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## Position paper

# Urbanization and Poverty Reduction: The Role of Secondary towns in Tanzania<sup>1</sup>

## Background

In 2007, the world reached an important “tipping point”—half its population became urban. But not only is the world urbanizing, it has been doing so much more rapidly. While it took Industrial Europe 110 years (1800-1910) to increase its rate of urbanization from 15 to 40 percent, Asia and Africa did so in only 50 years (1960-2010), or twice as fast. . And the urban population in the developing world is also concentrating, living increasingly in few large cities. This also holds in Africa, which already has a clear bimodal distribution of its urban population (Dorosh and Thurlow, 2013). Nonetheless, barring some exceptions<sup>2</sup>, the academic literature and policy mind-sets have been squarely focused on the aggregate rate of urbanization. They seldom go beyond the dichotomous rural-urban distinction, thereby ignoring the distribution of the urban population across cities of different sizes. Results from our research suggest, however, that the composition of urbanization might be as important as its aggregate rate.

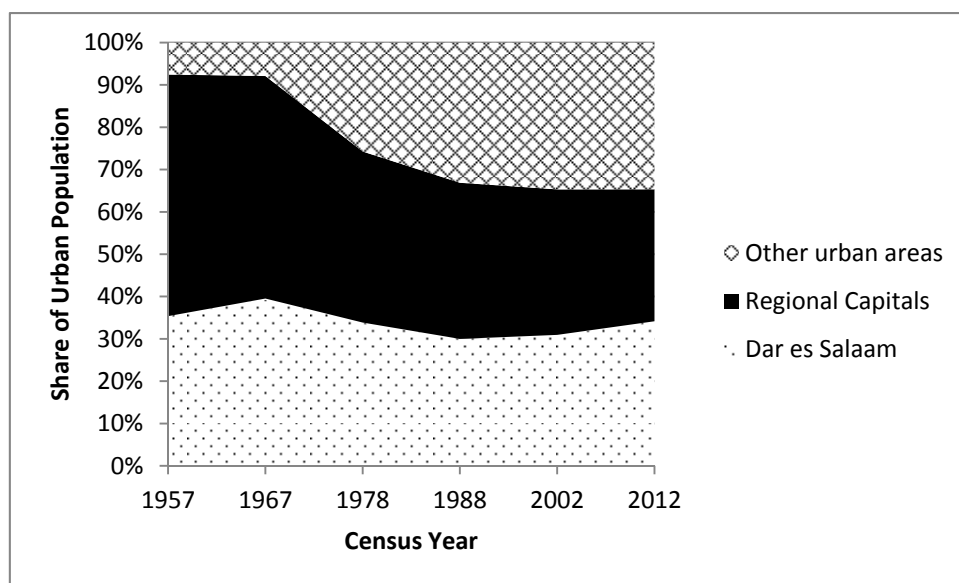
<sup>1</sup> This position paper was prepared at the request of the Planning Commission at the President’s Office in Tanzania to feed into the Five Year Development Plan. It was written as part of the IGC project “Urbanization and Poverty Reduction: The Role of Secondary towns in Tanzania.” We thank Pantaleo Kessy, Benno Ndulu and Johnson Nyela for useful feedback. The findings, interpretations, and conclusions expressed in this paper are entirely those of the authors. They do not necessarily represent the views of the World Bank and its affiliated organizations, or those of the Executive Directors of the World Bank or the governments they represent.

<sup>2</sup> For example Henderson (2003), Kanbur-Venables (2006) and Christiaensen, De Weerd and Todo (2013)

## Urban composition in Tanzania

Take, for example, Tanzania and Dar es Salaam. According to the 2012 census around 10% of the population lived in Dar, and at around 4.5 million this was the largest urban agglomeration in Tanzania by a huge margin. The

Figure 1: the evolution of urban composition in Tanzania



population of Dar grew dramatically over the past fifty years and the bulk of this growth was accounted for by in-migration (NBS, 2012 and Wenban-Smith 2014).

Facts such as these, seen in this way, colour much of the urbanization discourse, all over the world. They lead to a focus on investment in large cities, in response to in-migration. And because these are

migrants from poor rural areas, the argument goes, such urban investment also addresses poverty. Consider, however, the following perspective on the composition of urbanization in Tanzania, also taken from Wenban-Smith (2015). Figure 1 shows that in 2012 Dar accounted for about one third of the urban population. But it also accounted for about one third of the urban population in 2002, in 1988, in 1978 and so on back. Thus non-Dar urban areas have grown as fast as Dar in Tanzania's history.

And, actually, if we further divide non-Dar urban into regional capitals (with an average population of around 200,000) and small towns (with an average population of around 20,000), an even more interesting trend appears—small towns are forming an ever increasing proportion of the urban population of Tanzania. There is clearly a lot of urbanization action going on in small towns! The movement out of rural areas, which is undeniable as a major trend, is as much to small towns as to Dar.

## Why might urban composition matter?

The effect on growth and poverty reduction of urbanization depends on the interplay of three forces: (i) intra-urban agglomeration effects and congestion costs, (ii) the economic linkages between urban and rural areas and (iii) the rural-urban migration flows. The new economic geography literature, for example, emphasises the importance that urban size plays in fostering economies of scale and agglomeration, which are found to propel economic growth<sup>3</sup>. There is however a tipping point beyond which returns to size may start to decline. Once cities become too big, congestion costs can cause a decline in economic growth. There are also positive spill-overs of urban centres on the rural hinterlands, through consumption linkages, urban-rural remittances, upward pressure on agricultural wages, and the generation of

<sup>3</sup> See for example Overman and Venables (2010).

rural non-farm employment. It is unclear whether, in the aggregate, spillovers are larger when the urban population is concentrated in few large urban centres, or when it is more spread out across a greater number of smaller urban centres. Finally, due to a series of migration barriers, poorer people, who remain largest in number in the rural areas, may find it easier to connect to growth and jobs in and around smaller urban centres nearby than when these jobs are created further away in a limited number of large cities.

## A preferred empirical set up for Tanzania

The forces of agglomeration, congestion, hinterland linkages and migration

can go in opposite ways, such that the overall effect of urban composition on growth and poverty is ultimately an empirical matter. What type of exercise might give us an empirical handle on the effect of the composition of urbanization?

Suppose we had nationally representative panel data at time  $t$  and time  $t+1$ , which gave us individual location as well as income (or consumption). Then we could, in effect, decompose national poverty change into the poverty effects of

1. income growth in rural areas, small towns, and Dar, and
2. income changes as the result of (net) migration across these categories.

In Tanzania, we could do this, for example, for the National Panel Survey (2009, 2011 and 2013). Census extrapolations would then be needed to give us appropriate sectoral population weights and the 4 year time horizon, may not be long enough to see the full effects of migration. In any event, to the best of our knowledge this has not been done as yet, but in our view it is an important part of the future research agenda on this topic, especially with more NPS rounds upcoming (2015).

## Lessons from global experience

Lacking an analytical exercise at the national level, what can we already learn from the global experience? One way to learn more about the potential role secondary towns and rural off-farm employment can play is to examine whether it matters for the speed of poverty reduction where people move to when they leave agriculture. Put differently, if two economies were to grow at the same speed, would the rate of poverty reduction be faster when people move out of agriculture to larger cities (empirically defined as exceeding 1 million people) or when they move out of agriculture into small towns and the surrounding rural economy? Looking at the experience in 51 countries during 1980-2004 suggests that there is an additional effect on poverty reduction when people move into secondary towns and the rural off-farm economy when they leave agriculture (Christiaensen and Todo, 2014). This



*Dar es Salaam , Tanzania's largest city*

suggests that the development of the rural economy and more spread out urbanization processes might be more poverty reducing.

This empirical regularity proves robust to a number of econometric considerations which could have biased these findings. These results hold when controlling for total economic growth. If metropolitanization also induces faster economic growth, then it might also generate more poverty reduction over time. As postulated by the new economic geography, metropolitanization is found to be associated with faster economic growth. But it also comes with higher inequality, which reduces the poverty reducing effects of its faster economic growth. Taken together the empirical evidence suggests that the positive effects of lower inequality for poverty reduction which come along with a more spread out migration pattern outweigh the negative effects of lower economic growth. There are furthermore indications that it is especially the fact that the poor are more likely to make it to job opportunities nearby which drives these results.

## Decomposition exercise: results from KHDS

These cross-country regularities suggest that development of secondary towns and their rural hinterlands provides a plausible entry point to accelerate poverty reduction. But there are also further insights that can be gleaned from Tanzania's own experience in this regard, in particular from the experience in Kagera as recorded in the Kagera Health and Development Survey. This is a data set of migrants from Kagera, a large, remote and primarily rural region in the north-western part of Tanzania. We have information on

Table 1: Decomposing growth and poverty reduction

2010 Sector	N	Share migrants	Growth (consumption per aeu)			
			1991-94 average	2010 average	Average Cons. growth	Share in total growth
Rural farm	1,906	0.32	410,421	584,125	0.55	0.23
Rural off-farm	972	0.44	429,412	715,704	0.92	0.20
Town	1,175	0.58	487,740	941,009	1.29	0.38
City	286	1.00	497,711	1,413,099	2.28	0.19
<b>TOTAL</b>	<b>4,339</b>	<b>0.47</b>	<b>441,478</b>	<b>764,886</b>	<b>0.95</b>	<b>1.00</b>

2010 Sector	N	Share migrants	Poverty (headcount)			
			1991-94	2010	Net movement out of poverty	Share in total net poverty reduction
Rural farm	1,906	0.32	0.66	0.44	410	0.34
Rural off-farm	972	0.44	0.62	0.31	294	0.25
Town	1,175	0.58	0.47	0.17	359	0.30
City	286	1.00	0.47	0.02	126	0.11
<b>TOTAL</b>	<b>4,339</b>	<b>0.47</b>	<b>0.58</b>	<b>0.31</b>	<b>1,189</b>	<b>1.00</b>

4,339 individuals, first interviewed in their baseline communities in the early nineties and then re-interviewed nearly two decades later in 2010. The data set is unique not only with respect to its long time frame, but also because it has tracked migrants to rural areas, towns and cities (Beegle, De Weerd and

Dercon, 2011). The concern is that it is representative of just one region in the country, so that at best it can give us some tentative results and an idea of the kind of results that may come out of a national exercise. But this is the best that can be done at this stage while we await such an exercise at the national level.



A house in rural Kagera

There was a considerable amount of growth and poverty reduction in the KHDS sample over its 18-year span and Table 1 decomposes total growth and total number of people out of poverty into that realised by people making the transition to (or staying in) the rural areas (further split into its agricultural and non-agricultural sectors), to secondary towns, or to cities. We find that even in the presence of larger migration premiums from moving to the more distant cities, most people engage in the surrounding

nonfarm economy or move to secondary towns. The decomposition analysis shows that moves to secondary towns make up a much larger share of total growth and poverty reduction than moves to cities.

We start by combining the spatial, occupational and consumption data to look at welfare changes for each bin of the transition matrix. The decomposition tables include all respondents, regardless of migration status. The top panel of the table focusses on growth. Incomes of those who moved to the cities grew by an average of 230% over the 18 year period, while those found in rural farming in 2010 grew by 53%. This translates into an average consumption per adult equivalent which is 2.6 times higher among the city dwellers in our 2010 sample, compared to the rural farmers. This wedge appears despite relatively minor differences at the baseline in the early nineties. Those moving to towns and to rural off-farm activities fall somewhere between these two extremes.

These averages, however, conceal the fact that while only 189 respondents ended up in cities, 775 were found in towns, 751 in the rural off-farm sector and 1,661 in the farm sector. Despite the much larger average growth per equivalent person realised by the city dwellers, the fact that they are so few in numbers implies that they contribute less to total income growth in the sample than the 1,661 people in rural farming (18% versus 22% of total growth realised by the sample respondents, respectively). In these simple decomposition terms towns are somewhat of a growth sweet spot. The 775 respondents found in towns in 2010 contributed 37% to total growth, over double that of the 189 respondents found in cities. Compared to cities, towns attract 4 times more people from our sample and contribute twice as much to total income growth.

The bottom panel of Table 1 looks at the same phenomenon through a poverty lens. We see again that despite relatively small differences in baseline poverty rates, poverty is virtually non-existent in those who are in cities and increases as one goes over towns (21% poor) and rural off-farm (34% poor) to rural farm (47% poor). Once more these average poverty rates hide the importance of the number of feet making these transitions. The last two columns of Table 1 show how cities account for only 11% of all respondents who have transitioned out of poverty between 1991-94 and 2010, while those in rural farming and in towns in 2010 between them account for 55% of total poverty reduction.

## Destination choice

The results above show that migration to cities has a large average income effect, but only a small size effect (few poor make it). Migration to towns, by contrast, has a smaller average income effect, but a larger size effect (many poor make it).

To understand the size effect, we need to understand better how migrants (especially the poor) choose their destinations. There are indeed reasons to believe that despite lower income levels and lower growth prospects, the secondary towns still make an attractive destination for the poor due to their proximity, network density, socio-cultural similarity and the like.

At the same time these smaller towns will have different linkages with the rural hinterlands, being typically located closer to rural areas, as well as different effects on agglomeration and congestion costs. Detailed econometric analysis is needed to further investigate these hypotheses suggested by the data.

## Secondary towns as vehicles for inclusive growth

This compositional perspective on urbanization raises several questions on the sources of growth and poverty reduction. It also poses policy trade-offs somewhat sharply—at the margin, should the Government of Tanzania tilt towards policies and public investment favouring small towns rather than those favouring its largest cities?

Deepening our understanding of the drivers of destination choice can help inform on the effects of improvements in infrastructure (electricity, roads, telecommunication, health, education) on attracting rural-urban migrants to smaller towns, as well as on retaining high-skilled individuals. The retention of the latter in secondary town can be hypothesised to play an important role in unleashing agglomeration economies, with potentially important complementarities with the large pool of unskilled migrants (Eeckhout, Pinheiro and Schimdheiny, 2015).

It is interesting to frame this question within the context of the Tanzanian Development Vision 2025, which outlines the country's aspiration to reach middle income status by 2025 through structural transformation. The findings from our research would lend strong support to a natural-resource based industrial model for Tanzania, with agro-processing and other value adding industries located close to rural producers in smaller urban centres. This would be an avenue for inclusive growth with poor people benefiting both through the migration channel, as well as through the hinterland effect.

Attracting a critical mass of highly-skilled individuals within the secondary towns would be important to trigger the positive effects of agglomeration economies and skills complementarities, with practically no congestion costs in the initial stages. In addition to infrastructure, other complementary interventions to develop secondary towns include housing programs and land policies, policies to attract skilled workers and firms, entrepreneurship programs in secondary towns, and value chain development.

Can Tanzania become a middle-income country without every part of it graduating to middle income status? Can the push to middle-income status be driven purely by concentrating on growth engines in the largest cities? The answer to both these questions is clearly no. Carefully thought-through secondary town development thus becomes an important policy vehicle for inclusive growth.



*Bukoba, a typical secondary town in Tanzania*

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