies of many international and national institutions have put renewed emphasis on poverty reduction through economic growth.

Broad-based economic development and employment creation is a challenge in most countries. For example, in South Africa the government has made economic development a main focus of its activities for the next few years.

Rural Economic and Enterprise Development views entrepreneurs and the private sector as the main drivers of sustainable rural development, and emphasises the importance of providing an enabling environment for market-oriented economic activities. However, Rural Economic and Enterprise Development also has a public policy element, which focuses on the provision of basic rural infrastructure (soft and hard) and services that foster poverty reduction and economic growth. Rural economic and enterprise development needs a policy environment conducive to fostering investment and increased effectiveness of existing public and private institutions. Public policy needs to strike a balance between the public interest in reducing poverty levels and improving the livelihoods of the majority of the population on the one hand and, on the other, stimulating efficient markets as a basic element of sustainable economic development.

Such economic development and enterprise promotion strategies have to be linked to the poverty reduction efforts of the international donor community and national governments. In many countries, the poverty reduction strategy paper process² has become the main instrument for channelling support to rural areas. The broad scope and focus of Rural Economic and Enterprise Development as outlined in this paper are also meant to guide and evaluate the 'pro-poor' rural development interventions that are components of PRSPs.

The scope of Rural Economic and Enterprise Development covers all economic development of rural and urban areas. Specific welfare concerns (such as disaster mitigation, etc) and subsistence agricultural activities have been excluded from our definition, although their social and economic importance is undeniable, because these are catered for in other development programmes. Social transfers (pensions, child support), safety nets and other aspects of livelihood support systems are incorporated within the framework in the context of pro-poor participatory development and institutional change processes, enterprise development and livelihood diversification (Davis, 2003). Thus Rural Economic and Enterprise Development includes the promotion of on-farm commercial activities, as well as non-farm activities, by rural households and enterprises, which ultimately leads to the creation of new jobs, improved rural livelihoods

² Poverty Reduction Strategy Papers (PRSPs) describe a country's macroeconomic, structural and social policies and programmes to promote growth and reduce poverty, as well as associated external financing needs. They are prepared by governments through a participatory process involving civil society and development partners, including the World Bank and the International Monetary Fund. PRSPs provide the basis for international donors' concessional lending and for debt relief under the enhanced [Heavily Indebted Poor Countries \(HIPC\) Initiative](#).

and growth. The main focus is on promoting employment and generating income through micro-, small- and medium-sized rural businesses. Since most of the entrepreneurial activities in rural areas are based on agricultural and natural resource products, farm families can broaden their income strategies by including value-added operations. Thus market-oriented enterprise diversification occurs both on farm and off farm, i.e., within the farm household and amongst small- and medium-scale off-farm rural enterprises. Rural Economic and Enterprise Development also focuses on improving access of resource-poor rural households to labour markets.

The framework does not yet have a theoretical basis in either economics or sociology, but is instead based on the practical experience of development practitioners and identified “best practice” worldwide. The Rural Economic and Enterprise Development framework has been elaborated along the lines of the LearningWheel methodology.³ The steps were as follows:

1. Experiences from a broad range of projects and programmes from across the world were shared and systematically analysed for the factors of successful intervention;
2. Key functions that should be provided by stakeholders involved in Rural Economic and Enterprise Development were identified and re-assembled into a set of cornerstones, which are critical entry points for intervention; and
3. The components of the individual cornerstones were determined. They include core elements, strategies for effective implementation, practical case study material, and web site links.

The Rural Economic and Enterprise Development framework is envisaged as an effective analytical instrument for assessing and improving policies, institutional development, and intervention programmes and projects for more system-based and comprehensive intervention by all partners (policy makers, national and local governments, development agencies, field level practitioners, the private sector, community based organisations and NGOs). The framework enables stakeholders to identify the strengths, weaknesses and gaps of current interventions. For example, some programmes may have been exclusively focusing on entrepreneurship development while ignoring some other cornerstones in the system, such as the enabling policy environment, and vice versa. The application of the Rural Economic and Enterprise Development framework thus serves as a checklist for external and self-evaluation and for the planning and prioritisation of new activities.

The conceptual framework, building on the experiences and lessons learned from practical experience in rural projects, consists of ten cornerstones for intervention (see Figure 1). These are clusters of successful elements of intervention approaches dealing with rural economic and enterprise development.

The cornerstones represent the core functions that must be provided for successful, self-sustaining rural economic and enterprise development processes. The framework is based upon the principle of systemic interaction, so that each of the cornerstones is critical for the success of policies, programmes and projects. They are fundamental functions, which are nevertheless interdependent and linked to each other. The framework thus facilitates the analysis of weaknesses and bottlenecks, and the identification of critical entry points and priorities for intervention. For each of the ten cornerstones, the core elements, key strategies and ways of

³ Haggmann, J. (forthcoming): *LearningWheel – Creating common learning frames for joint action and knowledge management: A methodology for conceptualising experiences among multiple stakeholders.* The main objective of the LearningWheel framework is to support various stakeholders in managing the process of establishing an economically viable and sustainable rural economy. Public and private partners, including non-governmental organizations have different roles, but there are many linkages and interdependencies between them. This makes it worthwhile to consider the interactions in a systemic manner, without necessarily implying that every intervention has to undertake activities in all areas.

implementation have been identified in an iterative process, building on the collection of available information and experience-based knowledge. The format is open-ended, allowing the addition of new strategic elements and case study material. We will now focus on how the Rural Economic and Enterprise Development framework explores rural-urban linkages and the factors which should inform the application of the framework.

3 Reviewing selected aspects of the Rural Economic and Enterprise Development framework against rural-urban linkages

3.1 Enabling environment that provides for an attractive investment climate and fosters entrepreneurship

First we consider the key elements of an enabling environment, which provides an attractive environment for investment and private sector development. Private sector investment levels and enterprise development in rural and urban areas can be either facilitated or hindered by the enabling environment, depending on how the latter impacts upon investment risks, entry barriers (including start-up costs) to economic activity, and/or production and marketing costs. Important dimensions of the enabling environment include the macro-economic situation, degree of policy consistency and stability, direct and indirect taxation regimes, investment and licensing regulations, red-tape levels, labour laws, corruption levels, security situation, effectiveness of the judicial system, state of economic infrastructure, and availability and quality of enterprise support services.

A conducive business environment is essential to the creation of a level playing field for all parties in rural economic and enterprise development. Rural entrepreneurs need transparent and consistently applied rules and regulations, access to efficient service providers, markets and physical infrastructure. In an enabling environment, government would encourage the creation of local self-organization, maintain an active dialogue with stakeholders and ensure that local needs are addressed.

The main functions, which need to be provided, are the following:

- A fair, transparent, practical, easily accessible legal, regulatory and fiscal regime favourable to all kinds of enterprise and labour, in particular to enhance the opportunities for the rural micro and small business community;
- Responsiveness of the regulatory regime to changing global and local realities;
- The will to protect and promote the interests of the poor and disadvantaged, including small and micro enterprises
- Timely and cost effective systems for administration, implementation and delivery

The main actors responsible for an enabling environment are the legislative bodies, government organisations at all levels, private sector organisations and business associations (corporations as well as less formal or informal entities), NGOs, donors and the civil society in general. Most private sector organisations and associations promote the interests of their owners/members. This should eventually contribute to sectoral and professional growth and wealth.

Governments have a responsibility to protect the interests of all people, with particular attention to the poor and disempowered. Laws and regulations must be formulated and implemented in ways that are fair and transparent. The way in which laws and regulations are administered is at least as important as their formulation and content. Good governance, by governments and the corporate sector, facilitates the effective investment promotion at small and medium enterprise level. In addition balanced fiscal policies are needed. They must not be oppressive, must provide incentives to people,

areas and sectors that need them, and must also protect them in situations of economic (esp. market) distortion.

The issue of “Good Governance” is complex and not easy to address. Its essential elements are a transparent and competent public administration, proximity to the people, accountability of public decision-makers, which again are not easy to be achieved and require long-term involvement. A further challenge is the rapid change of business towards globalisation and competition from all over the world. To assure competitiveness of small and rural enterprises many efforts are necessary to improve productivity, quality of products or services and access to larger markets. The protection of local markets would only delay this challenge. In international negotiations a major issue will be how to solve the problems of increasing non-tariff barriers to enter the markets of industrialised countries.

3.2 Effective mechanisms, processes and structures that address local needs (bottom up)

This Rural Economic and Enterprise Development cornerstone is important because in many countries the rural population, in particular the poor and deprived, is weak in pronouncing its needs. Therefore, frequently their interests are not taken into account regarding an enabling business environment, an appropriate legal or regulatory framework, provision of adequate business support services or the development needs for an effective infrastructure.

The main functions, which need to be available, are the following:

- Respond and encourage the process of self-organisation and expression of group interest at grassroots’ level
- Ensuring a sensitive to local realities and proactive government, private institutions, and service providers, with specific attention to those request related to poverty, exclusion, and deprivation that inhibit economic choice and access;
- Support to agencies with resources and competencies to facilitate and foster realistic and robust matches between market demand (for goods, services and *labour*) and assets, capacities and potential of local people.
- Establishing of mechanisms enabling local people to obtain access to finance, technologies, advisory/support services
- Access to leverageable resources and support from governments, donors, NGOs, mainly in start-up and stabilisation stages of enterprise development

Key actors operate at the local level – such as business associations and government agencies – that are responsive and responsible to local people. These actors need to be effectively empowered – with genuine autonomy, adequate financial and human resources, and a strong mandate for a role in local economic development.

Decentralised government is often a practical way forward. Its nature will necessarily vary across countries and cultures. Decentralisation is a political process. Experience shows that its results, especially economic, can be less than satisfactory. The process usually becomes more meaningful when representation and space is provided for all people and interests. The poor and disempowered have a potential to become economic active and viable actors. The use of public or donor funds for promotion of those enterprises or economic activities becomes justifiable if there are clear positive effects in a foreseeable

timeframe. Such people must therefore find representation and have their voices heard in any decentralised arrangement.

There are a number of potentially promising strategies, processes or possible ways to implement this element of the framework. Fiscal policy and management is frequently a problem, rarely resolved to the satisfaction of all concerned. Meaningful levels of decentralisation and efficiency are usually achieved through a number of iterative changes and political accommodation over time.

Freedom of self-organisation and information can lead to transparency and accountability. A number of facilitative actions are usually needed for this to actually happen, particularly in countries that have low levels of literacy and/or do not have strong civil society institutions. Provision of inputs, services and support to enterprises should be, in principle, 'at cost' if not 'for profit'. Some flexibility in this principle is, however, usually necessary in the case of enterprises under gestation or incubation; especially where margins or value added are small or risks high.

Experience shows that governments, NGOs and donors as direct providers of inputs, support and services are far less efficient or sustainable than private providers. Private providers can however be exploitative and predatory in monopolistic/ oligopolistic situations, especially when their customers are poor or disempowered. Empowered and aware customers, served by private providers competing for their custom, efficiently overseen by local business associations and government is usually a good ideal to work toward.

3.3 Effective Private Sector Institutions and Linkages

Private sectors institutions and organisations constitute the main supply and delivery channel for business services to their members and clients in many countries. As representative bodies they may link their clientele to government or private service providers (promotion agencies, banks, entrepreneurship training institutions, consultant firms) and their services. They are frequently connected to or utilised by international donors and NGOs to facilitate or provide business development services.

In terms of rural-urban linkages, investments in agricultural market linkages in most developing countries have concentrated on the commercial cash export sector from which small farmers have been historically excluded. This component of the Rural Economic and Enterprise Development framework will focus on the conditions needed to enable poor rural producers to access urban markets. After determining which are the key commodities and identifying actors involved at different stages, a commodity chain analysis could be used to examine the flow of commodities. The distribution of benefits and the mechanisms by which access to benefits is maintained and controlled could be traced in order to provide indications of how small producers can be integrated into domestic, urban and export market systems.

Detailed surveys could be conducted to assess the impact of marketing of NR and non-NR based products on the livelihoods of the rural poor, with emphasis on markets that are based in cities or in secondary urban centres. Particular emphasis could be placed on the vulnerability context and income fluctuations throughout the year for different household member categories. Key areas would include relative numbers and size of different types of trading enterprises, role of the informal sector, barriers to market entry

for disadvantaged groups and the availability of information. A combination of participatory and quantitative techniques could be utilised.

The findings of the surveys in the context of the Rural Economic and Enterprise Development framework would lead to policy recommendations focusing on improving market entry for poor producers, traders and processors in rural areas; and improving the efficiency of commodity chains in supplying poor urban households with inexpensive products. This might include elements relating to infrastructural requirements; information flows and improved institutional structures and processes. As previously noted, amongst other things, the Rural Economic and Enterprise Development framework aims to improve the participation of poor households in local decision making and public private partnerships to ensure adequate investment in the identified regions.

In the context of the Rural Economic and Enterprise Development framework, effective private sector institutions are expected:

- to provide professional business development and information services to rural entrepreneurs and enterprises;
- to respond to local needs, gaps and problems as representative, lobbying and advocating bodies;
- to develop or set professional standards, rules and norms;
- to provide business related technical or commercial services;
- to run their services along cost-covering and market-oriented principles.

Since presently only a few of those services are accessible by enterprises in rural areas there is a need to refocus urban service providers by marketing incentives or by initiating and facilitating the establishment of new service institutions adaptive to the rural economic requirements and enterprising conditions.

Within the Rural Economic and Enterprise Development framework, private sector institutions include trade associations, chambers of commerce, firms serving the private sector, financial institutions, marketing boards, associations of input suppliers, some NGOs, etc. They provide services (e.g. BDS, financial services) or represent groups of the private sector and act as lobbying or advocating agencies for the common interest of their respective members. They network, build alliances, provide inputs such as training or other business services (auditing, information, consultancy, advertising). Some may act as arbitration or conflict moderation bodies. These actors should work along the following principles:

- Services should be adaptive to local conditions (absorption capacity of clients), market/demand driven, cost-covering (weaker markets and poor areas could be considered for subsidises), socially committed and professional.
- Services should develop further their own learning culture; being entrepreneurial themselves in seeking (business) information, responsive to innovations and actively share this continuous learning process with their members or clients in a participatory way.

Micro and small enterprises in rural and weaker markets have very limited purchasing power and hardly any positive service experiences to create the required demand for market-driven commercially viable service providers. Major issues in this context on the

supply side are subsidizing, downscaling, adapting and cost-recovering of services. On the demand-side there is a lack of risk-taking, awareness and entrepreneurial competence within the rural business community.

The most promising strategies, processes or possible ways to implement this particular cornerstone will require greater focus on: building the capacity of private sector institutions to provide rural services include: identifying best practices, web page sources and the practical experience of experts (available in the Guide to Rural Economic and Enterprise Development) which will help to design and implement the establishment of new business development services (BDS) or improve the effectiveness of existing private micro and small business service providers to foster rural economic and enterprise development. The general weak self-organized representative bodies of local business (chambers, associations) will need guidance and support to enhance their professional competence and organisational capacity to act as effectively servicing and advocacy body for their members and clientele.

Services are weakly represented in most Local Economic Development interventions, which emphasise manufacturing activities, especially food processing. Within the Rural Economic and Enterprise Development framework, which addresses this gap. Many local economic development project interventions in Latin America reflect local communities' interest in adding value to their agricultural production. These imbalances may also result from insufficient knowledge by programme and project designers of recent empirical work showing that in Latin America services account for a much larger proportion of household incomes than manufacturing (Reardon et al, 2001).

The fact that services are important to the livelihoods of many poor rural households cannot be neglected, nor can the fact that some of them play a supportive role in the development of key sub-sectors⁴. While it is true that in the past local economic development interventions have shown a tendency to overlook such activities, this feature may be somewhat overstated. Some examples of micro-credit and micro enterprise development initiatives in Latin America with clear impacts on rural service activities could have been assessed. An evaluation of these experiences could then translate into lesson learning and the development of guidelines for rural service activity promotion. Dissemination of this work could prove important in addressing current sector imbalances within rural-urban linkage and local economic development initiatives.

3.4 Functioning and effective infrastructure (hard and soft)

Local physical infrastructure including density of the road and telephone networks and household services is an important aspect of rural-urban linkages and growth (see Lanjouw and Feder, 2001). Jalan and Ravallion (1998) show that road density is one of the determinant of household-level prospects of escaping poverty in rural China. Komives et al. (1999) find that there is a divide in access to household facilities (electricity, water, sewer, and telephone services) between urban and rural households, with the exception of Eastern Europe and Central Asia. Here, the rural have relatively higher levels of coverage.

Within the context of the Rural Economic and Enterprise Development framework, infrastructure provides access to both input supply and output sale markets. The

⁴ This is the case, for example, of repair, trading and transport activities.

infrastructure should enable enterprises to reduce the costs of doing business and should, at the same time, facilitate the production process. Infrastructure improves the quality of life of the rural population and has wider socio-economic, environmental and health benefits. Investment in infrastructure encourages pro-poor growth, migration and improves wage labour opportunities. However, improved infrastructure, especially roads, also encourages competition and might erode competitive advantages of certain rural areas. Infrastructure is an important aspect of the enabling environment providing for an attractive investment climate.

The main elements include access to both, hard and soft infrastructure. Most rural areas have an infrastructure deficit, and many sections of the rural population lack access to it. Even where some infrastructure exists, it is often badly managed and barely functional. Strategies mentioned in this cornerstone should provide actors in rural and urban areas with better access to functional infrastructure and improve the management and service delivery of existing infrastructure. People in rural and urban communities would benefit from improved access to rural infrastructure and this should reduce transaction costs and lead to increased productivity.

Table 2 Types of rural and urban infrastructure

Roads and haulage providers Other transport systems e.g. railways, air services Telecommunications Post and courier services Gas Electricity Water	Sanitation and waste management Healthcare and other social/welfare systems Housing Offices and business premises Storage Business services e.g. bank Informal savings clubs Shops and other “town” services
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The main actors involved in this cornerstone are

- Governments (national and local level), e.g. regulatory bodies, state and parastatal service providers;
- Private sector (rural and urban enterprises, consumer organisations, utility service providers; and
- Rural communities and associations.

Ideally, rural enterprises would have ready and unfettered access to rural infrastructure and would use it to conduct their business in the most efficient way. Local governments should support and invest in the development of new and enhanced infrastructure as well as encouraging infrastructure providers to deliver the required services. The private sector would be encouraged to invest in rural infrastructure wherever it was appropriate. This cornerstone is about ensuring that rural enterprises are not disadvantaged by having limited, inadequate access to infrastructure. In other words they need to have access to an infrastructure that will enable them to compete in local, regional and other markets (national, international). In looking at the rural infrastructure, it is important not only to know what is available now but also to understand what gaps there may be and also to envisage what rural enterprises will need in the future. The main challenges are therefore:

- to improve the efficacy of the existing utility service providers and to improve access of the rural poor
- to seek innovative, low-cost solutions

- to promote investment in local infrastructure by rural enterprises themselves and develop sustainable finance for the maintenance of the infrastructure

A promising alternative to state-subsidised service provision is the development of utility service cost recovery schemes. These have been successfully applied in Latin America. Another option is the privatisation of state utilities.

If remoteness is a serious cost that inhibits effective rural-urban linkages, then investment in infrastructure that cuts the costs of distance - in roads, telecommunications - must be a priority. Similarly, it is a severe handicap to local business if supplies of electricity and water are inadequate and unreliable. However, roads can also expose local production to outside competition.

Given that resources are scarce, this raises the question of priorities, and whether when it comes to providing physical services, government should try and ensure that critical nodes - selected rural market centres - are serviced, rather than trying to provide all services everywhere, and stretching thin resources.

Davis (2003) ⁱⁱⁱ notes that many donor and NGO interventions have explicitly forged linkages between project participants and other sub-sector players. This has assisted producers' integration into target markets while at the same time enhancing their access to critical services and reducing their reliance on project agencies over the long term. In a context of high transaction costs and weak marketing networks, market linkage promotion facilitates information flows and communication between producers and input suppliers or buyers (Coote and Wandschneider, 2001). Similar reasoning applies to the promotion of linkages between project clients and public or private service providers in areas such as training and credit.

Box: 1 RIMISP, promoting market linkages

The RIMISP and the San José workshop case study interventions illustrate a vast array of linkage development initiatives. Examples include organising visits to markets and trade fairs, facilitating contacts between producers and other sub-sector players, providing project participants with information on clients and service providers, and vice-versa. Organising visits by potential clients or key market intermediaries and promoters to project areas, and arranging meetings between them and local producers or service providers, can be a very effective promotion strategy, as in the case of initiatives to develop tourism and handicraft production for export markets.

Linkage development initiatives have the potential to improve the efficiency of supply chains, foster pro-poor growth and should form an integral part of strategies aimed at developing the RNFE. They can enhance market access, strengthen co-operative and complementary relations between small-scale rural producers and large firms, and enable the former to compete with their larger and often urban counterparts. If successfully developed, these linkages will persist beyond the lifetime of the intervention.

There is little practical guidance on this. There are however, several studies that argue for investment in rural market centres on the grounds not only of economy of provision of services, but also of generating the kind of interactions that clustering promise. Thus, how far down the urban hierarchy should selected service provision go? The answer is to that point where the majority of the local rural population comfortably makes visits regularly - that is to the most immediate level of rural market centre.

3.5 Access to Integrated and Effectively Functioning Markets

This cornerstone is important in the context of rural-urban linkages because rural enterprises need to maximise their returns from the market place and to be given the opportunity to compete in a greater range of markets than they traditionally have had access to. Rural entrepreneurs should have improved market access in order to take advantage of the potential benefits of trade and globalisation.

In order to maximise their returns from the market, enterprise managers need options and choices from their markets by being able to interact with a range of different buyers and different outlets. Rural enterprises need access to more remunerative, non-local markets in order to benefit from trade opportunities. To encourage access, firms need improved market information systems, market linkages, a sound regulatory environment and a level playing field regarding taxation and subsidies.

The main actors are rural enterprises, input suppliers, traders and market structures. Rural communities, local and national governments and processors are also important actors along with transport companies and others involved in the market chain, such as retail outlets.

The major challenges are:

- Economies of scale of rural enterprises (volumes of production, transport, storage facilities and quality standards)
- Market power. Rural enterprises have traditionally been price takers and the challenge will be to assist rural enterprises to develop their marketing and entrepreneurial skills in order to compete in markets at all levels. (possible case study?)
- Exploiting potential for value added of main agricultural products.
- Lack of market information. Understanding how markets work, having information about supply and demand, prices, quality standards and other issues related to market dynamics, all need to be made available to rural enterprises.

In order to achieve economies of scale, producers could combine their resources (land, labour, capital) in associations and groups. Establishing business clusters has also proven to be an efficient way of improving access to market information and achieve economies of scale (capital). Rural enterprises can exploit the opportunities in globalised markets by having better access to market information. Access to information and communication technology plays a central role.

The discussion above highlights the importance of adopting a holistic approach to Rural Economic and Enterprise Development project design and implementation, which takes the whole supply chain and sub-sector environment into consideration. Once target markets have been identified, project agencies must define interventions down the supply chain to ensure that goods and services satisfy market requirements and are produced for a profit. Producers must adopt the “right” production and marketing practices, have access to appropriate inputs at the right time and at a reasonable cost, and successfully develop links with markets and buyers. Good practice project interventions rarely focus on an isolated activity and set of producers since their success ultimately depends on the functioning of the whole supply chain, from input provision up to production and marketing. Critical bottlenecks along the whole product chain must be addressed, and

this often implies assistance to players other than target project beneficiaries, including research and technical institutes involved in input technology development and dissemination.

More generally, a sub-sector approach should permeate the entire project cycle (Haggblade and Gamser, 1991; Haggblade et al, 2002). This approach accounts for market trends, linkages between participants and their position within product chains, constraints and opportunities, the policy environment, and the entire range of supportive institutions. It can inform the choice of activities to promote based on their growth prospects and potential contribution to local development and poverty reduction. It can moreover help project agencies to target specific sub-sector players and decide how they can best position themselves vis-à-vis other actors. It can also constitute a good starting point for identifying technological bottlenecks, critical policy reform and support infrastructure needs, and appropriate institutional coalition building and business linkage development strategies. Systemic interventions in these areas can potentially benefit large numbers of sub-sector players facing similar constraints and opportunities. In short, the sub-sector approach can assist in the identification of economic drivers and has the potential to inform pro-poor agendas, while offering a road map for comparing alternative RNFE project interventions and for designing and implementing the chosen options in a holistic and cost-effective manner.

New thinking emphasises trying to integrate demand, supply, policy and governance issues into a single analysis that has practical application and can involve a range of stakeholders. This is expressed in ideas about supply or value chains, and in promoting industrial clusters.

There are two elements here. One stresses the value of integrated analysis that cuts across issues of demand, supply, and policy; focuses on interactions and transactions; and seeks to improve competitiveness through negotiation on possible improvements and coordination. Included in such consultation would be representatives from the major stakeholders in the chain - including firms, government, consumer groups, and civil society organisations.⁵

The other stresses the potential of forming and fostering clusters (see Humphrey & Schmitz 1996, Rosenfeld 2002) of similar and associated businesses to create external economies, to coordinate and cooperate, while stimulating competition between firms that will deliver productivity and competitiveness. The attractions of clusters are twofold: clusters can be made up of small enterprises - being small does not debar firms from competing even on the world market; and, clusters can arise in regions that have not had previously industrial advantages.⁶ These are precisely the conditions that face rural areas in the developing world when beginning to industrialise.

⁵ This proposal is outlined in Haggblade et al. 2002. In practical policy, it is a major recent proposal in Mexico, where the Agricultural Secretariat has announced that for each major agricultural and food sub-sector there should be a forum created at national, state and municipal levels to bring together actors in the chain for consultations and negotiations.

⁶ For example, in Europe, successful clustering has been observed in regions such as north-east and central Italy, south-west Germany, mid-Jutland in Denmark, and in Ireland - all regions that fifty years ago or even more recently were industrial backwaters. They were also predominantly rural regions with less urbanisation and less manufacturing than other parts of their countries.

Just how widely applicable these ideas are, is a matter for debate. The main examples of successful clusters in the developing world are in places that are already urbanised with much physical infrastructure in place - for example the leather and shoes complex of the Vale do Sinos, RGS, Brazil. Moreover, observers point out that policy to support clusters only works once the cluster has come into being, and admit that they have no clear theory of how clusters emerge. Finally, these approaches may only be of full use where there are enterprises producing for distant markets, but this may apply to only a fraction of enterprises.

3.6 Access to Effective and Efficient Support Services and Resources

This cornerstone is important because both rural and urban enterprises need to have access to financial resources, assets and inputs in order to exploit economically viable opportunities. They need access to high quality business development services to overcome human capital and information constraints in order to develop profitable activities.

Rural enterprise should get better access to services, which are often undersupplied, and of poor quality in rural areas because of high transaction costs. The basic functions of this cornerstone are to ensure that enterprises have adequate support services for their planning and production processes and the necessary resources to fulfil their production plans. The areas covered by rural business development services (RBDS) would be technical and business aspects, legal services and the provision of access to research and development (R&D) facilities.

The main actors are rural enterprises, rural business development services and suppliers of physical inputs and financial resources. In addition, other actors are local and regional governments, rural communities, R&D institutions and the media. The key challengers are: (i) to understand the extent to which local users are prepared to pay directly for the services that they use or to find other sources of funding to ensure that required level of service is provided; and (ii) to establish the appropriate level to which RBDS should be subsidised to balance increased cost of service delivery in rural areas.

A key strategy is to invest in new or adapt existing BDS e.g. urban services and, to try to encourage users' self help schemes and direct investment in their own local services. The RBDS will help rural enterprise to achieve their objectives through a programme of development and advice supported by the supply of relevant information.

3.7 Active Participation and ownership of joint learning processes by well-linked stakeholders

This cornerstone is important because full ownership of the initiatives by the stakeholders is the guarantor of sustainability. Negotiations between public and private interests are central elements of the Rural Economic and Enterprise Development framework. Platforms and forums for negotiations where a common understanding and vision among the stakeholders is created are key to orienting the actions towards common goals and balance competitiveness and collaboration. Rural Economic and Enterprise Development is about change and development in terms of approaches, roles of the actors, relationships etc. This requires a joint learning approach, which results in a continuous improvement of the performance of all actors together.

Active participation and ownership of joint learning processes by stakeholders can be fostered through space and incentives for business organisations, associations, networks and collaboration, (at all levels, but particularly the atomised and micro-level) to develop, through investment of their own resources and to take economic risks. Opportunities for the development and articulation of their own needs and priorities, freedom and space to collaborate, negotiate, advocate, and resolve disputes internally. The facilitation and support from external agencies (government, private, NGO and international) to develop “win-win” partnerships and solutions that are inclusive of poor and disadvantaged people may also promote active participation and ownership of joint learning processes by stakeholders. Freedom from over-regulation and dominance (especially unfair competition, crowding or advantage) by governments, large corporations and local elites. The key actors are government organisations at all levels, private sector enterprises, organisations and associations (corporations as well as less formal or informal entities), NGOs, donors and the civil society in general.

Over the last 50 years, there has been a clear trend from prescriptive and deterministic approaches to process-oriented approaches. The reality that few externally initiated and controlled initiatives ever survive the “end-of-project” is clearly recognised today.

Primary stakeholders, (i.e. people whose livelihoods are involved and businesses whose survival and growth is affected), need space and opportunities to make the best possible decisions in their own interests and according to their own priorities. The role of secondary stakeholders (external agencies including governments, donors and civil society) is to inform, challenge, support, facilitate and encourage. They must resist the temptation to prescribe, control or manage these processes. Interaction with peers is often powerful and persuasive. Secondary stakeholders need to participate and be willing to learn and modify their own views as much as they expect people to listen to them. They must not dominate the process, even unwittingly.

Individuals need to have freedom and space to make informed choices with respect to the kind of activities they undertake and organisations they wish to join or form; e.g. self-help groups for savings/credit, a partnership for a business, a cooperative for marketing and an association for technical information. Organisations and associations need freedom to develop rules, criteria and norms appropriate to their agreed purposes. The state has an important role in ensuring a level of compliance with basic principles. Civil society acts as a check and a force for improvement. This mix is well established in developed countries. In developing countries, external donors and civil society organisations have additional and special roles. They need to work together with, but often also challenge and stimulate governments, each other and people, so that a productive ferment is induced.

This empowers primary stakeholders and assures sustainability. It fosters the emergence of organisations, activities and processes, with exposure to risks appropriate to capacities and resources of primary stakeholders. People take responsibility for their decisions. Selection of ‘beneficiaries’, all too often top-down and overly favourable to local elites, becomes organic and self-selecting. Rules and constitutions for organisations emerge organically from within organisations, remain comprehensible to and implementable by members, and do not necessarily have to conform to scales and structures dictated by government or donor schemes and blueprints, however well-intentioned or perfectly designed.

Freed from micromanagement responsibilities, secondary stakeholders can devote their energies to facilitation, providing a better enabling environment and fostering higher level networks and integration with national/global markets. There is no need to exclude or marginalize big businesses and corporations. Often, the growth of big businesses alongside networks of specialised and efficient micro-organisations produces growth with equity. In some situations 'Greenfield' investment with big businesses encouraging the development of joint ventures and significant demonstration effects may be most appropriate.

Many governments, and at least some donors and NGOs would need much convincing, reorientation and also support to reorient their human resources and rework their programmes. Special support will also be needed for government functionaries at lower levels. Reduced space for patronage and political control would usually attract resistance obstruction from entrenched interests.

3.8 Ongoing learning from success and failure by all stakeholders

The foundation of the Rural Economic and Enterprise Development approach is based on the development of structures and mechanisms in which the performance of the whole Rural Economic and Enterprise Development process in a given region is regularly reviewed, and the activities, roles and relationships of different actors and their overall effectiveness are self-evaluated.

Stakeholders should assess together the performance of the actors in the change process and accept success and failure as learning tools, which can be built upon for:

- Critical self-awareness and evaluation of activities and their impact is the foundation for improvement of approaches and methods in their interventions;
- Continuous, joint review of roles, responsibilities and relationship between actors for effectiveness;
- The lessons and insights gained in joint piloting of new ideas and ways of promoting business is analysed and documented by stakeholders. New activities are built on experience and this know-how should be managed and made available to other areas / groups in a usable form (knowledge management);
- Bridging the isolation of rural areas and enhancing rural-urban linkages in terms of access to knowledge and experiences in Rural Economic and Enterprise Development and linkages to sources of innovation through exposure and sharing of available knowledge from many sources.

Learning takes place in a continuous manner by individuals and organisations. Actors in rural areas are frequently disadvantaged as activities may be isolated and remote. However, in some cases rural communities have existing modes of exchanging views and sharing knowledge which might be built upon. ("small world phenomenon"). The main functions, which should be available, are institutionalised platforms and processes, which facilitate access to experiences, structured ways of exchange. Those platforms would need an open and transparent atmosphere of exchange and a shared joint vision for improving the livelihoods in poverty-stricken rural and urban areas.

Actors are stakeholders at all levels, including individuals (entrepreneurs, traders and consumers), government institutions, private sector and civil society. Forums on different levels should be created to provide for mechanisms and culture to learn from

experience, success and failure. Relevant tools are documentation, participatory methods, electronic media (at an advanced stage) and joint review of existing approaches.

3.9 Adaptive management capacity and entrepreneurial competence within business and enterprises

The goal of this cornerstone is to support, at the level of the rural businesses and enterprises, the establishment of an effective management that responds and utilizes the opportunities and challenges of the market forces. This will involve tailoring products and services to the actual needs of the market. A successful entrepreneur will have the technical and managerial competence to adjust his product/ service portfolio to the realities. S/he will do so by establishing or joining networks, partnerships to be informed and benefiting from other initiatives.

Coordination / Facilitation: Supporting the establishment of entrepreneurs/ businesses requires an experienced professional support system which can assist an aspiring business in all aspects of business management and facilitation. A newly established business will in most cases not be able to judge what support it will need at the different stages of business development. It is therefore crucial to have an experienced support system that can tailor and coordinate the support to the specific needs of a newly established business.

Financial Support Systems: It is especially crucial for many new enterprises to have access to appropriate (micro)-finance systems. Such support needs to reflect the specific needs of the respective group of enterprises (e.g. agricultural, with seasonal production cycles, etc.) with regard to collaterals requirements, duration of loans, repayment conditions, etc.

Technical Support Systems: A common problem with new enterprises is that the respective products may not be technically sufficiently refined enough to find a ready market. To succeed on a sustained basis at the market place products have to be of a specific standard, which is difficult to achieve for example artisans, whose production techniques and technology may not always allow for quality production standards.

Business support Systems: New entrepreneurs come from a wide spectrum of background. Quite often business principles are usually very new to these 'starters' and need to be provided in a tailor-made support system that caters for the specific needs of the divers group of entrepreneurs.

The possible actors include entrepreneurs, and firms. *The Entrepreneur:* Many starters of (small) businesses are often (motivated for distress-push reasons) found to try their hands in a business in the absence of other employment opportunities. That means that they often have no background and tradition in running a (small) business. Educational levels also vary widely. Subsequently basic skills are often missing and comprehensive support mechanisms must be made available to coach the newcomers. Experience also suggests that grouping entrepreneurs and rendering support accordingly can be quite successful. Classification although very varied from country to country could be done as follows:

Survivalists: This (informal) group is usually characterized by seasonal or full-time hawkers selling fruits, other cheap merchandise, and basic food items, etc. Another business segment found commonly is small artisans with a very limited and unsophisticated

product portfolio. They are usually unsupported, inexperienced in business matters and tend not to have any premises to operate from. Only few of them find their way on a sustained basis into the more formal sector of the regional economy. They do not have any access to outside support systems, be it technical or financial. They cannot offer any collateral to financial institutions. Only a few countries have financial products that will reach this segment of the economy.

Micro-Enterprises: Entrepreneurs in this group are often individuals/groups who address some local demand for goods and services. They may be trading from fixed premises. However, their business idea is often borne out of despair; subsequently some of these initiatives are not founded on a sound market and business analyses and therefore often not economically feasible. Products are of a standard that targets only some of the low-income groups, but hence also only addresses a very limited market without much purchasing power. It is common that only a small percentage in this business-size bracket has access to technical or financial support. Many of these enterprises are not willing and also not in a position to pay for any of the services received.

Small enterprises: Operators in this business segment have a degree of formality. They are 'bankable', although, the size of the business and respectively turnover vary widely. Most of them know how to access support, but the size of the business may in the eyes of the entrepreneur not warrant to buying-in BDS-support. Product refinement, marketing strategies are common needs.

Coordination/ facilitation support is commonly rendered by NGOs, government institutions, and donor-supported initiatives, and it can focus on individuals, groups, guilds, and sectors of the economy. The role requires the joint identification with the entrepreneurs' constraints to the successful operation of the business and to facilitate that the appropriate support is being provided.

Quite often support will only be meaningful if provided in the right context, format and time. Small entrepreneurs find it difficult to attend training courses and then apply it correctly some time later. Careful scheduling of support according the progress of the business is essential. Although, it depends on the size of the business, the reality is that the support/ training needs of an emerging enterprise usually requires inputs from different service providers. A coordinator/ facilitator should be experienced in all aspects of business development and advise entrepreneurs as an "independent broker" of which services to get where, when and from whom.

Technical Support: Entrepreneurs design their products often without any relevant market analysis. Even if there is demand for a product, quality standards are lacking and limit access to markets. Therefore technical support services to help refine products to make them marketable are often essential. Such services are often only available against payment and therefore not easily accessible especially to the smaller enterprises.

Business support: Support under this heading includes all 'business-related skills' such as accounting, budgeting, record-keeping, store-keeping etc. and is usually provided by NGOs, government institutions, consultants, mentors, and donor-supported initiatives.

Financial support: There is in many countries a scarcity of appropriate financial products on the market. The main role players are commercial banks and their product range is usually aimed at the formal established segment of the market. "Small-enterprise-

friendly” loan schemes are often operated by NGO and Parastatals, however, their target reach and product portfolio makes it difficult to reach a broad clientele. Within the Rural Economic and Enterprise Development framework, ensuring access to appropriate financial services is seen as a focal component of policy interventions to promote sustainable livelihood strategies for the rural and urban poor because it enables them to diversify their income sources and build up financial, human and social assets (O’Reilly, 1994^{iv}). Deposit facilities promote capital accumulation and consumption smoothing, which are critical to ensuring household food security (Zeller 1998^v), while rural credit encourages adoption of improved technology and management practices in rural farm and non-farm activities. Access to micro-finance by the urban poor fosters urban informal economic activities, thereby expanding marketing opportunities to rural and urban producers and strengthening the capacity of the urban poor to sustain informal rural social safety nets through remittances.

Activities under this cornerstone are concerned with understanding the main factors constraining access to financial services by the rural and urban poor and discussing with relevant stakeholders necessary reforms and initiatives, including:

- Innovations, methodologies and institutional arrangements in the financial sector that reduce access cost for the poor, including institution building and strengthening of strategic linkages between various formal, semi-formal and informal institutions along the rural/micro finance continuum;
- Measures to empower the poor to access financial services through promoting effective forms of associations (e.g. farmer-controlled enterprises) that minimise strategic default through effective monitoring mechanisms, providing training in required skills to manage risks and developing market-supporting institutions that facilitate access to inputs and markets as well as commodity risk management through community-based warehousing and inventory credit schemes;
- Reforms in the policy and regulatory environment to support the above.

3.9.1 Type of support:

The support to enterprise development requires a broad spectrum of assistance. Some of it will be directed but not limited to the entrepreneur. Besides enhancing the skills of the entrepreneur some of the contribution needs to go into appropriate support systems. However the following ‘management skills’ are required in most enterprises and therefore quite often need support:

Management and Organisational Support: In this field the professional competence of the entrepreneur needs to be strengthened with regard to decision making, organisational development, the acquisition of relevant business information with regard to finance, technology and materials etc. to be used. These skills can be obtained through formal training courses, consultants, counselling and mentoring.

Production and Service Generation Support: Since a support programme might cater for a wide spectrum of enterprises implementation activities will have to vary. Training of employees, or in cases of component assembly even suppliers personnel might require training in order to achieve a standardized marketable product. In this support bracket it will be necessary to assess the actual product(s) of an enterprise and further develop and differentiate it for the market. This will entail creating the ability to identify and mobilize appropriate technologies and skills for product innovations.

The support to the entrepreneur needs to help establish the 'personal worth' of the business. This will show the entrepreneur where the strength and weaknesses may be, but also allow to project a more accurate situation to partners and support services e.g. for the mobilisation of external funds.

Financing Support: Budgeting and cash flow generation are the most relevant techniques of support to the entrepreneur to enable the interaction with financial service providers. Many support systems aiming at business establishment limit themselves to this type of support only. Size and scope of an intervention will determine whether the wide field of financial services is being targeted through specific measures and is adapted to the needs of the target group or is just considered as part of the frame conditions in which entrepreneurs have to operate in.

Marketing Support: As already indicated above the choice of product/enterprise does not necessarily reflect the realities of the market. Therefore a thorough analysis of the market should equip the business to establish 'market information systems that also 'maps' competitors. A system that aims to provide such information on a continuous basis is ideally established. Such information will help to establish and adjust distribution and marketing channels.

Networking Support: Many entrepreneurs start off in their endeavour individually. In many cases it would be beneficial if such enterprises form partnerships either to offer a greater quantity of produce at a given time or to guarantee a more regular supply of the market say throughout the year. Furthermore a professional exchange would be beneficial to most small businesses where experience and know-how can be shared. Such an exchange can be carried out in the form of partnerships (cooperation, joint marketing, etc.), local clusters (product chains, covering a bigger market segment, joint marketing, etc.) and associations (professional exchange, lobbying, joint training sessions, etc.). It is obvious that it would be beneficial for a small business to benefit from networking; however, in rural areas, which are quite often characterised by poor infrastructure and communication facilities, such an activity requires facilitative support.

Rural economic development is ideally implemented within a regional development context. Such an approach allows the pooling of resources, identifying local potentials and needs which in turn can inform strategies to foster economic development on a broader scale. However such an approach requires coordination and facilitation of the different initiatives. Experience shows that the support required by a diverse group of enterprises is more successful if coordinated. Specialised service providers may have special interests and may lack the ability to see all the needs of a business that are required beyond their service portfolio.

Key aspects geared towards intervention: Support measures under this cornerstone aim at strengthening the management capacity of entrepreneurs. Managers of enterprises need to be able react and adjust to a change in production conditions; they may be a result of a change of internal or external factors. The focus in strengthening the adaptive management capacity of an enterprise is to foster business skills in entrepreneurs to make informed decisions with regard to all aspects of running an enterprise. These include skills' such as accounting, budgeting, record-keeping, store-keeping, marketing, product design, etc. This cornerstone also indicates that different levels and degrees of sophistication are required if dealing with a broader spectrum of enterprise categories. Selective methods of support need to be applied for a diverse target group.

Support to entrepreneurs in order to enhance their management capacity needs to be measured and selective. Many 'managers' of enterprises lack formal education and any support system need to be tailored to the abilities and absorption capacity of such a target group. The selection of an enterprise by an entrepreneur is often not based on a feasibility study, but rather 'wishful thinking'. Support in the field of micro-enterprises calls in many cases for an analysis of the (proposed) business and often results in a recommendation for a new business idea.

3.10 Local organisations, groups and associations (representing the poor) as building blocks

The degree to which the interests of poor rural entrepreneurs and wage labourers are taken into consideration by private and public institutions is frequently limited. There is little information about the specific needs, demands and potentials of these entrepreneurs. In some cases, the political will to promote the development of rural and urban areas, increase incomes and improve the livelihoods of the poor is lacking. Thus, this cornerstone is important because there is a need for the effective articulation and representation of interests of different groups (in particular the poor) for fair access to assets, resources and information. Local structures/ organisations are the basis of channelling information, organising activities and collective action.

The Rural Economic and Enterprise Development framework aims to encourage:

- A range of organisational and operational options for enterprises, for access to financial or other resources and for services, at all levels, but particularly the atomised and micro-level
- Accountable representation of different group, particularly the poor & inclusiveness of relevant actors
- Facilitation and support to make informed and free choices, plans and arrangements in people's own interests
- Linkage between 'innovators / entrepreneurs and their larger communities (win-win situation of giving and taking)

The potential actors are individuals and rural communities and their representatives, government organisations at all levels, private sector organisations and associations (corporations as well as less formal or informal entities), NGOs, donors and the civil society in general. The key challenges underlying the potential for developing effective local organisations, groups and association (representing the poor) as building blocks for enhanced rural-urban linkages and local economic development include the following:

- Sustainability: Stabilisation of local organisations and bottom-up initiatives
- Representation of the different groups (in particular the poor),
- Accountability of leaders to their constituency
- Umbrella structures able to bring together and aggregate the demand
- Encourage the poor to become less policy reactive to being more pro-active in participating in governance fora and in articulating their needs.
- Articulation of demand and needs – in terms of quality of demand, the depth of analysis of underlying issues and in terms of 'aggregation' of demand
- Negotiation capacity of rural people vis-à-vis unequal partners.

4 Areas for further strengthening: rural-urban linkages and the Rural Economic and Enterprise Development framework

The Rural and Economic Enterprise Development framework can address the main shortcomings of the traditional rural-urban dichotomy, as illustrated through our brief review of ten cornerstones for successful intervention, covering the policy and institutional dimension, access to infrastructure, services and markets, entrepreneurial competence and stakeholder links. The framework can support stakeholders involved in Rural and Economic Enterprise Development in participatory strategy development and knowledge management to address the critical challenges outlined above. It does this by providing access to the consolidated experience of practitioners from different professional and institutional backgrounds and enabling systematic identification of bottlenecks and entry points for intervention. The framework enables development practitioners to adopt an integrated spatial perspective to rural development and rural-urban linkages by being holistic, adopting a broad spatial perspective and particularly in terms of linkages whether institutional, private sector or producer based.

As previously noted, the framework is still evolving and offers potential insights for local economic development; it needs deepening but has the potential to be used locally and spatially to identify rural-urban drivers of change and growth. An enhanced rural and economic enterprise development framework would be more explicit in encompassing effective rural-urban linkages as part of a local economic development strategy in two areas: (i) in terms of understanding rural-urban linkages within and between villages, between villages and multiple urban centres, between urban centres and provincial capitals, recognising that the regions could have multiple linkages with villages and urban centres (e.g. could attract migrants from a wide area); and (ii) to make the framework more robust (in terms of further developing quantitative and qualitative methodologies) through a greater focus on rural-urban flows.

4.1 Understanding rural-urban linkages between villages and multiple urban centres

It is important to identify current trends in rural-urban linkages and the main sources of vulnerability underlying/ driving them in both rural and urban regions. Within the context of the Rural Economic and Enterprise Development framework and using a combination of methods e.g., participatory appraisal, household surveys and key informant interviews, the following factors could be explored:

1. Current trends and sources of vulnerability;
2. Analysis of assets;
3. Livelihood strategies;
4. Analysis of the patterns of different flows (goods, services, labour) to and from rural and urban areas and their combined impact on rural and urban linkages.

The identification of current trends and main sources of vulnerability could be explored for both rural and urban contexts, examining the interrelationships and some of the factors affecting the flows and linkages. Examples of trends are; economic recession and retrenchment in traditional industries; rapid urban growth and demands on service provision; rural demands for service provision; new forms of private sector activity, and globalisation and technological change.

Examples of sources of vulnerability include:

- Skewed land distribution, competition for land and lack of secure tenure;
- Pollution, waste management;
- Impact of drought;
- Market trends and instability;
- Cost and constraints of urban food supplies;
- Labour relations and job insecurity.

A comparative analysis of the assets of rural and urban households, with particular attention given to spatial elements and areas which are contested between different stakeholder interest groups, e.g. competition between agricultural (and water) uses and housing development, leisure or business facilities. Different patterns of ownership and access to capital assets in the rural, peri-urban and urban areas could be explored to identify factors, which contribute to building or undermining these, and how rural–urban linkages might affect them in the future.

Existing strategies and opportunities for livelihoods diversification could also be analysed – including the pattern of differentiation of households (and within households by age and gender) and communities in terms of their use of rural urban interactions. Rural and urban residents’ perceptions of the value of linkages for their livelihoods could be investigated. This would indicate the strengths and weaknesses of spatially distributed livelihoods and identify which population groups are most affected by negative aspects of rural–urban relationships, which are most dependent on urban linkages for their survival and which groups benefit most from rural urban linkages as a means of increasing their livelihood status.

4.2 Rural-urban flows

Suggested areas of additional focus regarding rural-urban linkages in the context of the Rural Economic and Enterprise Development framework are; migration, non-farm employment, and agriculture. Linkages can be understood as spatial and sectoral. Spatial resource flows include movement of people (rural to urban, urban to rural, rural to rural, circular migration etc^{vi}), goods (producer-market), wastes and finance, while sectoral linkages refer to the relationship between similar activities located in both rural and urban areas, e.g. small enterprises, horticultural production.

4.2.1 Migration

Migration is one of the key livelihood strategies adopted by individuals, households and communities. Internal rural to urban migration contributes to uncontrolled urban growth and to urban management problems that have resulted in some instances to policies to discourage the in-flow of people. However, rural-urban migration is most common where economic growth is highest, and can bring substantial benefits to households and to development more widely. Migration from urban to rural areas is becoming more prevalent in some instances as a decrease in formal-sector employment opportunities and higher costs of living in urban areas force people back to rural plots (see Potts, 1995^{vii}). In addition to more permanent migratory patterns, an increase in temporary flows has been identified, with seasonal movements from rural to urban, urban to rural, rural to rural etc., although these are not captured on census records and thus are only partially understood. The determination of who migrates, and who is able to profit from these movements has been the focus of a number of studies, and highlights the role and movement of men and women and the nature of household structure. Remittance

patterns, and the control of resources by 'absentee' household members are all linkages that are crucial aspects of livelihood strategies, but are rarely taken into account in policy and planning (Gordon, Davis, Long, 2000). De Haan's recommendation to DFID that policies should be supportive of migration, rather than implicitly or explicitly aiming to reduce it (de Haan, 1999)^{viii} needs to be carefully considered within the context of developing the Rural Economic and Enterprise Development framework.

4.2.2 Rural-urban livelihoods and agriculture

Key policy issues in relation to agriculture and rural urban linkages for the Rural Economic and Enterprise Development framework are:

- Peri-urban and urban land use planning and management policy. Tenure and allocation of agricultural land in peri-urban and urban areas, competition for access and land markets;
- Access to rural land by urban dwellers;
- Environmental issues - environmental damage in rural and urban areas and the urban footprint (pollution, erosion, waste management).

5 Investigating the impact of policy measures relating to rural-urban interaction within an enhanced Rural Economic and Enterprise Development framework

Our key focus here is on the degree to which both urban and rural based policy makers and policies have overlapped, whether synergies exist and where gaps are apparent which can be addressed through the holistic and enhanced Rural Economic and Enterprise Development framework (i.e. where gaps have been addressed).

5.1 Rural-urban policy

Rural development and urban development policy interface both in formulation and in implementation. Interaction with stakeholders and the Rural Economic and Enterprise Development framework will help to establish which areas of interface are the most critical for rural and urban livelihoods. Examples of policy areas are: rural and urban planning (zones, boundaries, planning bodies and consultation); employment, labour law and social welfare; market policies and trade regulations; land reform and redistribution, agriculture subsidy policy and input supply, extension and research; water distribution policy; environmental protection legislation; financial services and credit; education and skills training provision and information and communication policy.

5.2 Institutional framework

Institutional analysis which is a central element of the Rural Economic and Enterprise Development framework may be undertaken of the formal and informal institutions which affect urban- rural linkages in order to identify how institutional arrangements either constrain or enable positive rural-urban interactions and benefits for livelihoods and encourage or hinder policy implementation. Strategies to overcome obstacles e.g. cross-departmental or institutional working groups could also be developed. Relevant issues include:

- Inter-sectoral institutional communication;
- Effects of recent policy trends in governance and decentralised planning centred in local level institutions;
- Mechanisms for participation of the poor in policy debates;
- Linkages between political parties, local government bodies and communities;
- Local government accountability;
- Public-private partnerships.

5.3 Stakeholder involvement and linkages

The views of the rural and urban poor on policy changes, impacts and further policy requirements are another key element of the Rural Economic and Enterprise Development framework and may be further evaluated through surveys and detailed participatory field studies. As part of the emphasis placed by the framework on collaborative processes, an potential outcome of the application of Rural Economic and Enterprise Development is the discussion and development of recommendations and practical policy options to create the practical conditions and institutional environment for mutually supportive or integrated rural-urban livelihood strategies and equitable market access. The Rural Economic and Enterprise Development approach has emphasised that policy decisions are not discrete events made by individual actors, but part of a more complex interaction between multiple stakeholders, sources of information and institutional arrangements. An interactive approach to developing and implementing policy is needed, forging linkages between agencies involved in research, policy formulation and policy implementation and monitoring. Recommendations should relate to the areas prioritised for through the application of the framework, but for example might cover:

- Democratic planning structures to address and support rural urban interactions under current forms of decentralised provincial and local (municipal) government;
- Policies to support rural livelihoods and slow down rural-urban migration, e.g. by supporting the development of a rural informal non-farm sector and small-scale industry;
- Policy recommendations for access and management of natural resources;
- Policies to improve rural –urban food marketing chains to the benefit of the poor and to improve forward and backward market linkages between rural and urban zones;
- Policies and interventions that provide access to financial services for the rural poor on a replicable and sustainable basis;
- Training and capacity building in local institutions and local partners and the need to build or enhance institutional linkages;

- Roles, responsibility and accountability for policy actions clearly set, including specific recommendations to national governments, action plans for financial intermediaries and other non-state actors and funding proposals to donor agencies;
- Policies to co-ordinate rural and urban information, education and training and health service provision.
- Policies which support improved land access and urban agriculture opportunities for the urban poor (Davis, 2003a)^x
- Policies and interventions which improve water and sanitation quality for the urban poor.

6 Emerging issues and concluding remarks

The potential strength of the Rural Economic and Enterprise Development framework lies in its focus on development constraints within the rural-urban space, based on a systematic analysis of the situation and subsequent joint learning by all stakeholders, instead of reliance on theoretical development concepts. The framework carries some explicit assumptions about how successful interventions foster economic development in rural and urban regions so the individual cornerstones are related to:

- Shaping favourable conditions for rural entrepreneurs to increase their incomes and improve their livelihoods;
- Developing and supplying supportive infrastructure and services;
- Creating competence among rural entrepreneurs;
- Promoting and supporting active and effective involvement (participation) of relevant stakeholders; and
- Improving the different types of existing and potential horizontal and vertical links between stakeholders (general communication, representation of interests, production activities, etc).

The Rural Economic and Enterprise Development framework can be applied at different levels, i.e., national and regional, because it is area-based. For example, many decisions concerning the political, economic and institutional environment for Rural Economic and Enterprise Development are made at national level. Decision-makers on public policies for rural areas are charged with designing strategies for rural development. Increasingly, this is done in a programmatic way, such as in inter-ministerial committees for designing PRSPs, sector investment programmes (SIPs) and sector-wide approaches (SWAPs). The Rural Economic and Enterprise Development framework adds value to the planning process because it feeds the perceptions, needs and experiences of relevant stakeholders into the process in a systematic way.

Where the focus is on developing a certain region (at sub-national level), regional development authorities should bring together relevant stakeholders and use the Rural Economic and Enterprise Development framework to create a dynamic environment for economic activity and to stimulate innovation. In this way, the specific characteristics of the region and the relevant framework conditions can be taken into consideration when elaborating and formulating key strategies, processes and possible ways to implement them, related to the individual cornerstones.

There are at least three emerging issues in the application of the Rural Economic and Enterprise Development framework to rural-urban linkages and local economic development

:

1. Thinking about economic and livelihood strategies to compliment other planning and management efforts is still very new. The traditional approaches to development until recently have been centralized and donor driven with local bodies left with performing a largely maintenance function.
2. There is a need to conceptualize economic development strategies in a trans-municipal perspective, including its institutional setting
3. There is a need for a common forum and mechanisms to link policy, procedures and interventions from an industrial perspective (the promotion of small and cottage based industries), those categorised under district development (the promotion of Self Help Groups), Small town/ cultural tourism, and urban management including local economy friendly upgrading strategies and land tenure policy

6.1 Linking economic and livelihood development strategies in a local governance perspective:

Political decentralization and financial devolution can be complimented with economic strategies, which help build local ownership. In the short term a participatory process to link economic strategies to physical and infrastructure planning, financial and corporate plans, social development could be usefully integrated in the Rural Economic and Enterprise Development framework to promote holistic cross-sectoral strategy formulation:

- Local economy and enterprise development;
- Micro-finance;
- Market access;
- Cluster based technical training;
- Cluster specific support services;
- Local government in partnership with entrepreneur associations to manage common service, design, training marketing centres
- Multipliers from Cultural tourism;
- Opportunities for land re-use from derelict industries;
- Strategic policy forum at the regional level to reinforce the regional advantage of individual clusters.

The Rural Economic and Enterprise Development framework provides a potential link to the above points via existing governance structures endowed with the ability to formulate cross-sectoral economic strategies. From our review of a range of studies (see Davis, 2003; Wandschneider, 2003) development practitioners will also need to focus on innovative possibilities. In the UK and some South Asian countries, relatively new policy areas include enterprise friendly land use and regulatory frameworks (see Phillipson, 2004). This would include the re-use of industrial land in ways that promote local employment. Another would be to encourage the diversity of tenure and links to infrastructure upgrading that have extensive and positive economic impacts for the poor.

Development planners and practitioners need to build effective relationships with government development schemes and supporting infrastructure such as information

technology (IT) networks. The institutional interface between public and private efforts to promote open-ended systems and innovations pushed by field level experiences to promote local ownership is critical. For example, in India many state governments (e.g. Tamil Nadu, Andhra Pradesh, Karnataka to name a few) promote the use of IT for development. This complements efforts by private groups who already use newer technologies in this regard (e.g. the fishing communities in coastal Karnataka and Kerala using cell phones to locate best prices for their catches). Some private research foundations (for example the MS Swaminathan Research Foundation in India) have also successfully used a combination of low and high technologies for economic development. Our efforts through Rural Economic and Enterprise Development enable us to: (i) draw on a wide range of relevant experiences to explore how these initiatives can be built-on by local groups and shape public policy to be more locally responsive and space opened up for partnerships; and (ii) to specify an institutional interface and appropriate technology that is open-ended and innovative supported by field level experiences. This is significant since much of the interesting and innovative ideas come from local groups adapting a technology. This is critical to developing local ownership, and institutional structures need to allow this to happen.

Within the cycle of typical government and donor-supported public investment, policies/interventions, there are several options for applying the Rural Economic and Enterprise Development *framework*. It can be used:

- as a diagnostic tool for assessing the nature of the existing interventions in the rural space and identifying gaps and synergies for future project design;
- *as a tool for developing strategies and designing new programmes and projects*. The Rural Economic and Enterprise Development framework should be used to analyse the current situation with participating stakeholders, to simplify the selection of appropriate partners and to prioritise core activities. The main areas of project intervention are defined on the basis of the joint analysis. Key functions and related possible partners are identified in an inclusive and rigorous process in which partners can benefit from synergies;
- *as a tool for monitoring and evaluating on-going investment and policy*. Implementation teams can use the framework to reflect on their intervention and analyse the state of the art for each cornerstone. This helps them to reach a common perspective on where they are, what they consider successful, and what the knowledge and design gaps are in their intervention so far;
- *as a knowledge management tool*. The lessons, experiences and methodologies or tools used to enhance each of these cornerstones can be collected, synthesised across programmes, and fed back into the framework in a rigorous and systematic way, enhancing learning in institutions and networks (e.g., through interactive websites);
- *as a tool to create a common understanding and vision* among a diverse range of stakeholders and partners involved in implementing Rural Economic and Enterprise Development.

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