

## NOTES

# The Rural-Urban Gap and Rural Transformation in the Near East and North Africa

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The rural-urban gap remains the single most well-documented development and welfare disparity in the economies of the Near East and North Africa (NENA). The gap between rural and urban areas can be seen in the lower productivity of economic activities, higher poverty levels and lower quality infrastructure and services in rural areas.

While the size of the rural-urban gap is well-documented, there has been little recent analytical work on either this issue or on agricultural policies in NENA. The latest rural poverty report of the World Bank was issued in 2002 (World Bank, 2002); the World Bank page on “agricultural and rural development in MENA” has not been updated in ten years (World Bank, 2008); and discussions of agricultural policy are dominated by threats to food security posed by imports and water scarcity (Woertz, 2017).

What does the rural-urban gap in the NENA economies mean, and why doesn’t rural-urban inequality attract more attention? This note is intended to clarify the significance of the rural-urban gap. It begins by defining the gap, and then explores some of the reasons for the appearance of the rural-urban gap. Finally, it outlines some policies on rural transformation designed to bridge the rural-urban gap.

### ***What is the rural-urban gap?***

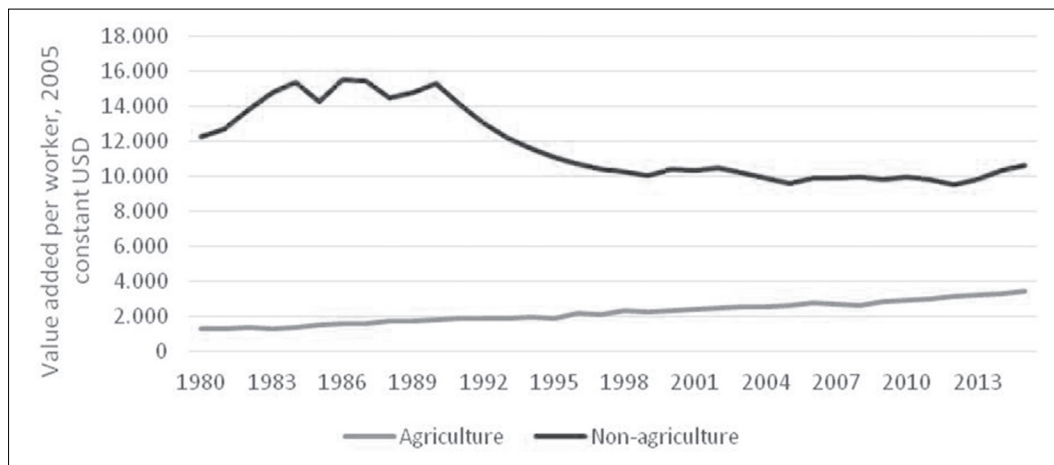
The rural-urban gap can be seen in three measures that contrast welfare levels in rural and urban areas<sup>1</sup>: (1) agricultural and non-agricultural productivity, (2) poverty levels in rural and urban areas, and (3) levels of infrastructure and public services deprivation in rural and urban areas. The productivity gap can be illustrated by comparing the productivity of labor employed in agriculture (value-added per worker per year) with the productivity of labor employed in other sectors (services and industry) (Figure 1).

In 2015, an average worker in agriculture in the NENA countries produced USD 3 400 worth of products per year, about one third of that produced by an average worker outside of agriculture. The large differences in labor productivity suggest that average wages for those employed in agriculture are far below those of workers outside the sector.

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<sup>1</sup> Productivity differences are interpreted as proxies for differences in wage levels for those employed in agriculture and other sectors.

Figure 1 - The rural-urban productivity gap: productivity of labour in agriculture vs other sectors, NENA countries, 1980-2015.



Source: UNCTAD, 2018.

The productivity gap between agriculture and industry and services is the core issue underlying the appearance of an urban-rural gap. With such a gap in productivity, it should come as no surprise that poverty is concentrated in rural areas. Agriculture and agriculture-related industry and services dominate rural areas, and unproductive and low-wage agriculture is unable to provide the dynamic, demand-led growth for the non-farm rural sector to prosper. The result is high poverty in rural areas (Table 1), sometimes two to three times that in urban areas.

A third aspect of the rural-urban gap is the significantly lower level of infrastructure and rural services in rural areas, compared to urban areas. Table 2 illustrates some of the areas of relative rural deprivation. Table 3 shows the share of rural and urban populations deprived of education and health services. Differences between rural and urban areas are particularly high

Table 1 - Income poverty: rural and urban poverty headcount evaluated at national poverty line, selected NENA countries.

	<i>Rural poverty headcount (%)</i>	<i>Urban poverty headcount (%)</i>	<i>Year</i>
Algeria	4.8	5.8	2011
Egypt	32.3	15.3	2010
Iraq	30.6	14.8	2012
Jordan	16.8	13.9	2010
Mauritania	59.4	20.8	2008
Morocco	14.4	4.8	2007
the Sudan	57.6	26.5	2009
Syrian Arab Republic	36.9	30.8	2007
Yemen	40.1	20.7	2005

Source: World Bank, 2018d.

Table 2 - Indicators of deprivation.

<i>Deprivation</i>	<i>Indicator</i>	<i>Household members are deprived if...</i>
Education	Years of schooling	No household member aged 10 years or older has completed 5 years of schooling.
	Child school attendance	Any school-aged child is not attending school up to the age at which he/she would complete class 8.
Health	Child mortality	Any child has died in the family in the five-year period preceding the survey.
	Nutrition	Any individual between 5 and 70 years of age or any child (0-5 years) for whom there is nutritional information is underweight*.

Note: \*Adults and children over 5 years of age are considered underweight if their BMI is below 18.5. Children (0-5 years of age) are considered underweight if their z-score of weight-for-age is below minus two standard deviations from the median of the WHO reference population. Source: Alkire and Kanagaratnam, 2018.

Table 3 - Share of rural and urban populations deprived of education and health services (percent).

<i>Country</i>	<i>Education deprivation</i>				<i>Health deprivation</i>			
	<i>Years of schooling</i>		<i>Child school attendance</i>		<i>Child mortality</i>		<i>Nutrition</i>	
	<i>Rural</i>	<i>Urban</i>	<i>Rural</i>	<i>Urban</i>	<i>Rural</i>	<i>Urban</i>	<i>Rural</i>	<i>Urban</i>
Algeria	1.5	0.3	1.5	0.5	1.5	0.5	0.4	0.2
Egypt	2.1	0.9	3.2	1.7	2.6	1.3	1.4	0.7
Iraq	7.7	2.4	17.5	6.3	10.5	5.1	5.9	2.5
Jordan	0.1	0.1	1.2	0.6	1.2	1.5	1.0	1.3
Morocco	25.6	1.9	13.2	1.1	11.8	1.4	2.7	0.3
the Sudan	31.0	7.8	28.5	7.9	18.4	12.6	29.0	12.5
Syrian Arab Republic	3.1	1.3	4.4	2.5	2.3	1.3	2.2	1.0
Tunisia	1.9	0.1	1.6	0.0	1.4	0.1	0.4	0.0
Yemen	17.9	3.3	32.7	11.5	21.5	10.7	41.8	15.4

Source: Alkire and Robles, 2017, based on data from Multiple Indicator Cluster Surveys carried out by UNICEF, the Demographic and Health Surveys funded by USAID, the Living Standards Measurement Surveys funded by the World Bank, World Health Surveys carried out by WHO, and health surveys by the National Institute for Demographic Studies (France).

for low income countries such as Sudan, Yemen, Iraq, but also for Morocco. This is only a partial listing of the indicators of deprivation that separate rural and urban areas in the NENA region. Electricity, drinking water, sanitation and housing services are also areas of large differences between rural and urban areas (FAO, 2018 forthcoming).

### **Why a rural-urban gap?**

Three reasons underlie the appearance and the continuation of the rural-urban gap in the NENA region. First, the rural-urban gap is a widespread phenomenon in the developing world. At the center of the rural-urban welfare gap is the tendency in the course of development for

labor productivity (a proxy for wages) in agriculture to grow more slowly than that in other sectors. With plentiful labor in the countryside, small farms are slow to adopt labor-saving technological changes (on farm, in input provision, harvesting, storage and marketing) that transform traditional farming into commercial and specialized production systems. Small farms tend not to specialize. They have a comparative advantage in labor intensive horticultural crops, since they have plentiful household labor, but are limited in their ability to adopt new technology and access investment. At the same time, they are averse to specializing in horticulture because of its inherent higher input costs and risks. They therefore often cultivate both horticultural crops and cereals as a diversified lower risk strategy. Whereas horticultural crops are high cost and potentially high payoff crops, in a bad year a farm can lose its entire investment on seeds, fertilizer and pesticides. It therefore makes sense to diversify risk by planting cereals, which are inexpensive, low input, low yield crops, in order to ensure a minimum income. The result of low specialization is low yields in both horticultural and cereal crops. The low productivity of smallholder farms in the NENA region is consistent with this analysis.

Second, policies in the NENA region are structured so as to repress agricultural incomes. Most NENA governments have substituted “food security” policies that support the planting of cereals for agricultural development policies. Farmers have a comparative advantage at making products that are intensive in the use of the factors with which they are relatively well endowed. NENA countries are generally relatively well-endowed with labour (except for those in the GCC), but have relatively scarce supplies of suitable land and water (Sudan is an exception). It is therefore to be expected that NENA countries would have a comparative advantage in the production of crops and livestock products that are least intensive in arable land and water and more intensive in use of labour. Cereals and oilseeds raised on rain-fed land are extensive crops, requiring much land and water. Horticultural crops, on the other hand, are labour-intensive crops using less water per ha than cereals and quite a bit more labour per ha. A 2015 study of revealed comparative advantage based on trade data for Egypt, Lebanon, Morocco, Jordan, Tunisia and Algeria in 2011-13 confirmed the conclusion that these countries have a comparative advantage in horticultural rather than cereal crops (Santos and Ceccacci, 2015). The substitution of wheat for more labour-intensive fruits and vegetables entails a loss of GDP compared to what could have been had the farmer raised different crops. Put simply, wheat is a relatively low-value product, and planting vegetables can bring a higher gross return per ha.

A third reason for the continuation of the rural-urban gap is neglect. Agricultural policies are often thought of in strictly sectoral terms, such that agricultural and rural development are believed to benefit only a small sector of diminishing importance in the economy. However, the GDP lens vastly underestimates the importance of agriculture and rural areas to the economy. 40 percent of the population still lives in rural areas, and 20 percent of the labor force continues to be employed in agriculture (2015 data). Moreover, the majority of the poor are living in rural areas.

### ***Bridging the rural-urban gap***

The experiences of other countries indicates that the rural-urban gap does not resolve itself without policy change. In a review of successful policies to bridge rural-urban gaps, Tsakok (2011) found that no country with a significant agricultural sector has bridged the gap without

substantial policy actions aimed at transforming rural areas. For the NENA region, bridging the rural-urban gap will require policy actions in four main areas.

*Reclaim agriculture for agriculture.* Bridging the rural-urban gap begins with supporting farmers to produce according to the comparative advantage of the region. Key policy changes to support this goal are: replacing cereal support policies with support for farmers to produce, market and export water efficient crops such as fruits and vegetables; lowering agricultural import tariffs in the interest of creating a more competitive agriculture so that investing in agriculture is good business; introducing metering for agricultural water use and gradually raising the cost of water to encourage water efficiency; eliminating domestic price and margin controls in the agrifood sector, thus exposing it to competitive pressures, and focusing the role of the government on the provision of public goods for enabling modern agriculture and food production, including roads, terminal markets and storage facilities, as well as enforcing standards and regulations for food quality, processing and safety.

*Agricultural transformation.* Agricultural transformation refers to the shift from traditional farming to specialized commercial production. Policies for agricultural transformation extend far beyond agricultural and agro-industrial policies to include: (1) a stable framework of macroeconomic and political stability with peace; (2) an effective technology-transfer system that ensures that research and extension messages reach the majority of farmers; (3) access to lucrative and expanding markets, such that investing in agriculture is good business; (4) a usufruct rights system that rewards individual initiative; and (5) employment creation in non-agricultural sectors. We can also add (6) government provision of public goods for enabling modern agriculture and food production, such as roads, railways, terminal markets and storage facilities, as well as enforcing standards and regulations for food quality, processing and safety. Reinforcing the role of producer organizations and their capacity to provide services and link producers to input and output markets is another dimension that requires policy considerations.

*Territorial development.* Agriculture relies on forward and backward linkages with other sectors to reach growing markets in urban areas. Therefore, efforts aimed at the elimination of the rural-urban gap cannot focus exclusively on technical change in agriculture, but must leverage agricultural transformation to develop agribusiness and agroindustry along the value chain from input suppliers to downstream processing, packaging, transport and retailing. This is all the more important because NENA industry is currently far less labour-intensive than in other regions, offering fewer job opportunities. A focus on agriculture and agroindustry transformation is a labour-intensive growth strategy, as well as a pro-poor growth strategy, since poverty is predominantly rural in the NENA region. As part of a strategy to improve livelihood opportunities in rural areas, a territorial approach would strengthen rural links with small cities and rural towns in order to connect producers, agro-industrial processors and ancillary non-agricultural services, as well as other downstream segments of food value chains, making also the best use of the new rural-urban linkages emerging from migration dynamics.

*Rural infrastructure and services.* The longstanding policy focus on urban areas and industry has led to a neglect of basic rural infrastructure, beginning with deprivations in education and health, as well as the provision of public services such as electricity, drinking water and sanitation. The gap in education, health and public services deprives rural inhabitants of the opportunities available to urban residents. Substandard education, health and public services severely constrain development in rural areas, discouraging private investment. They thus impede the closing of the rural-urban income and employment gap.

While policies for rural transformation may seem ambitious, they are not unusual. Many developing and developed countries have been pursuing these policies successfully for many years (Tsakok, 2011), as they constitute a list of best-practice policies for eradicating the rural-urban development gap in productivity, poverty and services observed in most economies during growth. As such, they constitute a concrete guide for rural policies to further sustainable development.

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