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Small rural towns and local economic development: Evidence from two poor states in India

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June 2004

International Conference on Local Development, Washington 16 – 18 June, 2004
Session on “Bringing Rural and Urban Together for Local Development”

Acknowledgements

This paper is based on research work funded by the Department for International Development (DFID) under its collaborative programme with the World Bank on rural development. The author would like to thank the comments from Felicity Proctor and Junior Davis to previous draft versions of the paper. Any remaining errors and omissions are solely the author’s responsibility. The views in this paper are those of the author and not necessarily those of the DFID or the World Bank.

Introduction

This paper investigates the role of small rural towns in local economic development in two poor states of India. It is based on research carried out in the context of a DFID-funded project on the rural non-farm economy in Madhya Pradesh and Orissa (Wandschneider and Mishra, 2003; Wandschneider, 2003). Emphasis is given to interactions between small towns, on the one hand, and the village and wider economies, on the other, with special reference to employment and input and output market linkages. The paper highlights relevant lessons for public policy and investment interventions that take spatial considerations into account. Although much has been written on rural-urban linkages and the role of small towns in a developing country context, there are very few studies on these issues in India, where rural development is still largely associated with the development of the village economy.

The paper is based upon fieldwork conducted in two districts of Madhya Pradesh (Betul and Narsimhapur) and two districts of Orissa (Bolangir and Nayagarh). A formal questionnaire survey, comprising 183 randomly selected enterprise units, was carried out in five small towns (block headquarters) and one medium-sized town (district headquarters) to gain an understanding of the enterprise sector and patterns of interaction between small urban centres, their hinterland, and the wider economy. Thirty semi-structured interviews with key informants in the enterprise and government sectors in these six locations were also conducted in order to allow for detailed discussions of specific issues. The enterprise survey was complemented by a formal questionnaire comprising 100 households in four villages of Bolangir District. This small survey provides a complementary village-level perspective on rural-urban interaction as well as insights into critical factors enabling or constraining the ability of village households to access markets, employment, and services in local and more distant urban centres.

The focus on block headquarter towns¹, the lowest level locations within the urban hierarchy in India, seems appropriate since it is at this level that interaction between village households and the urban economy is most regular and intense (see section 4 below). However, the inclusion of one medium-sized town in the survey sample allows for some comparisons between the structure of enterprise sector and the nature of rural-urban linkages across different size locations. Whilst the analysis is focused on small towns, it is important to acknowledge that medium-sized towns are also an integral part of the local economy, and have a very important role to play in its development.

The concept of local development varies significantly according to the perspective adopted. The World Bank (2004) has recently defined local space as a geographical unit of intermediate scale, above the community and below the regional and national levels. Whilst recognising that definitions of local area will vary according to country and context, the authors of this paper analyse local development from a rather narrow perspective, emphasising access to relevant (largely public or semi-public) services by communities and the institutional change required for improved, demand-driven service delivery at this level. The urban dimension of local economies and the linkages between local towns and rural communities, and between the local area, the regional economy, and beyond are not explicitly accounted for in the analysis.

¹ Districts are divided into Community Development Blocks for administrative purposes, the delivery of public services, and the execution of local development programmes. Each block has its own headquarters.

In contrast, another recent World Bank document concerned with the design and implementation of local economic development strategies and action plans, places much greater emphasis upon the ability of local areas to attract private sector investment and develop competitive advantage in increasingly integrated domestic and world economies (World Bank, 2003). Local is defined as any urban area ranging from large cities to small towns and the rural areas linked to these urban centres. The strategic importance of cities and towns in local economic development strategies is emphasised, and so is the need for maximising rural-urban linkages.

This latter perspective on the local economy is adopted here, albeit in slightly modified terms. Rather than placing an emphasis upon one urban centre and its rural hinterland, it is recognised that each area may include several urban locations, differentiated by size, physical infrastructure, economic structure, and functional specialisation. Village households in a particular area generally interact with several urban centres. Although this paper draws upon fieldwork conducted in particular rural towns, it is argued that local economic development strategies must focus on a given region rather than specific locations and their hinterland, along the lines proposed by Douglass (1998). In the Indian context, the district may be an appropriate geographical unit for planning and implementation purposes, but it must be noted that economic regions do not respect administrative boundaries, and innovative institutional solutions must be devised to develop co-ordinated approaches to area-based economic development that transcend administrative units.

This paper is structured as follows. Section 1 discusses the role of rural towns in local economic development, highlighting the institutional challenges behind the design and implementation of strategies and interventions that are local rather than solely rural or urban. Section 2 provides a brief description of the survey areas, whilst section 3 summarises the main findings from the small town survey, with special attention paid to employment and market linkages, and the external and firm-specific factors constraining enterprise development in small towns. Section 4 looks at patterns of rural-urban interaction from a village perspective, focusing on the extent to which households in Bolangir District depend on urban centres for employment and social and economic service provision. Finally, section 5 summarises relevant lessons for policy and investment interventions aimed at developing the local economy.

2 Rural towns and local economic development

Small and medium-sized rural towns are an integral part of the local economic landscape. A significant and increasing proportion of the rural population lives in these locations, which also host a very large share of local non-farm activity (Satterthwaite and Tacoli, 2003b). The employment opportunities available in such locations and the standard of living of its population are therefore important dimensions of local economic development.

In addition, much economic activity in small and medium-sized towns is closely interrelated to the surrounding village economy through consumption, production, employment and financial linkages, and various types of economic and social service provision. Hence, whilst an expansion of the small town economy is intimately dependent on development dynamics at village level, the reverse is also true. In other words, the nature and extent of economic linkages between rural towns and their hinterland, and between the former and the wider economy, constitute key factors shaping local development dynamics and potential. Hence, policies and interventions aimed at developing the local economy must account for existing patterns of interaction between the

village and town economies, and seek to reinforce synergetic links and mitigate adverse impacts arising from resource flows and exchanges between both types of locations. Clearly, a neglect of the urban aspects of the local economy undermines its development potential.

The view that the urban economy plays a parasitic or extractive role, based on unequal exchanges with rural areas supported by policies biased towards large urban centres, has been very influential in development thinking (see for example Lipton, 1977). However, since the late 1970s and early 1980s there has been a re-thinking of the nature and impact of rural-urban linkages, with much emphasis placed upon the mutual dependency of rural and urban areas, and the critical role of town and city networks in the process of regional and local economic development (see for example Satterthwaite and Tacoli, 2003a; Satterthwaite and Tacoli, 2003b; Kammeier, 2002; and Douglass, 1998).

According to this perspective, the development of small and intermediate urban centres is intimately dependent on the growth, not stagnation, of the surrounding village economy. This growth translates into an increase in the demand for goods and services produced within towns, as well as an expansion of the village surplus available for processing and/or marketing in these centres. Consequently, an expansion of small and medium urban centres is regarded as a consequence of a dynamic rural economy, rather than a cause or by-product of its under-development. The issue policy-makers need to address is how to promote the symbiotic development of the local village and town economies, rather than whether to prioritise the development of one at the expense of the other.

Interestingly, the shift in focus from very large cities to smaller urban centres has in effect drawn attention to the rural features of small and intermediate towns (see for example Satterthwaite and Tacoli, 2003b). The enterprise sector in these locations tends to rely heavily on the surrounding village economy both as a supplier of inputs (including labour) and as a market for goods and services. At the same time, town dwellers often engage in farming, whilst nearby village residents pursue a whole range of livelihood activities in town. Increased employment opportunities at local town level may therefore contribute to curbing long-distance permanent and temporary migration to large urban centres, and mitigating its undesirable economic and social consequences, both locally and in destination areas.

From a poverty reduction perspective, the importance accorded in the literature to small and medium towns in regional or local development processes arises from their potentially instrumental role in stimulating and sustaining an expansion of economic activity and incomes in their rural hinterland. The marketing function of rural towns is particularly noteworthy. These locations not only serve as consumption outlets and local distribution points for farm and non-farm village production, but (perhaps more importantly) also act as intermediary centres linking their hinterland to the wider economy through the supply of imported inputs and consumption goods and the export of village surplus production. Often, access to wider markets requires value addition at town level, for example through grading, packaging, and processing activities. Other critical developmental functions of small and medium towns include the provision of financial, information, employment, health, education, and training services to rural dwellers.

Despite the developmental role often attributed to small and medium urban centres, there is widespread recognition that links with their rural hinterland may be weak and not always beneficial from a poverty reduction perspective (Satterthwaite and Tacoli, 2003a; Satterthwaite and Tacoli, 2003b; Douglass, 1998). For example, commodity flows from

rural to urban areas may by-pass local towns. Moreover, by acting as distribution points for imported goods, these locations may expose local producers to outside competition, whilst as financial centres they may divert rural savings to outside areas or simply fail to channel resources to agriculture. Disadvantaged groups in village communities may also benefit little from proximity to small urban centres due to lack of productive assets, social barriers to participation in economic activity, and lack of access to social and economic service provision at town level. In polarised rural societies, differentiated access to urban centres may exacerbate economic and social inequalities in the absence of government intervention targeted at disadvantaged groups.

Rural-urban linkages at the local level are shaped by a complex range of factors, including resource endowments, transport and other economic infrastructure, social and economic structures, and policies and institutions at the macro, meso and sector levels (Satterthwaite and Tacoli, 2003a; Satterthwaite and Tacoli, 2003b; Pedersen, 2003; Kammeier, 2000; Douglass, 1998; Hazell and Haggblade, 1990). Areas characterised by high agricultural potential, a relatively equitable distribution of land, and input-intensive farming systems tend to show the strongest linkages. Decentralised governance structures, when effective, may also generate strong levels of local rural-urban interaction due to greater attention to local resource endowments and conditions and more effective planning in areas such as market and transport infrastructure, irrigation infrastructure, water and energy supply, enterprise development, and urban management. National development strategies and political structures which favour, or at least do not discriminate against the agricultural sector and rural areas, produce similar outcomes. Furthermore, local rural-urban linkages are likely to be stronger in regions characterised by a multiplicity of dispersed small and intermediate rural towns, well developed transport infrastructure and services linking towns and villages, diversified local economic activity, and functional differentiation across towns.

Empirical evidence from India confirms the positive impact of well-developed rural towns on rural-urban growth linkages (Hazell and Haggblade, 1991). Indian data also highlights the role of small and intermediate urban centres in local economic diversification, in particular as a basis for non-farm economic activity. Services, transport and commerce account for a large proportion of output and employment in settlements with a population between 5,000 and 100,000 inhabitants. Whilst the tertiary sector is also very important in large urban centres, the significance of manufacturing activity rises in comparison to smaller urban locations, alongside a shift from household to non-household (factory) mode of production. Similar patterns of spatial distribution of economic activity are also noted by Kammeier (2002) in his overview of rural-urban linkages in developing countries. Interestingly, agro-marketing activities are more intensive at the small town level, whereas the intensity of agro-processing and manufacturing peaks at the intermediate town and large city level, respectively.

Whilst the need for promoting integrated, area-based development strategies and programmes that take into account spatial linkages and the multi-sector nature of the local economy cannot be overemphasised, there are many obstacles to making such an approach operational. The main constraint arises from the traditional divide between urban planning and rural development agencies (Satterthwaite and Tacoli, 2003b; Kammeier, 2002; Douglass, 1998). The former tend to suffer from an urban bias, neglecting the inter-dependencies between urban centres and their rural hinterland, whereas the latter are essentially concerned with village-level issues, ignoring the potential role of urban centres in rural development. The multi-sector nature of local economic development processes also poses considerable challenges (Douglass, 1998), especially in contexts characterised

by centralised decision-making systems and limited inter-agency and inter-department co-ordination. Decentralisation is regarded as a pre-condition for effective planning and conflict resolution mechanisms, adapted to local conditions. However, local governments must be supported by clear legislation defining their relation with central government, have access to sufficient resources (through local taxation and/or central government transfers) for appropriate investment and service provision, and possess adequate planning and implementation capacity.

India provides an accurate illustration of the above problems. There is a tendency amongst policy-makers, government officials, the voluntary sector, and some international development agencies in this country to equate rural development with the development of the agricultural sector and the village economy. An excessive emphasis on the preservation of self-employment in artisanal activities at village level, facing limited growth prospects as a result of long-term shifts in demand (e.g. handlooms and traditional crafts), alongside the neglect of wage employment promotion in rural towns and the development of sub-sectors with the potential to drive local economic growth, is rather symptomatic of such perspective (Fisher and Mahajan, 1997).

Furthermore, whilst current decentralisation efforts in India have emphasised the devolution of a wide range of administrative and fiscal powers to local communities (Gram Panchayats), the need for institutional change at district level and beyond, where weak capacity and lack of inter-agency co-operation and stakeholder consultation remain common features, has been neglected (CYSD, 2002; Dasgupta *et al*, 2002). The experience so far with the Panchayat Raj System also highlights the difficulties in bringing about effective change in local power dynamics and the challenges of building capacity for local resource mobilisation, planning, investment, and service provision (CYSD, 2002; Dasgupta *et al*, 2002; Alsop *et al*, 2001).

There is an emerging consensus among international development agencies and academics that effective decentralisation and good local governance are required for initiating and sustaining genuine institutional change, and for designing and implementing successful area-based development strategies and programmes (World Bank, 2004; World Bank, 2003; Satterthwaite and Tacoli, 2003b; Kammeier, 2002; Douglass, 1998). Lessons have been learned, for example, from past donor-driven rural town development programmes, which have failed to recognise the importance and complexity of systemic institutional change, suffering from limited timeframes, centralised and parallel planning and management structures, poor understanding of local needs, and neglect of critical policy issues. Such programmes paid scant attention to the strategic importance of mobilising the most progressive elements within local (as well as regional and national) administrations, whose involvement in reform processes is crucial for improving, replicating, and scaling-up approaches and interventions.

The emphasis among international development agencies is now shifting from infrastructure construction to institutional development and capacity building, alongside a renewed interest in enterprise development as an engine of local economic growth (World Bank, 2004; World Bank, 2003; Satterthwaite and Tacoli, 2003b; Kammeier, 2002). Flexible institutional coalitions involving local as well as regional and national stakeholders, public-private partnerships involving both the commercial and community sectors, participatory programme planning and management, demand-driven service delivery, and the creation of an enabling institutional and policy environment have been brought to the centre stage. "New" small town development programmes, local

development funds, social funds, and municipal development funds are examples of donor-funded programmes where these new approaches have been tried.

From a local development perspective, a variety of institutional frameworks can contribute to spatially integrated and multi-sector approaches and be adapted to incorporate more participatory decision-making structures. These include, for example, regional development agencies, regional (e.g. provincial or district) government authorities, municipalities and municipal government networks, steering committees of local development programmes, and multi-stakeholder policy and investment fora at local and regional level. Given that local areas are part of wider regional and national realities, there is a need for effective horizontal co-ordination between local institutions and stakeholders and similar structures in nearby areas and regions, and for vertical co-ordination with different levels of government on the policy, technical, and financial spheres (Satterthwaite and Tacoli, 2003b; World Bank, 2003). Given current knowledge gaps regarding institutional change and policy reform processes along the lines suggested above, there is a need for in-depth research and learning sharing within country to inform current and future local development initiatives.

2 The study areas

The four study districts differ considerably with regards to natural resource endowments, population, human capital, poverty incidence, and urbanisation rates (see Tables 1 and 2, Annex 1). The district population varies between 860,000 (Nayagarh) and 1,400,000 inhabitants (Betul), whilst the population density varies between 139 and 222 inhabitants per square kilometre (Betul and Nayagarh, respectively). Narsimhapur is much more developed agriculturally than the other three districts, and has the highest literacy levels and the lowest poverty rates. Yet, it has the lowest sex ratio, an indication of acute discrimination against women and girls. Widespread poverty in Betul and Bolangir is largely linked to geographical remoteness, poor agricultural resource endowments, and large scheduled caste and tribe populations. Betul is a tribal district with a forest-based economy, while Bolangir suffers from recurrent droughts. Nayagarh is better endowed than these two districts in terms of agricultural potential, but less so than Narsimhapur. With the exception of Betul, which has an industrial area situated in the district headquarters, none of the other districts hosts a significant modern manufacturing industry.

Each district is administratively organised in several development blocks, which can vary in number from six or seven to fourteen or fifteen, depending on the district area and population. The district headquarters is normally classified as a medium-sized town. Block headquarters are small administrative and market centres, but their population can vary considerably, from 5,000 residents or less to 25,000 or 30,000 dwellers. Many block headquarters do not have urban status, since this implies that a location must have a minimum of 5,000 residents, as well as 75% of its male working population engaged in non-agricultural and allied activities, and a population density of at least 400 persons per square kilometre. In addition to block headquarters, each district has a number of other small market centres, generally less populated than block headquarters.

The towns surveyed for this study are located in predominantly rural districts (see Table 2, Annex 1). With less than 5 percent of its population residing in urban centres, Nayagarh has the lowest urbanisation rate, not only among the four districts but also in the whole of Orissa State. Betul has the highest urbanisation rate, with nearly 19 percent of its population living in six urban centres. With the exception of Betul, over the past decade the urban population has increased at a much faster rate than the rural population. The

difference between urban and rural population growth was especially pronounced in Bolangir and Nayagarh, where overall population growth was lowest. This is a consequence of permanent out-migration from rural areas to local towns and other districts.

The six study towns differ in terms of size (see Table 3, Annex 1). Betul is the largest settlement, which is unsurprising given its district headquarters status. Although all the other locations are block headquarters, their population varies considerably, from less than 10,000 inhabitants to nearly 25,000 inhabitants. According to Indian statistical definitions, two of the study locations (Daspalla and Odagoan) are considered rural. Population data for these two locations are not available, and therefore it is not known under which criteria they fail to qualify as urban locations.

3 Local rural-urban linkages: a small town perspective

This section is based upon an enterprise survey conducted in six rural towns (see Wandschneider, 2003). Information was collected on the type of enterprise activity, interaction with input suppliers and customers, and employment patterns to gain insight into spatial economic linkages. Entrepreneurs and enterprise managers were also asked about the factors which have enabled and constrained business development, as well as their business support service needs. In addition to 183 structured interviews with enterprise owners and managers, 30 semi-structured interviews with key informants in the enterprise and government sectors were carried out, adding further insight into issues such as credit, taxation, regulations, services, infrastructure and opportunities. Enterprises were randomly selected, but there was an explicit attempt to cover all the major private sector activities found in the study locations.

3.1 Enterprise size

The enterprise landscape in small rural towns is generally dominated by micro and very small units. This feature of the enterprise sector is salient in all six study locations (see Tables 4 to 6, Annex 1). The typical enterprise was formed with less than US\$5,000 of investment capital, has an annual turnover between US\$1,000 and US\$10,000, and a labour force of two to five workers, which often includes unpaid family labour. Such an enterprise is normally owned by an individual, although unregistered partnerships, generally confined to extended families, are not uncommon. These forms of ownership are not only simple to establish and manage, but at the same time require limited interface with government institutions. Larger firms are also present in small rural towns in activities such as modern agro-processing, grain wholesaling, building and road construction, brick making, mining, quarrying, and motorised transport.

A positive association between firm size and local agricultural potential was found. For example, a comparison between Odagoan and Patnagarh, two towns with similar populations but located in areas with very different agricultural potential, show that the former hosts an enterprise sector characterised by comparatively larger units. This is unsurprising as the greater level of agricultural development in its rural hinterland enhances business opportunities linked to the agricultural sector (e.g. input supply, machinery repair services, marketing/processing of agricultural produce), whilst at the same time leading to a larger local market.

Fieldwork also suggests a positive association between firm size and town size. Betul, a medium-size town located in an agriculturally poor district, illustrates this relation. This district headquarters hosts a fair range of modern manufacturing activity, as well as a few

large food processing, agricultural trading, transport, and construction firms. Larger towns generally provide a more enabling environment for enterprise activity due to the concentration of intermediate and final consumers and more favourable access by firms to economic infrastructure, business services, skills, information, networks, inputs, and output markets.

3.2 Enterprise activity

Services, including trade and transport, constitute the main area of enterprise activity in small rural towns. Retailing of food and other consumables is particularly widespread. Other commonly found service activities include wholesale trading of agricultural produce and manufactured items, restaurants, food stalls, hotels, motorised and non-motorised transport, mechanical repairs, and barber shops. The dominance of services in the small town economy becomes even more pronounced once public services in areas such as administration, policing, health, and education are accounted for.

Small-scale service activities are characterised by very low entry and exit barriers, thereby providing one of the easiest diversification avenues. In the surveyed areas, limited wage and salaried employment opportunities and the low returns associated with farming often provide the main motivation for venturing into business. A combination of these factors largely accounts for the overcrowding observed in many service activities, say vegetable retailing or rickshaw pulling, which continue to attract an increasing number of operators despite their declining profitability.

Small-scale manufacturing also entails low investment costs, thereby attracting a significant number of entrepreneurs, with skills often being passed on within the family from one generation to the other. For example, the survey team found potters, jewellers, weavers, brass artisans, tailors, carpenters, and shoe makers operating at the town level. Activities with higher investment thresholds and management skill requirements, and which take longer to break even or involve greater degree of risk-taking, are generally beyond the capacity of most local entrepreneurs.

The extent to which small rural towns provide a platform for the development of agro-processing activity depends largely on local conditions. The size of the agricultural surplus will influence the degree to which agro-processing remains largely a traditional, small-scale village activity geared to local consumption, or instead follows a modernisation path accompanied by relocation to small and medium towns. At the same time, very small settlements, with a population of around 5,000 or 10,000 inhabitants, may differ little from large villages in terms of input and output market networks and access to transport infrastructure and services, public utilities, technology, skills, repair services, and other support services. As such, they may fail to attract investment into agro-processing, which will continue to be undertaken at village level, or in larger urban centres where the environment is more conducive to modernisation and growth due to scale and agglomeration and scale economies.

Enterprises processing agricultural produce were identified in only three of the six towns surveyed. One location hosted one flour mill and one rice mill, while the other two provided the base for a more significant but relatively un-diversified agro-processing sector, including a large dairy, several *dal* and *rava* mills, and one soya flour and edible oil processing unit. One of these settlements is located in a relatively prosperous agricultural region whereas the other is a district capital with a population of approximately 80,000 inhabitants. As expected, the type of agro-processing is closely linked to the type of surplus

produce grown locally. It should be noted that agro-processing activities are particularly vulnerable to competition in the domestic market, and that several *dal* and sugar mills have recently closed following problems in accessing good quality raw material, relatively low levels of local demand, difficulties in accessing distant markets, and intense competition from outside sources of supply. The negative impact of these bankruptcies in the local economy is especially acute in view of its incipient and un-diversified agro-industrial base.

3.3 Entrepreneurs in small rural towns

There is a clear gender pattern in the ownership of rural town enterprises in India. The fact that only one among 183 surveyed businesses was owned and managed by a woman is highly illustrative of the acute cultural and social norms which prevent women from venturing into full-time business activities. Women belonging to upper strata families hardly ever become involved in income generating activities. In contrast, lower caste women contribute to household economic activities and tend to engage in low-paid occupations, often on a seasonal or part-time basis, but seldom take on a managerial role within enterprises. Similar gender patterns were found in a medium-sized town in Tamil Nadu (Hariss-White, 2003).

Caste inequalities in relation to asset ownership and access to economic opportunities are also pervasive (see also Hariss-White, 2003, for a detailed analysis of this issue). Again, this aspect was very apparent in the surveyed locations, where scheduled caste and scheduled tribe individuals were clearly under-represented in the running of enterprises. Scheduled caste individuals who own businesses are usually active in traditional, caste-defined occupations. Likewise, participation of non-Hindus in enterprise activity is strongly influenced by historical and cultural patterns. For example, Jains are particularly prominent in the trading of grains and non-timber forest produce and money lending, whereas Muslims are often involved in petty trade, mechanical repairs and craft-making (see Hariss-White for a more in-depth analysis of participation in economic activity and specialisation patterns according to religious groups).

Rural town entrepreneurs in India enjoy relatively high levels of formal education. Many survey respondents had completed secondary education and some had tertiary education. Many had also benefited from on-the-job training before starting their business, which allowed them to learn basic skills and gain an understanding of other important aspects of the activity. Fewer have received formal vocational training, which is often sponsored by government agencies, such as the District Industrial Centres and the Khadi and Village Industries Commission. Formal and informal training imparts specific technical skills and facilitates the development of contact networks, but it rarely leads to significant skill upgrading in areas such as marketing and management.

Land ownership by enterprise managers and owners is not uncommon. Despite considerable variation across land-owning entrepreneurs in the surveyed locations, land size is relatively high in the local context. Interestingly, for most of them agriculture is a subsidiary activity carried out on a seasonal and part-time basis, while some do not engage in farming at all. This seems to indicate that individuals with significant landholdings are often able to diversify into non-farm enterprises which yield higher, more stable, and less risky income than farming. Moreover, the fact that few landless entrepreneurs lease in land for farming or undertake seasonal wage labour in agriculture also seems to suggest that such options are often inferior to running a small town enterprise.

3.4 Employment linkages

Small towns can potentially play an important role in generating employment opportunities within the local economy. However, in the surveyed locations it was found that most businesses absorb little labour due to their very small scale. In addition, a significant majority of the employed workforce is recruited within the town itself, with most of the remaining workers coming from nearby towns (see Table 7, Annex 1). Consequently, very limited wage employment opportunities are being generated for households residing in neighbouring villages. However, a slightly different picture may have emerged if the survey had focused on larger rural towns, where medium-sized enterprises have a stronger presence.

Two factors may account for the disparity between the number of workers commuting from other towns and from neighbouring villages. Firstly, unlike towns, villages in the study areas tend to lack access to regular local transport services, making it difficult for residents to engage in regular wage employment that entails daily commuting. Secondly, villagers tend to rely on farm employment and income to a much greater extent than town dwellers, and are therefore less able to undertake regular employment in town enterprises.

Whilst typical of the study areas, these employment patterns cannot be generalised to the whole country. A longitudinal study of a village in Uttar Pradesh, covering five decades of its development, shows that regular and semi-regular employment in nearby towns has increased significantly over time and is now an important feature of village household livelihoods (Lanjouw and Stern, 2003). Access to outside employment involving daily commuting can be partly attributed to the good links between the village and local small and medium towns, mainly as a result of proximity to the railway line. In her study of 12 villages in Andhra Pradesh and Madhya Pradesh, Deshingkar (2004) also found a strong association between connectivity levels and the incidence of commuting.

3.5 Market linkages

Small rural towns as outlets for village production

Small rural towns generally constitute an important market outlet for local village producers. Survey data shows that over one-fifth of small town enterprises purchase directly from nearby village households and many buy goods within the town itself which are produced in local villages (see Table 8, Annex 1). Agricultural produce normally accounts for a large share of village production channelled to local towns. Villagers seldom supply inputs to town-based manufacturing enterprises, but in certain areas they may sell considerable volumes of a limited range of traditional manufactured items to wholesaling and retailing firms in these locations. For example, cloth traders and one co-operative society in Patnagarh buy *sambalpuri sarees* and *lungi* from village handloom weavers; several traders in Daspalla procure leaf plates and cups from households living in nearby forest areas; and businessmen in Chichli town contract out production of brass utensils to village artisans.

Small rural towns as intermediary market centres

The impact of small rural towns upon local production patterns and income levels depends largely on the extent to which these centres mediate between village producers and non-local sources of demand. These locations are too small to constitute significant final destination markets for goods produced in their vicinity, and while they also act as local

distribution centres, channelling goods and services to nearby villages, the areas serviced tend to be relatively small and characterised by high poverty levels. Hence the strategic importance of small rural towns in enabling local producers to access distant, especially urban markets.

Unsurprisingly, product flows from villages to local towns tend to be particularly significant for goods that are subsequently exported to distant markets. In our survey areas, Gotegaon is a relatively important regional market centre for pulses and grains, hosting a number of processing and wholesaling firms and attracting produce supplies from neighbouring areas. Betul absorbs substantial soya and milk volumes due to the presence of a large oil processing unit and a dairy co-operative, both of which cater for distant markets. Weavers in Patnagarh block channel a considerable proportion of their *sambalpuri saree* production to the headquarters town because of its links to markets within and outside Orissa. Some marketing agents in Daspalla channel leaf plates and cups from surrounding villages to market outlets in the coastal districts of Orissa and Bhubaneswar, the state capital. Finally, over 20 businesses in Chichli are involved in the sale of locally manufactured brass utensils as a result of their well-established position as suppliers to different towns and cities within Madhya Pradesh (e.g. Betul, Seoni, Sagar, Indore and Mirzapur).

Despite these examples, it must be noted that the enterprise sector in the surveyed locations is much more dependent on local than non-local markets, however depressed the former may be (see Table 9, Annex 1). Furthermore, many businesses selling non-locally have limited or no backward production linkages to the local village economy. This is the case, for instance, of modern manufacturing industries in Betul, leather shoe production and carpet weaving in Daspalla, and jewellery making in Patnagarh. Such businesses are linked to the regional and national, rather than local, economy for both input purchases and product sales.

The role of small town centres in channelling local production to outside markets is intimately linked to the degree to which enterprises engage in value addition activities, including the provision of market information and technologies to producers, product grading, processing, packaging, etc. Yet, agricultural processing is either marginal or non-existent in three survey locations. Furthermore, in all study areas considerable primary resources are either processed at village level (e.g. bamboo and *sal* leaves) or transformed outside the block or district (e.g. minor non-timber forest produce), and some important local primary resources (e.g. medicinal plants) remain unexploited. Finally, town entrepreneurs are not channelling critical market information and technologies back to village producers, thus failing to act as innovation catalysts in key sub-sectors of the local economy, many of which are facing declining returns and difficulties in competing in an increasingly integrated domestic market. For example, *sambalpuri saree* retailers in Patnagarh supply a very limited range of designs to traditional weavers. Contractors of brass utensils in Chichli have neither the capital nor the required skills and marketing contacts to promote diversification towards decorative items and ornaments. In Daspalla block, the government has been promoting a shift to mechanical stitching among women involved in leaf plate making, but very little product innovation is taking place, through the introduction of decorative stitches for example.

As discussed below, a poor business environment and a weak local entrepreneurial base constrain the development of enterprises with the ability to intermediate between village producers and distant buyers and to assist village-level production geared to non-local markets. It is important to stress, however, that the rural town and its enterprise sector do

not evolve in isolation from developments in the hinterland economy and other urban locations. A weak local agricultural base undermines the development of a strong agribusiness sector supplying inputs and services to farmers, processing their produce, and marketing it beyond the town and its immediate vicinity. Proximity to larger urban centres more favourably endowed in terms of economic infrastructure and better integrated into wider market networks is another important factor affecting the enterprise development prospects in the surveyed towns (e.g. Jabalpur near Gotegaon; Kantabanji near Patnagarh; and Gadawara near Chichli).

Small rural towns as distribution centres for “imported” goods

One of the key functions of small rural towns is to “import” production and consumption goods that would otherwise be unavailable, more expensive, or of poorer quality locally. As shown in Tables 8 and 9, a large proportion of town-based enterprises fulfil this function, purchasing goods from distant locations and selling them within town and the local area, often with very limited value addition. These imported goods often pose no threat to existing local production and may even play a critical role in the development of certain economic activities, not only within town but also in surrounding villages. For example, artisans such as weavers, jewellers, shoe makers, brass utensil manufacturers, and stone carvers in the surveyed areas rely on raw materials brought from other regions of India. Farmers require seed and agro-chemicals that are not produced locally. Mechanics source spare parts that are unavailable in their area.

Still, in some cases, imported goods can undermine the activity of local producers, who become exposed to competition from outside suppliers offering cheaper and/or better quality goods. Farmers, agro-processors, weavers, shoe makers, brass artisans, and furniture makers, for example, can suffer intense competition from outside suppliers. In other cases, the competition posed by imports pre-empt investment in particular activities, such as the manufacturing of agricultural tools and machinery.

Supply sources vary with the type of location and product. Not too distant, medium-size locations tend to play a greater role in the case of smaller towns, which normally import modest volumes of relatively un-sophisticated goods. Larger and more distant locations gain prominence as the size of the town increases and consumption patterns become more complex. Hence, Daspalla is essentially supplied by other small and medium-size towns within a 150 km range whereas Betul has diversified links with industrial cities within and outside Madhya Pradesh.

3.6 Constraints to enterprise development in small rural towns

A strong and dynamic small town enterprise sector, well linked to the surrounding village economy and wider markets, constitutes a key engine of local economic growth. Strategies and interventions aimed at developing the local economy must therefore tackle the policy, regulatory, infrastructural, institutional, and other context-specific constraints which inhibit enterprise growth in small town centres. Whilst improvements to the external environment under which enterprises operate provide the most effective path towards their development, firms can also benefit from interventions which address their internal constraints. External and firm-specific constraints will vary across regions and countries, and therefore detailed enterprise and sub-sector surveys and in-depth policy analysis should inform state intervention.

In order to illustrate the discussion, survey findings on the external and firm-specific constraints to enterprise activity are summarised below. It is important to note that the small number of enterprises in each sub-sector does not allow for a disaggregated analysis and that the views of entrepreneurs in the service and traditional manufacturing sectors are much better represented than those of agro-processing firms, for example. Leaving aside these caveats, the survey provides interesting insight into the problems experienced by small town enterprises in the chosen areas and the type of interventions needed to support their growth.

External constraints

It is significant that intense competition was the most cited constraint to business development, whilst low and stagnating demand was of special concern to operators in the traditional manufacturing sector. These perceptions are certainly influenced by the limited size of the local market, the lack of economic dynamism in most surveyed areas, the strong competition faced by certain activities in local as well as non-local markets, and changes in consumption patterns away from traditional manufactured products.

As expected, poor access to finance is viewed as an important limitation by a considerable number of enterprise owners and managers. Entrepreneurs experience particularly acute difficulties in accessing formal credit for working capital purposes, an indication that banks (and government development schemes) are reluctant to fund current expenditures. They also complain about lengthy and bureaucratic banking procedures and the cost of “side payments” required to speed-up the loan approval process. Generally speaking, the smaller the enterprise the greater the difficulty in accessing formal credit due to lack of collateral, inadequate accounting systems, and poor cash flow. These findings are broadly in line with those from other studies (see for example Fisher and Mahajan, 1997). The challenges in developing a rural financial sector which is responsive to local enterprise needs in an environment characterised by pervasive government intervention, target-driven allocation of subsidised credit, and widespread default cannot be overemphasised. In this context, banks have little incentive to innovate, engage in the careful selection of borrowers, and develop long-term relationships with clients.

Other significant external constraints include poor road connections, especially between towns and villages, and unreliable power supply. The adverse impact of inadequate rural road networks is evident, and significant progress is required to address problems of insufficient coverage, poor planning and execution, lack of inter-agency and inter-departmental co-ordination, imbalances between investment and maintenance budgets, inefficient use of funds, and so on (Kumar et al, 2002). Inadequacies in the power supply system, characterised by chronic shortages and voltage fluctuations, are especially problematic for agro-processing and modern manufacturing firms, and remain a significant obstacle to the future development of these sectors. Inefficiencies in the power sector are largely a consequence of decades of heavy subsidisation to agricultural and residential users, which have created strong vested interests against privatisation and reform, alongside under-investment in generation and distribution systems and widespread theft (Saxena, 2003; World Bank, 2001). Efficient allocation of public resources and private sector and community participation in the infrastructure sector, alongside a reform of the public sector, are essential in view of tight budgetary constraints. Indian states face mounting deficits and debts, largely as a consequence of an oversized bureaucracy and subsidised provision of “non-merit” goods, leading to difficulties in mobilising sufficient financial resources for infrastructural development (Srinivasan, 2000).

Surprisingly, few entrepreneurs complained about high taxation, government bureaucracy and corruption. Part of the explanation may lie in the small-scale and informal or semi-informal nature of most enterprise activity, where interaction with government agencies is often kept to a minimum. The fact that less than one in five of the firms surveyed reported paying taxes is rather revealing. However, India is renowned for having a complex and largely ineffective regulatory policy system which discourages enterprise modernisation and expansion, places an undue burden upon complying firms, and encourages evasion and corruption (Stern, 2001; Fisher and Mahajan, 1997). The study areas are no exceptions to the rule, and the discussions held during semi-structured interviews indeed confirm this view.

Firm-specific constraints and business development service needs

This paper supports the view that interventions aimed at addressing firm-specific constraints need to be carefully targeted. The fact that many enterprises have limited business support service requirements as a result of the simple, small-scale, and localised nature of their business cannot be overemphasised. Entry costs into most areas of enterprise activity in rural towns are low but so are the opportunities for expansion and the scope for improving business performance through better management practices, the development of new products, the introduction of new technologies, and/or improved market linkages. Examples of this type of businesses include small vegetable retailing stalls, tea houses, bicycle repair workshops, rickshaw pulling, and barber shops.

These remarks notwithstanding, a significant proportion of the businesses interviewed identified the need for skills upgrading in general and financial management and support in recruiting skilled staff. Assistance and training in business plan preparation is another area where assistance is generally required. Whilst especially important during the early investment stages, these areas are also relevant for entrepreneurs planning to expand or diversify their activity and considering applying for bank loans. Many entrepreneurs also felt that support in the marketing sphere and the development of new products and services would make a significant contribution to the present and future development of their business. Firms already catering for distant markets, with potential to sell non-locally, and/or exposed to outside competition are especially interested in accessing marketing and product development services.

Finally, the survey provides evidence of the need in India for promoting new enterprise development approaches based upon pluralistic and demand-driven service delivery models. It is very revealing that in an environment where government agencies have an almost complete monopoly over the delivery of business development services within rural towns, a high proportion of respondents seemed to favour a shift towards private provision in a number of areas, including training and technology and product development. NGOs were disregarded as relevant service providers, which reflects their negligible presence in rural towns and the perception that they work essentially with village households and in areas other than enterprise development.

There is a wide range of experiences in the provision of business development services in the developed and developing world from which India can learn (Marr, 2004; Levitsky, 2000). However, it must be noted that change at the local level presents considerable challenges given that there is little tradition in facilitating enterprise development, a strong culture of intervention and control, plenty of opportunities for corruption arising from subsidised provision of goods and services, and excessive concentration of discretionary

powers in the hands of poorly monitored officials and bureaucrats (Saxena, 2003; Fisher and Mahajan, 1997).

4 Local rural-urban linkages: a village-level perspective

This section draws upon fieldwork conducted in four villages of Bolangir district, where formal questionnaire survey was carried out, comprising 100 households (see Wandschneider and Mishra, 2003). Two villages are located in Belpara Block while the other two form part of Titilagarh Block. Whilst the four villages are fairly typical in that they are neither too small nor too large and have a mixed caste population, they differ significantly in terms of access to block headquarter and district headquarter towns, natural resource endowments, socio-economic structure, and poverty levels (see Table 10, Annex 1).

4.1 Patterns of interaction between villages and small rural towns

Interaction with urban centres constitutes an important aspect of village level livelihoods, enabling households to meet the needs of its members in the economic, social, political, cultural, and religious spheres. A survey of four villages in Bolangir District was conducted in order to gain a better understanding of the importance of rural towns to the livelihoods of village livelihoods in a resource-poor, drought-prone, and remote district. This village level perspective provides additional insights to the town survey.

Visits to small towns are typically a bi-weekly or monthly phenomenon. However, in poor and remote regions, such as Bolangir District, the vast majority of village households tend to have direct contact with only a limited number of urban centres located within relatively close proximity to their residence (see Tables 11 to 14, Annex 1). The headquarters of the block of residence and neighbouring blocks are the most frequently visited towns.

Poor transport services and the time and cost spent were perceived to be the main factors limiting interaction with urban centres. The tertiary road infrastructure in Bolangir District is very poor, with the majority of villages still lacking all-weather roads accessible throughout the year. Time constraints due to work commitments also limit villagers' ability to travel. These findings largely explain why village households remain largely confined to nearby block headquarters for accessing critical social and economic services.

The survey confirms the dependency on towns for the marketing of village-level production, perceived to be the single most important function by the vast majority of respondents. Villagers regularly visit local towns to market their surplus production, signalling limited marketing opportunities at the village level and suggesting that the ability to market outside the limited confines of the village and its surroundings impacts favourably on household incomes. Direct sales in more distant urban settlements with a larger population and better connections to wider markets, such as district headquarters, are rare due to the cost of transporting small product volumes over long distances, limited information about such markets, and lack of contacts with the trading community in these locations. Despite the government emphasis on co-operative development, such efforts have been largely targeted at the dairy sector and traditional non-farm activities such as handlooms and handicrafts. Agricultural marketing is essentially conducted by individual farming households.

The purpose and frequency of visits to local towns are closely linked to the importance and type of needs that cannot be adequately satisfied at the village level. Hence, all interviewed

households purchase production inputs in small rural towns because of their unavailability at village level. Likewise, a significant proportion of households visit block headquarter towns to access formal and informal financial services. Furthermore, inadequate provision of health services at the village level explains the high level of dependency on local towns for accessing even the most basic health services. In contrast, few households had members studying outside the village or its vicinity. This is partly due to the availability of primary schools within or in close proximity to most villages. Rural towns become more relevant for secondary and tertiary education, but very few village households can afford the financial and opportunity cost of sending children or adults to study away from home.

For the majority of the rural population, travel to more distant towns is usually motivated by pressing economic needs that cannot be met locally. The economy of Bolangir District has limited labour absorption capacity, especially during the lean agricultural season, and therefore large numbers of households rely on temporary migration outside the district to access employment opportunities. The most common destinations are brick kilns in Andhra Pradesh and the coastal districts of Orissa, irrigated areas within the state where a second (winter) crop is grown, and large cities across the country where migrants can access a number of employment opportunities in activities such as construction, manufacturing, transport and services. Out-migration is especially widespread during drought years, when agriculture is incapable of sustaining even minimum livelihoods for large segments of the population. A recent study of 12 villages in Andhra Pradesh and Madhya Pradesh arrives at similar findings, with a large proportion of households in poor and remote villages relying on temporary and permanent migration as a part of survival (and accumulation) livelihood strategies (Deshingkar, 2004).

4.2 Gender, caste and access to small rural towns

Benefits from interaction with small rural towns are usually unevenly distributed across different segments of rural societies. In India, inequities in the distribution of such benefits are particularly significant across gender and caste groups. Women seldom travel to nearby or more distant towns (see Table 15, Annex 1). The dominant role of men in areas such as input purchases, marketing, credit, and employment is conspicuous. Although few survey households had members studying in towns, the fact that all individuals in our sample studying in such locations are male is also symptomatic of widespread discrimination against women. Restrictions to women's mobility are significant in rural Bolangir, and more so for female members of upper caste families. These barriers result from slowly changing cultural norms, gender-prescribed roles in the domestic and social spheres, and the division of labour within the household. They have clear negative implications in terms of women's control over income, their ability to influence expenditure patterns, and the intra-household distribution of resources and consumption (Dreze and Sen, 1996). These negative livelihood outcomes are not restricted to women but also affect children, especially girls.

Although caution is needed in interpreting available data due to the small size of caste sub-samples, emerging findings corroborate those from other studies (Marter, 2003; Praxis, 2001), which show that caste is closely correlated with education, land ownership, income levels, and access to economic opportunities. General caste households seem to enjoy a relatively favourable position regarding access to education and finance (see Table 16, Annex 1). In the case of marketing no significant differences emerge across different caste categories, but a more rigorous assessment would require data on volumes marketed and prices fetched. The fact that no household from general castes accessed employment in towns is also significant, suggesting much lower levels of distress and therefore less need

to look for employment opportunities outside the village economy. Greater access to land and asset ownership by general castes certainly plays an important role in reducing the need to migrate during times of distress.

5 Conclusions and policy implications

The need to understand rural-urban linkages

This study illustrates the relevance of improved information on the nature and structure of rural-urban interactions for policy and programme interventions at the regional and local level. The knowledge thus generated can be used to inform policy and institutional change processes as well as development strategies and interventions. Clearly, the knowledge gained from studies of this nature can be significantly enriched through a combination of complementary analytical tools and methods. For example, analysis of key sub-sectors can offer significant insights into spatial commodity flows across the rural and urban spaces, value creation along supply chains, constraints to (and opportunities) for sub-sector growth, and critical entry points for policy and investment interventions. Such sub-sector studies can be combined with more general studies on enterprise development, the local investment and business climate, infrastructure and service provision gaps, and so on. In-depth work at the village level, using both quantitative and qualitative research methods, can lead to greater understanding of how different groups benefit or lose from existing patterns of rural-urban interaction and the type of interventions needed to address asset, social and other forms of inequality. Finally, there is a need for rigorous policy and institutional analysis, which requires an historical perspective on the political economy of policy-making and a sound understanding of key institutions and actors, both in the public and private sector, which can initiate and sustain change at the local, regional, and national level.

The importance of small rural towns

The current paper highlights the important role of small and dispersed urban centres in local economic development processes and stresses the need for policies and interventions that take spatial processes into account. In addition to their function as local providers of administrative and social services, these locations constitute a critical junction between the village and the wider economy. Small town enterprises supply consumption and essential production goods brought from other areas and channel local farm and non-farm surpluses to distant markets. Furthermore, the growth of the enterprise sector within small rural towns in itself provides expanded market and some employment opportunities to rural households.

The potential contribution of small rural towns to local economic development has not been sufficiently recognised in rural development strategies and programmes in India and elsewhere. There is scope for a more balanced approach, which duly recognises the existing and potential economic and social role of rural towns and attaches greater importance to these locations as entry points for policy, investment, and enterprise development interventions.

The size and quality of the enterprise sector in small rural towns matters

The ability of small towns to positively shape the production, employment and marketing opportunities available within the local economy, and thus act as catalysts for local economic development, is intimately linked to the size and quality of its enterprise sector.

Consequently, some priority should be given to carefully targeted interventions with potential to address key policy, regulatory, institutional, infrastructural, and firm-specific constraints to local enterprise development.

Enterprise needs will vary depending on the country or region. In the four districts covered by this study, a number of areas deserve special consideration: the development of secondary and tertiary road infrastructure; investment in power generation and distribution systems; improvements in the business regulatory environment; and continued reform of the rural financial sector. Improvements in the local (district and block-level) delivery of business development services constitute another key area of intervention. The importance of services focused on entrepreneurial and managerial skill development, product innovation, market information provision, and market linkage promotion cannot be overemphasised. It should be noted that weaknesses and problems in these spheres have been highlighted in other studies of the Indian rural economy and are well recognised in policy debates across the country. Yet progress over the past decade has been slow, partly as a result of capacity gaps and institutional inertia.

The need for new enterprise development approaches

Evidence from this study suggests that the traditional emphasis by government agencies and rural development organisations on village-level artisanal activities with limited growth potential may not be the most cost-effective approach to employment creation and income generation in rural areas. The alternative of channelling support to micro enterprises in rural towns may suffer from similar shortcomings, as these units tend to cater for saturated local markets, responding to but not driving local economic growth.

A more useful approach would be to place greater emphasis upon activities that sell to outside markets and enjoy favourable growth prospects, add value to locally available raw materials, generate significant employment, and/or provide critical production goods and services to other local activities. These features matter more than enterprise size or location. Examples of economic activities which may deserve special consideration in the areas studied include the processing of agricultural produce and non-timber forest produce, agricultural storage and trade, transport, manufacturing of agricultural equipment and tools, supply of agricultural inputs, some traditional manufacturing activities, construction, and tourism.

An approach that targets strategic sub-sectors, rather than specific enterprises or activities, is likely to yield high returns (Haggblade et al, 2002). This would account for market trends, vertical market linkages along supply chains, constraints and opportunities, the policy environment, and the entire range of supportive institutions. It can therefore lead to the identification of systemic policy and investment interventions that can potentially benefit large numbers of players facing similar constraints and opportunities. The choice of target sub-sectors and interventions will differ across regions, depending on local comparative advantage, patterns of economic specialisation, and existing opportunities and constraints. In some cases, the distinction between rural and urban areas will lose operational validity, since many sub-sectors comprise both rural and urban elements.

Interventions at village level

Local development dynamics remain intimately dependent on developments within the village economy, where most of the local population lives. A stagnant and highly unequal village economy translates into a very small local market and generates limited surpluses

for processing and trading. The importance of broad-based agricultural development cannot be overemphasised.

Interventions at village level which reduce the cost of transactions with spatially spread economic agents merit special attention. The strengthening of farmer associations is one example. These organisations can play a critical role in widening marketing opportunities in the agricultural sector, and should therefore be prioritised. Past efforts to develop producer organisations in India have often failed due to a combination of factors, including excessive government interference, hierarchical and complex management structures, unrealistic expectations regarding group capacity, excessive reliance on subsidies, and inadequate support in areas such as training and market linkages. Fresh attempts to promote collective action among producers should focus on participation, with an emphasis on relatively small group membership based on a commonality of interests. Local non-government and community organisations can contribute to this process, but their capacity in this area of intervention must be improved if they are to make a significant impact.

Disadvantaged groups, such as scheduled castes and tribes and women, face acute barriers to access economic opportunities and therefore merit special attention. Although there are no simple recipes for overcoming the entrenched imbalances highlighted in this paper, one area that should be considered is support to self-help groups. In India, these grassroots organisations have become an increasingly popular avenue among governments and non-government organisations for empowering women through improved access to financial services and income generating activities. Despite the efforts developed in recent years, these groups (and their members) generally have limited ability to engage in economic activities. As in the case of farmer organisations, there is a need for significant capacity building in technical and business skills, access to technologies, and marketing.

While the integration of the local village and town economies should be encouraged, for example through improvements in feeder roads and the development of producer associations, cases exist in which interaction with rural towns is a symptom of under-development at village level. For example, in Bolangir District, village households often need to access even the most basic health services in towns because of the unavailability of such services at the village level. Such gaps in service provision need to be urgently addressed, although due attention must be paid to cost-effective, sustainable models of service delivery.

The need for positive change at the national and state level

The prospects for local economic development in India cannot be disassociated from developments at the state and national level. The need for improving local administration, developing an enabling business regulatory environment, reforming rural financial and power supply systems, reorganising rural development agencies and schemes, among other, cannot be adequately addressed without significant change at the central and state level. The private sector and civil society organisations have an important role in demanding positive change in these and other areas, and therefore need to be mainstreamed into policy processes at local, regional, and national levels. This represents a significant departure from current practice.

The need for institutional change at the local level

There is also considerable scope for positive institutional change at the district level and below. This will necessarily entail the development of mechanisms for genuine and

effective inter-institutional dialogue, co-ordination and collaboration, not only between the public and the private sectors, but also across a wide range of government agencies, line departments and local governance (*Panchayat Raj*) institutions. Although the district represents an appropriate geographical unit for local economic planning, such an approach should be extended to broader areas when the issues at hand require co-ordinated solutions beyond the district boundaries.

Whilst multi-stakeholder coalitions at district level are unlikely to bring about radical change in the overall policy environment and the availability of resources for public investment and service provision, there may be cases where they can influence policy and budgetary decisions at the state and central levels. There is also scope for increased revenue generation at the local level, both by government tax collection authorities and in the context of the *Panchayat Raj* institutions. Whilst this will require continued efforts over a long period of time, significant benefits can arise from such a strategy, namely through increased investment in (and maintenance of) local economic and social infrastructure, including for example roads and irrigation.

More significantly, multi-stakeholder coalitions are essential for improving the allocation of public expenditure and the running of local government services. For example, the prioritisation of investment in local road and market infrastructure can be improved through participatory planning processes, in which consultation with the private sector leads to better understanding of critical transport bottlenecks. Greater sensitivity to private sector constraints and needs can also result in genuine efforts to enhance enforcement of regulations and reduce harassment by government inspectors and the police. Finally, dialogue and co-ordination amongst rural development agencies and donor-funded projects can translate into better identification, design and implementation of local development interventions, especially if accompanied by client consultation and pluralistic models of service delivery.

The District Collector, the District Planning Committee (DPC) and the District Rural Development Authority (DRDA) are the leading actors in the process of economic planning at the district level. As such, they must play an active role in bringing about the type of institutional change proposed above. The input from different government departments and agencies, *Panchayat Raj* institutions, private sector associations, co-operatives, farmer organisations, the banking sector, NGOs and donor-funded projects will be critical for enhancing the impact of public expenditure at the district level, through better allocation of resources and more efficient and effective implementation of activities.

Local development agencies, municipalities, and regional policy fora structured around key sub-sectors and themes may offer appropriate mechanisms for mobilising relevant stakeholders, improving co-ordination and co-operation, sharing information, identifying constraints and opportunities, and lobbying for change. This and other forms of inter-institutional engagement need to be accompanied by initiatives aimed at addressing the institutional and capacity gaps in the public and private sector. This is likely to include training of officials in key government agencies and department, empowerment of local elected leaders and local governance institutions, and support to private sector organisations, co-operatives and NGOs. Donor agencies are well positioned to mobilise a wide range of local stakeholders and promote much-needed cultural change within the public sector. They have an important role to play as catalysts of change.

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ANNEX 1 - TABLES

Table 1 – Selected demographic and social indicators in the study districts (2001)

District	Population	Population density per km ²	Sex ratio*	Scheduled caste population %	Scheduled tribe population %	Literacy rate			Poverty rate %
						Male	Female	Total	
Betul	1,394,421	139	965	11	38	77	56	67	66
Narsimhapur	957,399	187	909	17	13	87	69	78	23
Bolangir	1,335,760	203	983	15	22	70	39	55	61
Nayagarh	863,934	222	939	14	6	83	58	71	53

* Number of women per 1,000 men.

Sources: Indian Census (2001) and <http://www.managedisasters.org>

Table 2 – Urbanisation rates and trends in the study districts

District	Number of towns	Urbanisation rate	Decadal growth of urban population	Decadal growth of rural population
			1991-2001 %	1991-2001 %
Betul	6	18.6	17.7	18.1
Narsimhapur	5	16	31.1	20.3
Bolangir	4	11.6	19.2	7.3
Nayagarh	1	4.3	41.2	9.3

Source: Census of India (2001)

Table 3 – Population and location of survey towns

Town	District	Town population	Distance to district headquarters	Distance to State Capital
		2001	Km	Km
Betul	Betul	83,485	0	180
Gotegaon	Narsimhapur	23,417	31	231
Chichli	Narsimhapur	9,250	68	175
Patnagarh	Balangir	18,685	38	418
Daspalla	Nayagarh	< 10,000	40	290
Odagoan	Nayagarh	< 10,000	26	276

Source: Census of India (2001)

Table 4 – Start-up capital of rural town enterprises (% of firms)

	< 50,000 Rps	50,000 – 250,000 Rps	250,000 – 500,000 Rps	500,000 – 1,000,000 Rps	> 1,000,000 Rps
Agricultural and food processing (N = 7)	14.3	0	0	14.3	71.4
Mining, manufacturing and construction (N = 42)	59.5	21.4	9.5	4.8	4.8
Services (N = 134)	56	40.3	2.2	1.5	0
Total (N = 183)	55.2	34.4	3.8	2.8	3.8

Source: Enterprise questionnaire survey, July 2002

Table 5 – Annual turnover of rural town enterprises (% of firms)

	< 50,000 Rps	50,000 – 250,000 Rps	250,000 – 500,000 Rps	500,000 – 1,000,000 Rps	1,000,000 – 2,000,000 Rps	> 2,000,000 Rps
Agricultural and food processing (N = 7)	0	14.3	0	0	14.3	71.4
Mining, manufacturing and construction (N = 42)	16.7	45.2	9.5	2.4	9.5	16.7
Services (N = 134)	7.5	50	16.4	12.7	6	7.4
Total (N = 183)	9.3	47.5	14.2	9.9	7.5	11.6

Source: Enterprise questionnaire survey, July 2002

Table 6 – Employment in rural town enterprises

	Total number of workers	Average number of workers	Number of workers (% of enterprises)				
			0 – 2	3 – 4	5 – 10	11 – 20	> 20
Agricultural and food processing (N = 7)	357	51	0	0	28.6	28.6	42.9
Mining, manufacturing and construction (N = 42)	302	7	40.5	21.4	23.8	9.5	4.8
Services (N = 134)	446	3	63.4	20.9	11.9	2.2	1.5
Total (N = 183)	1,105	6	55.7	20.3	15.3	4.9	3.8

Source: Enterprise questionnaire survey, July 2002

Table 7 – Place of residence of the workforce

	Place of residence of the workforce				
	Within town	Another town within 15 km	Another town over 15 km	Village within 15 km	Village over 15 km
	%	%	%	%	%
Agricultural and food processing (N = 7)	43.7	54.1	0.8	1.1	1.1
Mining, manufacturing and construction (N = 42)	81.5	10.3	3.3	0	5
Services (N = 134)	82.3	17.3	0	0	1.3
Total (N = 183)	69.6	27.2	1.2	0.4	2.3

Source: Enterprise questionnaire survey, July 2002

Table 8 – Location of rural town input suppliers

	Location of input suppliers					
	Within town %	Village within 25 km %	Village over 25 km %	Town or city within 50 km %	Town or city over 50 km %	Outside India %
Agricultural and food processing (N = 7)	86	86	57	57	86	0
Mining, manufacturing and construction (N = 42)	55	5	5	33	57	0
Services (N = 134)	43	23	2	31	53	0
Total (N = 183)	48	22	5	33	56	0

Source: Enterprise questionnaire survey, July 2002

Table 9 – Location of rural town enterprise clients

	Location of clients					
	Within town %	Villages within 25 km %	Village over 25 km %	Town or city within 50 km %	Town or city over 50 km %	Outside India %
Agricultural and food processing (N = 7)	43	29	86	29	86	14.3
Mining, manufacturing and construction (N = 42)	86	74	17	19	31	0
Services (N = 134)	97	83	13	9	10	0
Total (N = 183)	93	79	15	12	17	0.5

Source: Enterprise questionnaire survey, July 2002

Table 10 Basic socio-economic data for sample villages in Bolangir District

	Belpara Block		Titlagarh	
	Ainla Bhata	Sarmuhan	Ghantasahada	Nimurla
Population (number of households)	129	327	82	225
Scheduled castes	16 (12%)	48 (15%)	14 (17%)	43 (19%)
Scheduled tribes	85 (66%)	102 (31%)	39 (48%)	65 (29%)
Other castes	28 (22%)	177 (54%)	29 (35%)	117 (52%)
% families below the poverty line	91	36	n.a.	n.a.
Quality of agricultural land*				
Higher productivity – lowland (%)	15	n.a.	40	n.a.
Medium productivity – medium land (%)	47	n.a.	11	n.a.
Lower productivity – high land (%)	38	n.a.	49	31
% landless households	13%	22%	n.a.	n.a.
Distance to block headquarters	8 km	5 km	27	22
Distance to district headquarters	82 km	75 km	110	92
Distance to towns in neighbouring blocks	25 km, 47 km	28 km, 44 km	30 km, 42 km	35 km, 37 km

Source: Action Aid Village Micro-level Plans and field survey

Table 11 – Number of towns visited during the previous year according to purpose (% of responses)

Number of towns Visited	Marketing %	Inputs %	Employment %	Finance %	Consumption %	Education %	Health %	Other reasons %
0	38	2	53	62	5	92	0	0
1 – 2	62	98	47	38	95	8	94	96
3 – 4	0	0	0	0	0	0	4	4
> 4	0	0	0	0	0	0	2	0
Total	100	100	100	100	100	100	100	100

Source: Village questionnaire survey, Bolangir, February 2003

Table 12 – Type of towns visited during the previous year according to purpose (% of responses)

Type of towns visited	Marketing %	Inputs %	Employment %	Finance %	Consumption %	Education %	Health %	Other reasons %
Block headquarters	52	74	12	35	68	8	86	69
Other small towns	31	51	11	2	41	1	77	53
District headquarters	0	1	0	2	0	0	7	3
Other district headquarters	0	0	19	0	1	0	8	9
State capital	0	0	0	0	0	0	0	0
Other state capitals	0	0	16	0	0	0	0	4

Source: Village questionnaire survey, Bolangir, February 2003

Table 13 – Average number of visits to towns during the previous year according to purpose*

Type of town visited	Marketing	Inputs	Employment	Finance	Consumption	Education	Health	Other reasons
Block headquarters	13.7	9.8	9.1	2.6	3	225.1	2.9	2.9
Other small towns	12.9	9.2	28.4	2.5	3.4	230	2.5	2.6
District headquarters	0	6	0	2.5	0	0	1.4	1
Other district headquarters	0	0	7.5	0	4	0	1.6	1.4
State capital	0	0	0	0	0	0	0	0
Other state capitals	0	0	1.7	0	0	0	0	1.5

Source: Village questionnaire survey, Bolangir, February 2003

* For each purpose, the average number of visits to a certain type of towns is calculated only for households that have visited those towns.

Table 14 – Distance to visited towns according to purpose*

Type of town	Marketing %	Inputs %	Employment %	Finance %	Consumption %	Education %	Health %	Other reasons %
Less than 25 km	100	95	32	98	n.a.	100	96	93
Between 25 and 50 km	23	25	13	3	n.a.	13	69	27
Between 50 and 100 km	0	3	2	3	n.a.	0	2	1
More than 100 km	0	1	66	0	n.a.	0	7	11

Source: Village questionnaire survey, February 2003

* For each purpose, only households with members that visited towns were asked about the location of towns.

Table 15 – Members of the household who visited towns/cities according to purpose*

	Marketing	Inputs	Employment	Finance	Consumption	Education	Health
	%	%	%	%	%	%	%
Adult male	56 (62)	95 (98)	46 (47)	38 (38)	88 (95)	7 (8)	61 (100)
Adult female	13 (62)	11 (98)	5 (47)	1 (38)	38 (95)	0	61 (100)
Child male	0	2 (98)	1 (47)	0	3 (95)	2 (8)	27 (100)
Child female	0	0	0	0	3 (95)	0	30 (100)

Source: Village questionnaire survey, Bolangir, February 2003

* Figures in parenthesis indicate the total percentage of households that had one or more members visiting towns/cities for specific purposes.

Table 16 – Percentage of households that visited towns/cities for different purposes by caste*

	Marketing	Inputs	Employment	Finance	Consumption	Education	Health
General caste	7 (58)	12 (100)	0	8 (67)	12 (100)	4 (33)	12 (100)
Other backward caste	29 (62)	46 (98)	25 (53)	12 (26)	45 (96)	1 (2)	47 (100)
Scheduled caste	7 (47)	15 (100)	10 (67)	6 (40)	14 (93)	0 (0)	15 (100)
Scheduled tribe	19 (73)	25 (96)	12 (46)	12 (46)	24 (92)	3 (12)	26 (100)
Total	62	98	47	38	95	8	100

Source: Village questionnaire survey, Bolangir, February 2003

* Figures in parenthesis indicate the percentage of households within the caste group

