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Urbanization and Structural Transformation in Malawi

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“Secondary Towns, Jobs and Poverty Reduction: Refocusing the Urbanization Agenda”, World Bank 18-19 May 2016

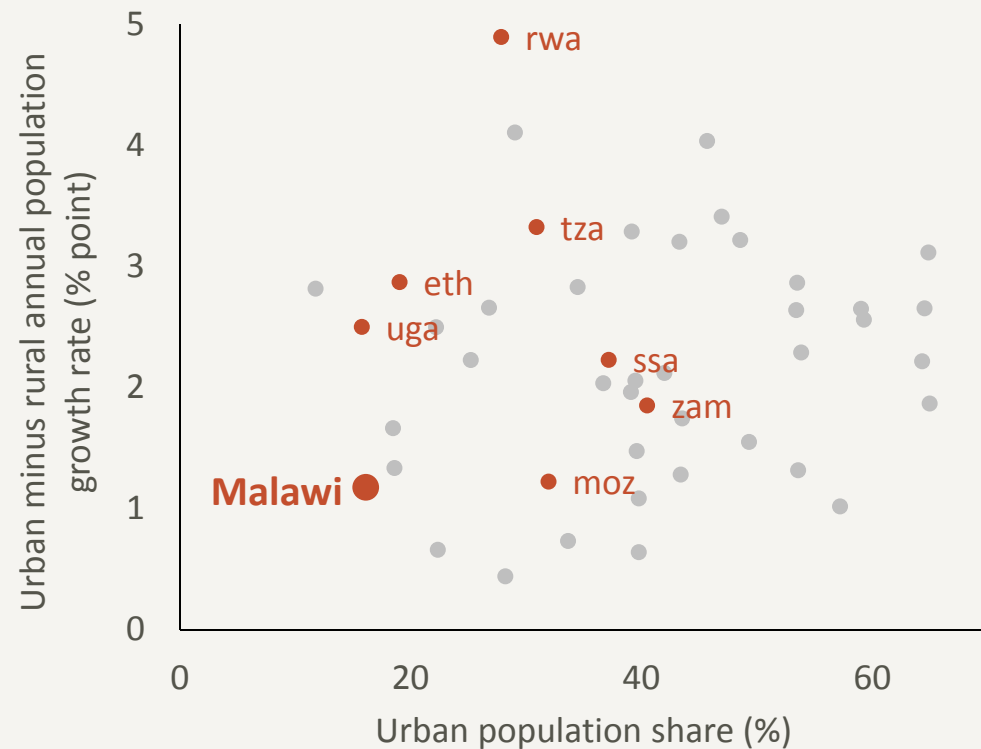
Urbanization: A Threat to Development?



- **Malawi's National Development Plans**

- “The long-term goal is to develop rural growth centers... and reduce rural-urban migration.”
- Population policies are aimed at “addressing the vulnerabilities caused by... migration and rapid urbanization...”

Urbanization Rates in Sub-Saharan Africa, 2014



Source: WDI

Questions



1. What role do urban centers play in Malawi's national growth and development process?
2. What would be the economic implications of accelerated urbanization?
3. What are the trade-offs from investing in secondary towns versus cities?

Past Urbanization, Growth and Poverty



Characteristics of the ongoing development process:

- Faster growth in non-agricultural sectors
- Shift in employment out of agriculture
- Slow pace of urbanization
- Urban poverty reduction has stalled

Growth and Jobs 1998-2013

	GDP	Employ.	GDP/w
Total GDP	3.9%	1.5%	2.4%
Agriculture	3.0%	-0.3%	3.3%
Industry	5.4%	5.2%	0.3%
Services	4.0%	7.7%	-3.7%

Population 1998-2008

	1998	2008	Growth
National	9,934	13,077	2.8%
Urban	1,418	2,044	3.7%
Urban share	14.4%	15.6%	

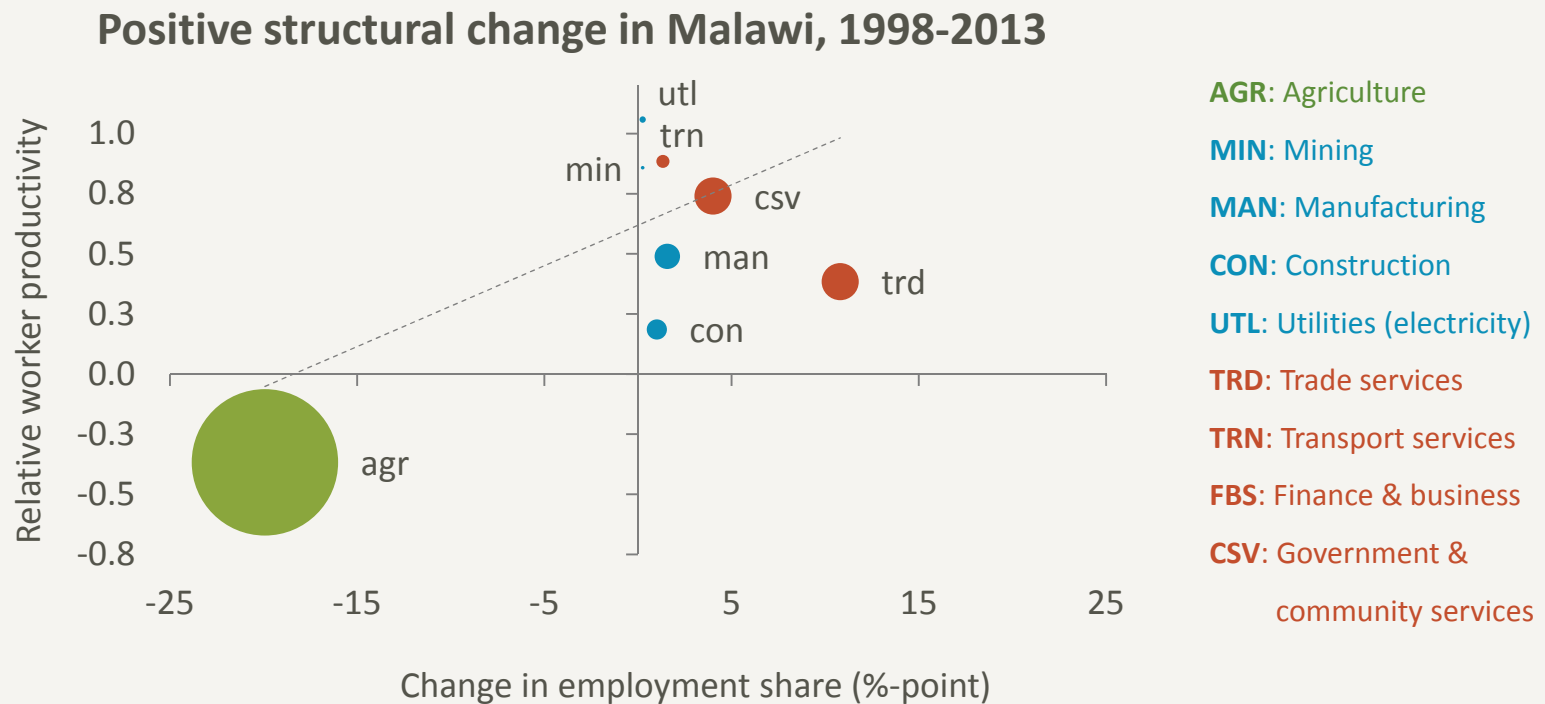
Poverty rates 1997-2013

	1997	2004	2013
National	65.3%	52.4%	38.7%
Urban	54.9%	25.4%	26.2%
Rural	66.5%	55.9%	44.7%

Past Structural Change



- GDP per worker grew at 2.4% per year
 - Mainly due to people leaving low productivity agriculture
 - Slow urbanization means that most new non-farm jobs were in rural areas



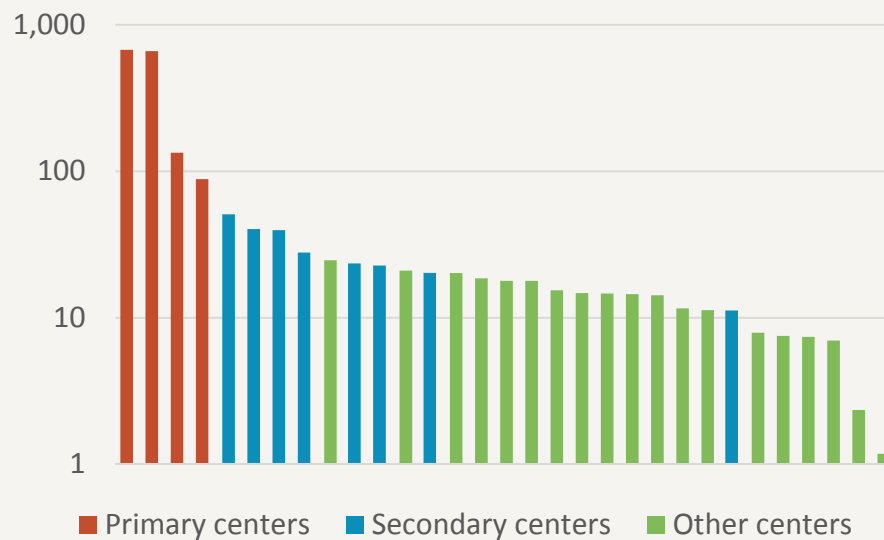
* Deviation in log value-added per worker relative to economy-wide average

Urban Hierarchy



- Secondary towns contain about a quarter of the urban population, but are growing slightly faster than cities
- “Urban” is defined by function (there are also large “rural” towns)

Size distribution of urban centers, 2008



Population growth, 1998-2008

	Annual
National	2.8%
Urban	3.7%
Primary	3.6%
Secondary	4.2%
Other	3.6%
Rural	2.6%

Rural-Urban Economies (1)



- Disaggregate national accounts across Cities, Towns and Rural Areas
 - Mainly using labor incomes, non-farm enterprise earnings, farm revenues and consumption from 2010/11 Integrated Household Survey (IHS3)
 - Supplemented by Economic Survey and district agricultural data

Regional population and poverty, 2010

	Rural	Towns	Cities	Malawi
Population (mil.)	11.9	0.4	1.8	14.1
Share (%)	84.6%	2.7%	12.7%	100%
Poor population (mil.)	5.4	0.1	0.2	5.6
Share (%)	95.8%	1.2%	3.0%	100%
Consumption per capita (\$)	341	940	1,136	458
Poverty rate (%)	45.3%	18.4%	9.4%	40%

Rural-Urban Economies (2)



Regional GDP shares, 2010 (%)

	Rural	Towns	Cities	Malawi
Total GDP shares (%)	100	100	100	100
Agriculture	49.2	9.5	4.5	32.3
Industry	15.5	20.0	17.7	16.5
Services	35.3	70.5	77.8	51.2
Regional GDP shares (%)	61.6	5.9	32.5	100
Agriculture	93.8	1.7	4.5	100
Industry	57.9	7.2	34.9	100
Services	42.5	8.1	49.4	100

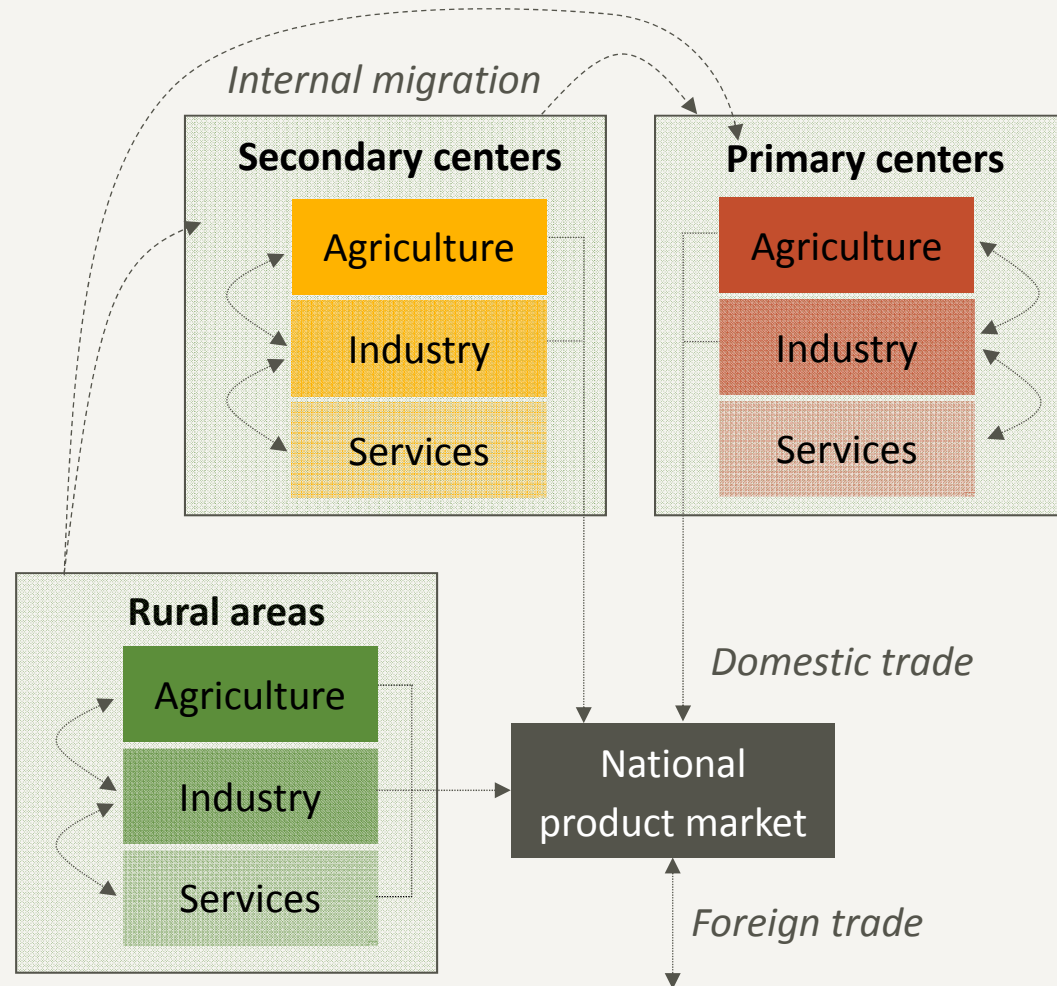
Rural-Urban Economies (3)



Regional private consumption spending, 2010 (%)

	Rural	Towns	Cities	Malawi
Consumption shares (%)	100	100	100	100
Agriculture	49.3	28.7	22.1	39.6
Processed foods	14.3	13.7	12.8	13.8
Industrial goods	9.2	18.8	12.9	10.9
Services	27.3	38.8	52.1	35.7
Regional shares (%)	63.0	5.5	31.5	100
Agriculture	78.4	4.0	17.6	100
Processed foods	65.2	5.5	29.3	100
Industrial goods	53.1	9.5	37.4	100
Services	48.1	6.0	45.9	100

Modeling Linkages and Trade-Offs



Economy-Wide Model

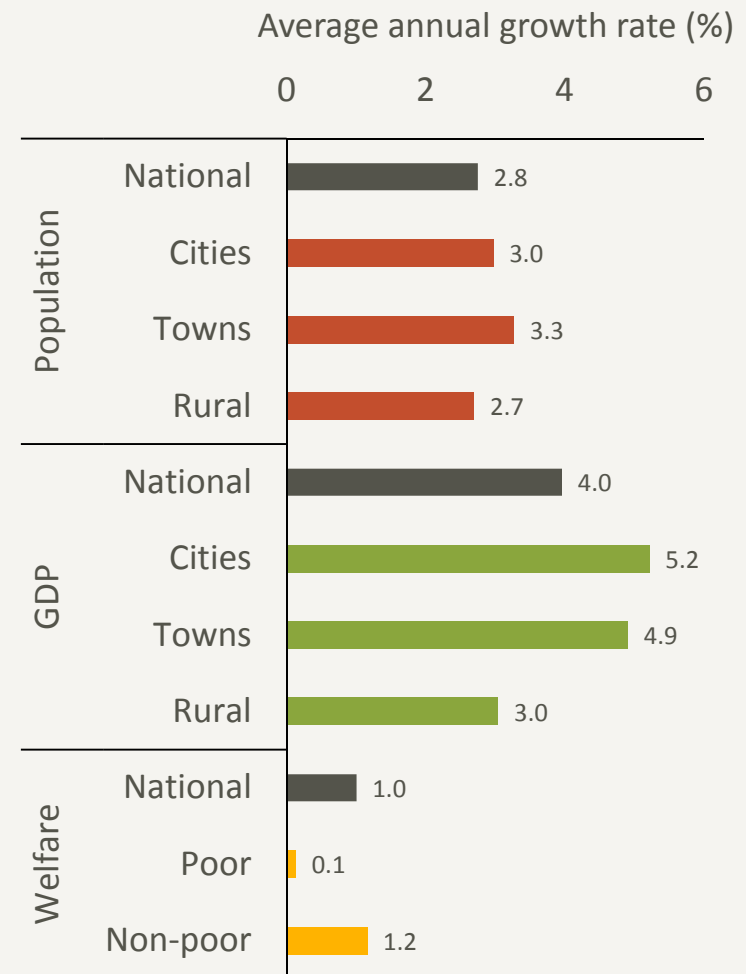


- Social Accounting Matrix (SAM)
 - 2010 base year
 - 58 sectors disaggregated across cities, towns and rural areas
 - Products traded in national markets
 - 15 household groups (regional per capita expenditure quintiles)
- Recursive dynamic model run over the period, 2010-2030
- Four simulations
 1. Baseline scenario (business-as-usual)
 2. Faster urbanization (to both cities and towns)
 3. Increased urban investment (reduced agricultural investment)
 4. Urban taxes pay for urban investments

Baseline Scenario



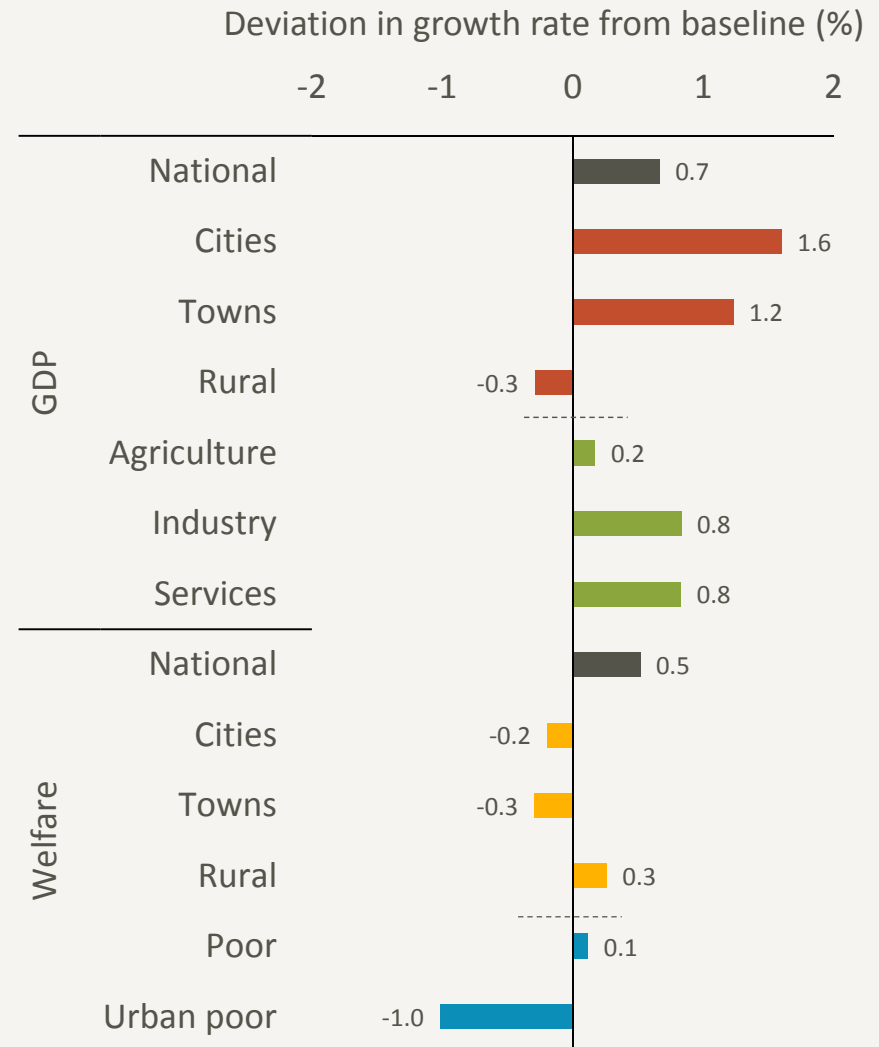
- Growth assumptions
 - Factor supply: Labor 1.5%; Land 0.5%; Capital 6%
 - TFP: Agric./Serv. 0.5%; Industry 2%
Towns/Cities +0.3/+0.5%
- Annual urban migration flow = 10,500 (about 1% of urban workforce)
- Leads to faster population and economic growth in cities and towns
- Modest per capita welfare gains for poor households



Urbanization Scenario



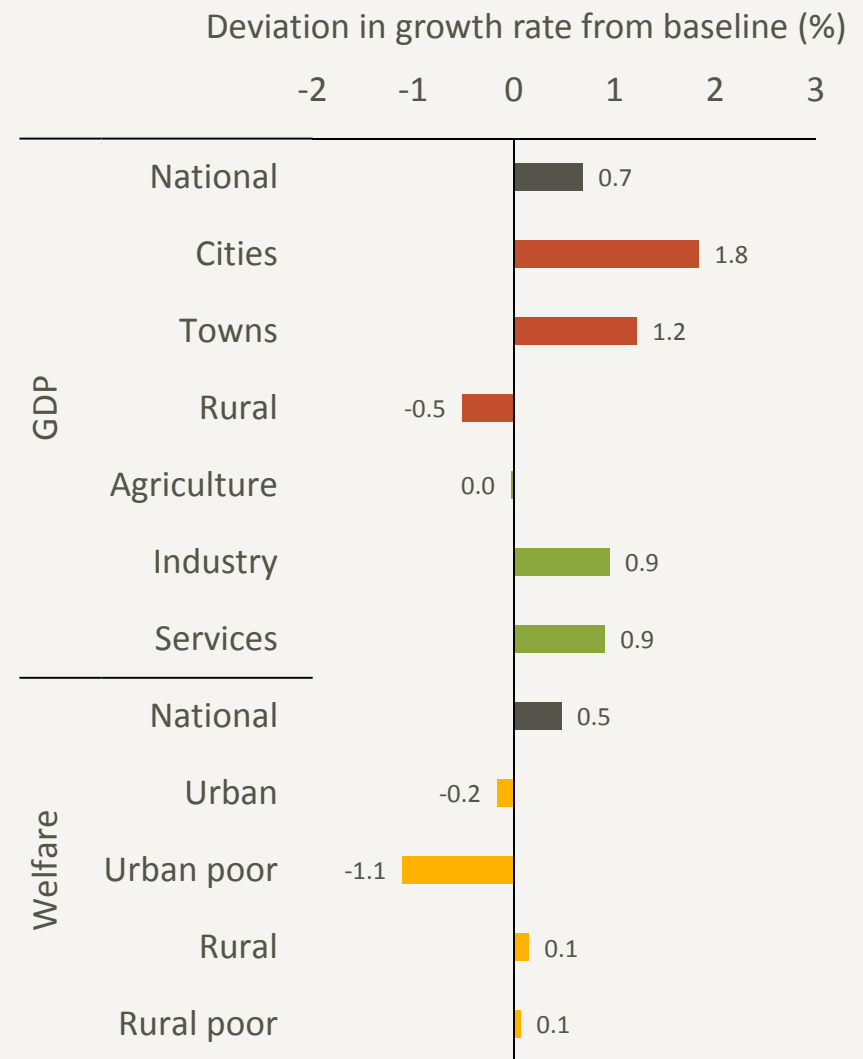
- Urban population share:
 - Baseline: 15.4% to 16.2%
 - Now: 15.4% to 21.2%
- Urban GDP growth rises
 - Agriculture also benefits from production/consumption linkages
 - BUT rural GDP still falls
- Welfare rises for poor and non-poor households
 - BUT inflow of migrants reduces poor urban households' welfare



Urban Investment Scenario



- Increase urban public capital
 - BUT reduce rural investment
 - Assume agriculture has a TFP-spending elasticity of 0.15
- Urban GDP gain increases
 - BUT agricultural GDP gain falls
- Poor urban household welfare declines even more
 - Rising real food prices more than offsets the capital investments



Cities vs. Towns



- Trade-off between growth and poverty outcomes
 - Town's share of GDP gain (19%) is less than its share of population gain (25%)
 - BUT town's share of poor households' welfare gain (29%) is larger than population gain
- Mechanisms:
 - Town labor demand better matches with migrant's lower education
 - Stronger agriculture and rural backward and forward linkages

	Change in outcome (%-point)	Change in outcome from towns (%)
Urban pop. share	+5.18	24.6
National GDP growth rate	+0.82	19.1
Agriculture	+0.14	33.9
Industry	+1.10	20.0
Ag-processing	+0.93	23.3
Services	+1.03	18.2
National welfare growth rate	+1.36	23.2
Poor	+0.25	28.6
Non-poor	+1.56	22.9

Conclusions



1. Role do urban centers in national growth and development?
 - Urban economy growing faster than overall economy
 - BUT urbanization is low and so most non-farm jobs were created in the rural economy
2. Economic implications of accelerated urbanization?
 - Can stimulate rather than constrain economic development
 - BUT this requires supporting investments in urban centers
3. What are the trade-offs from investing in secondary towns versus cities?
 - Clear trade-off between growth (cities) and poverty reduction (towns)
 - BUT towns are only a small share of Malawi's economy and population, and so cities will still be the main driver of future urban-driven poverty reduction