

# Should local market centres, second and third tier cities be the target for donor programmes and how should they create local economic opportunities?

Ngoc Do

Nathan Associates London Ltd

February 2016

EPS-PEAKS is a consortium of organisations that provides Economics and Private Sector Professional Evidence and Applied Knowledge Services to the DfID. The core services include:

- 1) Helpdesk
- 2) Document library
- 3) Information on training and e-learning opportunities
- 4) Topic guides
- 5) Structured professional development sessions
- 6) E-Bulletin

To find out more or access EPS-PEAKS services or feedback on this or other output, visit the EPS-PEAKS community on <http://partnerplatform.org/eps-peaks> or contact Alberto Lemma, Knowledge Manager, EPS-PEAKS core services at [a.lemma@odi.org.uk](mailto:a.lemma@odi.org.uk).

**Disclaimer Statement:**

The views presented in this paper are those of the authors and do not necessarily represent the views of Consortium partner organisations, DFID or the UK Government. The authors take full responsibility for any errors or omissions contained in this report.

## Contents

<b>Part 1. Clarifications</b>	<b>1</b>
<b>Part 2. Context</b>	<b>2</b>
<b>Part 3. Theories on The Development of market centres and towns</b>	<b>3</b>
<b>Part 4. How Have Market Centres Developed?</b>	<b>5</b>
<b>Part 5. What is being done for market centres, second and third tier cities?</b>	<b>8</b>
<b>Part 6. Conclusion</b>	<b>13</b>

## Part 1. Clarifications

The original question from DFID for this Helpdesk was “Should rural market places and small towns be the target for donor programmes to create economic opportunities for those unable to make a living from primary agricultural production?” During discussions with DFID, it was clarified that DFID was interested in the role of rural market centres as well as second tier and third tier cities, versus large metropolitan areas that are believed to play an important role in absorbing migration flows. DFID was interested in finding evidence on whether donor programme *should* focus on these types of urban areas and *how* that may be done. Although the original question stated the focus to be on those “unable to make a living from primary agricultural production”, DFID is aware that few people living in second and third tier cities make a living directly from primary agricultural production. Based on these clarifications, the question is rephrased as “Should local market centres, second and third tier cities be the target for donor programmes and how should they create local economic opportunities?”

For simplification purpose, in this paper the term “market centres”, “towns” refer generally to these types of urban areas.

## Part 2. Context

Market centres, second and third tier cities hold most of the world's urbanising population. According to the *World Urbanisation Prospects* published by the United Nations in 2014, 54% of the world's population lives in urban areas. Among those urban dwellers, half of them actually live in towns of less than 500,000 inhabitants. While there is no global definition of an urban settlement or a second/third tier city, as definitions are defined by national statistics offices and vary across population density, percentage of agricultural workers, infrastructure. The UN categorises cities of less than 1 million inhabitants to be "small". However for the purpose of this study, we are studying market centres and second/third tier cities that are: i) close to rural areas; and ii) not major economic centres. These types of urban areas are offering the most opportunities for informal sector employment<sup>1</sup>, mostly in the form of informal and seasonal occupations. Jobs are created to accommodate off-season workers who come from surrounding villages seeking employment either to diversify their income stream or risks. The World Urbanisation Prospects predicts that small cities and towns will still be home to around 45% of the world's urban population by 2030. On the other hand, the rural population is expected to decline from 3.4 billion to 3.2 billion by 2050<sup>2</sup>. Opportunities therefore exist for policies for rural-urban development to promote economic diversification in rural areas.

The target group or beneficiaries in this study is the surplus labour from rural areas with little access to land and production inputs, or who do not want to stay on the farm. People are increasingly moving away from rural areas to seek non-farm employment in nearby market centres, towns, or even cities, depending on their skills and what those urban areas can offer. Young women are moving to cities to find jobs in the services sector, particularly in hospitality.

There is abundant literature on rural development programmes and programmes focusing on large metropolitan areas. However the space in between two ends of the spectrum is scarcely covered. We have found scattered literature in private sector development, rural development, research on cluster and non-farm enterprises, as well as case studies done by the private sector. The research finds market centres and second/third tier cities could be categorised into three types: 1) towns that are not offering employment opportunities due to major constraints in infrastructure, business environment, and governance; 2) towns that are offering employment opportunities that are not accessible to people; and 3) towns that are offering low-skilled employment opportunities which are accessible to workers. While it is more difficult for type 1 towns to become type 2 and 3 due to remote location or size, type 2 towns could grow into type 3, and type 3 could develop further in to a sustainable growth model.

---

1 Competitive Cities in the 21st Century, ADB, 2012.

2 World Urbanisation Prospects, UN, 2014.

## Part 3. Theories on The Development of market centres and towns

Arthur Lewis put forward the dual sector model in 1950s which argued that surplus labour is absorbed from the countryside into expanding industries that require employment in urban areas. Surplus labour which is seen to come from the traditional agriculture sector with little access to land works for a subsistence wage. Thus they are pulled to urban areas to find employment that yields higher earnings<sup>3</sup>.

The process of agglomeration has been much referred to in association with the New Economic Geography, authored by Krugman, Fujita and Venables<sup>4</sup>. While the authors refer to how cities grow as a result of externalities and returns to scale, in the rural town context, urban centres provide non-farm jobs to workers, which therefore increases purchasing power among workers. This creates demand for more jobs, which will absorb more labour from rural areas.

Michael Porter introduced competitive advantages in the form of clusters. Clusters are [geographic] concentrations of companies and institutions specialised in a specific discipline<sup>5</sup>. Clusters enable companies to organise themselves in terms of infrastructure, knowledge, inputs, relationship, in order to improve productivity through lower production cost. Clustering has worked largely well in Asia and Latin America. In Asia and Latin America, clusters often comprise a whole town and include traders and service providers, so there is a more structured cluster development, rather than the “natural” cluster seen in Africa<sup>6</sup>. However, growth varies from the type of clusters – serving local markets or clusters providing global services such as IT.

Local market centres play an important role in being the market outlet and an immediate consumption outlet for agriculture produce from nearby areas. Depending on the size of the town, they can be intermediary market centres, offering forward linkage services such as packaging, warehousing, processing, as well as host providers of backward linkage services such as fertilisers, seeds, and tractor services. Market centres also are immediate destinations for the rural population to come for ancillary services such as healthcare, education, legal advice, public services, and financial services. They also provide opportunities for non-farm activities and employment in manufacturing and services. The strength of the rural-urban linkages determines how beneficial the interdependence between villages and towns is. However, the contribution of these towns to local economic development and employment generation is not dependent on this linkage, but rather a range of factors: size, natural resources, infrastructure, business environment, transport links, and the level of decentralisation in policy making is key.

- Town size determines whether or not there is a critical mass to take advantage of positive externalities for growth
- Access to natural resources will create non-farm opportunities in related industries
- Adequate infrastructure (power, water) will encourage private sector firms to invest in opening businesses
- Enabling business environment is important for firms to enter the market
- Good transport links provide access to larger markets

---

3 Dubey, A., Palmer-Jones, R., Sen, K., Surplus Labour, Social Structure and Rural to Urban Migration: Evidence from India Data, School of Development Studies, University of East Anglia, 2004.

4 Krugman, P., What's New about the New Economic Geography?, Oxford Review of Economic Policy, Vol.14, No.2

5 Porter, M., The Competitive Advantage of Nations, 1990.

6 Satterthwaite & Tacoli, The urban part of rural development: the role of small and intermediate urban centres in rural and regional development and poverty reduction, International Institute for Environment and Development, Working Paper 9, 2003.

- A decentralised local government has the flexibility to formulate favourable policies for private businesses without having to seek approval from central governments.

Local market centres, second and third tier cities receive waves of rural migration leaving the countryside in the hope of finding better wages in the urban areas. There are numerous push factors for those who are unable to make a living from the village economy:

- Access to land: Lack of access to land is a major reason for villagers to leave rural areas. Among these there are also young women who do not want to work unpaid on their family land which they will not inherit<sup>7</sup>; and young men of lower caste or ethnicity who are unable to own land.
- Droughts, flooding, natural disasters (some resulting from climate change): Unfavourable climate conditions force farmers away from rural areas. By moving to another rural area they are not likely to have access to land, so most people choose to move away from rural areas.
- Conflict, civil wars: civil conflicts creates the uncertainty that drives people away from investing in agriculture production. Unable to make a living, villagers choose to move to urban areas.
- Lack of basic services such as water, electricity, healthcare and education pushes people away from the rural areas.

On the other hand, some of the following pull factors encourage migrants to come and stay in urban areas:

- Labour market: the potential of finding employment that pays more than rural wage rate.
- Financial services and markets, access to finance: rural banks and financial institutions tend to have poor outreach and are concentrated in towns rather than villages.
- Consumer goods market: demand for goods can be met in market centres or towns where trade and services are available.
- Supplier goods, inputs and services: towns also supply necessary inputs to run a business, which may not be available and accessible to rural enterprises.

---

<sup>7</sup> Satterthwaite & Tacoli, The urban part of rural development: the role of small and intermediate urban centres in rural and regional development and poverty reduction, International Institute for Environment and Development, Working Paper 9, 2003

## Part 4. How Have Market Centres Developed?

To answer the question whether local market centres, second and third tier cities should be supported to create economic opportunities, we must first look whether potential economic activities exist. The surplus labour is only absorbed if there are jobs for them to do. The level of development of the towns are dependent upon a number of factor, as discussed above: size of the town, natural endowment, infrastructure, transport, business environment, skill set, technology. There are three types of scenarios:

### **1 Small towns and market centres are not creating jobs.**

There is no capacity to absorb surplus labour apart from very few informal unskilled jobs. The key constraints that keep these small towns from attracting private sector investment includes distance from sources of raw materials, poor transport links, poor infrastructure and business environment. The only jobs available are off-season jobs in the informal economy. Even these informal jobs tend to be a risk-diversifying activity that enables farmers to find a little extra income while holding their presence in the villages. When there are only such small scale non-farm activities, they are not a source of employment or economic growth. Using the Rural Income Generating Activities dataset of the FAO, Nagler and Naude found that most non-farm enterprises are household enterprises that do not employ anyone outside their family. In Malawi, Nigeria, Tanzania and Uganda, non-farm enterprise activities only serve the purpose of risk-diversifying rather than sustainable business, thus do not create employment or reduce poverty<sup>8</sup>.

The size of the market centres and towns plays a large role in determining whether they have any potential for employment generation. Small towns do not have the capacity to generate or absorb surplus labour coming from nearby villages. In a survey of 2 states in India (Madhya Pradesh and Orissa), Wandschneider found that enterprises are typically of less than \$5000 in investment capital, with about 2-5 paid employees and unpaid family members. These enterprises are engaged in small-scale services such as transport, mechanical repairs, barber shops, and food services such as stalls and restaurants. Most businesses were found to absorb little labour from neighbouring villages due to their very small scale, and lack of transport services<sup>9</sup>.

In the case of Lindi, a small town in southern Tanzania, the poor transport links not only deters farmers from coming to town but also make connections to larger towns and markets very expensive<sup>10</sup>. Farming is the only occupation for more than half of the population and there are few opportunities to develop non-farm economy<sup>11</sup>.

Apart from poor transport links, the inability to create jobs also depends on the business environment. Private sector firms are unlikely to invest in a town with no reliable power supply as that will affect their production and businesses. Business environment on the regulatory side is also important, in the sense that barriers to market entry discourage firms from starting a business in the rural area. However, even with good transport links and business environment, the towns have to be large enough to create the agglomeration effect that drives economic growth. Business environment reforms to lower market entry barriers will seem pointless if the cost of the reform outweighs the opportunities for economic expansion<sup>12</sup>.

---

8 Nagler, P., Naude, W., Non-farm Entrepreneurship in rural Africa: patterns and determinants, Institute for the Study of Labour, Discussion Paper 8008, February 2014.

9 Wandschneider, T., Small rural towns and local economic development: Evidence from two poor states in India, National Resources Institute, 2004.

10 Bah M., et al, Changing Rural-Urban Linkages in Mali, Nigeria and Tanzania, Environment & Urbanisation, Vol 15, No.1, 2003

11 Only recently, a tarmac road was partially completed to connect the town to Dar es Salaam. The recent discovery of natural gas in Lindi may lead to improvement of roads and transport links.

12 Wandschneider, T., Small rural towns and local economic development: Evidence from two poor states in India, National Resources Institute, 2004.

**2 Towns that receive private sector investment are offering limited employment opportunities; however, the rural labour cannot get to these opportunities** due to a variety of reasons:

- **Lack of skills:** The rural population migrating to small towns are usually unskilled. Most people take up informal jobs in construction, driving of taxis, or cleaning and other low paid jobs. While there may be job opportunities in the formal sector, they are not qualified for the jobs due to lack of skills. Usually the required skills are fairly low but specialised depending on the type of businesses that have set up operations in the towns. In cases like this investment does not lead to employment creation. For example, Da Nang province in central Vietnam has a long coastline and since early 2000s has attracted investments from a number of high-end hotel developers to set up hotels and resorts. In the beginning hotel operators found it difficult to find qualified staff to work in the hotels. The local labour force, who came from an agriculture background, lacked necessary skills to work in a hotel, such as English, IT, and hospitality. The local population therefore did not benefit from the foreign private investments in the province. Even though the hotel operators organised training programmes for the local labour force, staff turnover was high and hotels were looking for staff from elsewhere. The key constraint for the towns in the lack of access to training centres that provide relevant skills to the economy.
- **Gender inequality:** Young women, and women with low skill sets, most often widowed or divorced, find themselves with no access to land and thus decide to move to urban centres with their children. They are usually hired help as opposed to owners of informal businesses. A large number of women are engaged street vending and waste picking<sup>13</sup>, or they find work as maids, cleaners, gardeners. Certain types of jobs such as construction are dominated by men. In fact construction accounts for 70% of non-farm employment<sup>14</sup>. Other than construction, the other sector that experienced job creation is finance, insurance, real estate and business services including IT, again mostly taken by men. The key constraint here is the lack of skill and confidence which makes it difficult to find any jobs.
- **Caste/ethnicity:** Access to employment can be dependent on caste. In South India, young men of lower caste who are landless move to urban centres to find employment. However they are also faced with practices of the upper castes in urban centres who do not offer them any job. Upper caste men tend to run their own businesses while lower caste men and women can only find jobs as a service worker.
- **High cost of transport and housing:** migrants from the rural areas not able to afford housing in urban centres will not stay for employment.
- **Lack of access to finance and high cost of borrowing** lead to low level of investment in the towns.
- **Less favourable business environment** compared to other towns.
- **Local government policies** towards private sector business are not seen as supportive.

**3 Towns that have received significant investment in the form of foreign direct investment are offering low-skilled formal jobs.** This is the common case in East and Southeast Asia. However, in many cases, the level of welfare for workers are remarkably low.

Southeast Asian countries and local governments have focused on attracting foreign direct investment through investment incentives and improved business environment. Most have set up industrial zones or special economic zones with adequate power supply, simple

---

13 <http://wiego.org/informal-economy/occupational-groups/waste-pickers>

14 Denis, Zerah H., Rural-Urban Linkages: India Case Study, Working Group: Development with Territorial Cohesion, Working Paper 124, October 2014.

registration procedures and sometimes tax incentives. They have attracted a number of manufacturing companies focusing on labour-intensive employment. Most manufacturing firms operate in the export garment and textile sector, and employ mostly women as workers. As long as global demand for garment and textile is high and wages low, firms continue to invest in these types of towns. Working conditions have become the main cause of dispute between workers and employers. Vietnam, for example, promoted Foreign Direct Investment since the 1990s. Besides amendments at the macro policy level such as the Enterprise Law and the Foreign Direct Investment Law, Vietnam also introduced export processing zones and industrial zones. At the moment Vietnam has nearly 200 industrial zones, employing more than 2 million workers<sup>15</sup>. Most of the workers are women migrants from rural villages working in sewing and cutting. Although factory workers are paid more than workers in the informal economy, their working hours are usually longer. As manufacturing factories often have a daily production target, workers need to work until the target number is met, which is usually longer than normal working hours.

In addition to long working hours, migrant workers stay in temporary housing facilities and boarding houses, close to the industrial zones but away from the main streets. They are deteriorating rental and shareable accommodation units characterised by cheap construction materials and no technical infrastructure<sup>16</sup>. There are no child care benefits for young women due to their migrant status, therefore children are left behind with their grandparents<sup>17</sup>.

---

15 Vo, T T and Nguyen, A D., 2012. "Experiences of Vietnam in FDI Promotion: Some Lessons for Myanmar." In *Economic Reforms in Myanmar: Pathways and Prospects*, edited by Hank Lim and Yasuhiro Yamada, BRC Research Report No.10, Bangkok Research Center, IDE-JETRO, Bangkok, Thailand.

16 Noltze, M., *Backyard Living - Integrative Policies towards Migrant Workers: Housing Microfinance in Greater Ho Chi Minh City, Vietnam*, Southeast Asian Studies, 2008.

17 *Life in Vietnam Factory: forced overtime and 25 euros a week*, <http://www.irishtimes.com/news/world/asia-pacific/life-in-vietnam-factory-forced-overtime-and-25-a-week-1.2046913>

## Part 5. What is being done for market centres, second and third tier cities?

### 1 Small towns and market centres that are not creating jobs

Although these small towns can only absorb seasonal informal workers, they still need to face the problems of rural migration in all seasons, as they are offering, albeit little, services and opportunities that are not available in the rural villages. For these small towns interventions should focus on basic skill training and improving transport links, infrastructure, basic services, and strengthening local economic governance.

#### **Training and Business Development**

Small towns with surplus labour often resort to cottage and handicraft industries as the most immediate non-farm activity. Handicraft industries are traditional labour-intensive industries that help reduce the surplus non-farm, off-season labour in rural areas. These industries however are facing cheaper imports due to mechanisation and technology. For instance, in India, handloom weavers are facing competition from power looms<sup>18</sup>. In southeast Nigeria, traditional cloth weavers are not able to source yarn locally, and they do not have technological innovation to compete with imports from elsewhere. While women tend to benefit more from these industries as they allow them to work from home, traditional techniques are not the most effective or productive use of resources and therefore do not create much employment opportunities outside the households.

However, a USAID report found that there is rising demand for high-end handicraft products that fit into the homes, such as baskets, bowls, wooden furniture, etc. Although these products can be produced and imported cheaply from China, buyers interviewed by the report's authors argue that for the growing middle class population, there exist a demand for niche products that are not those mass produced in China<sup>19</sup>. Thus, opportunities exist for rural artisan workers to sell products to the local and international markets, especially to small specialty retailers who seek to make a difference in sourcing their products. For example, an increasing number of "lifestyle" stores who emphasize on responsible and direct purchase of high quality handicrafts to serve a specific segment of customers.

In order to help cottage industries grow and generate employment, efforts have been made to address major issues affecting them: basic skill training, access to finance, infrastructure and market. Cottage industry clusters improve productivity, capacity and access to market for small artisanal entrepreneurs. The World Bank sponsored a project to set up a portal to form a virtual agglomeration of cottage industry producers, thereby helping them to cooperate regionally to sell to the market.

#### **Transport**

As discussed above, these small towns are unable to absorb surplus labour due to size but also due to deterring development bottlenecks such as poor transport links, inadequate infrastructure and business environment.

Rural road development has always been a focus of the governments with little rooms for participation of the private sector. To improve small towns and cities' access to market and open the local labour market, in addition to specialising towns in a sector, China local development policies have focused on improving access to transport links as well as connectivity to the grid and healthcare services. This has attracted companies to set up businesses and workers to re-locate to these cities. As a result, they have become vibrant

---

18 Joy, M., Kani, M., Emerging Challenges and Opportunities for Cottage Industries in India, International Journal of Scientific and Research Publications, Volume 3, Issue 3, March 2013.

19 Global Market Assessment for Handicrafts, USAID, Volume 1, 2006

markets for retail and services and create more employment<sup>20</sup>. DFID started an Applied Research on Rural Roads and Transport Services through Community Access Programmes (AFCAP) in Africa and Asia in 2014 with the expectation to address the challenges of providing safe and sustainable access to poor rural communities in Africa and Asia. AFCAP works closely with national road authorities in various countries to research of low costs solutions for rural access to transport and provide inputs into national transport policies. In the first phase of the programme, the programme found that helping the poorest towns and communes with Intermediate Means of Transport (IMTs) such as push carts, animal drawn carts or bicycle can reduce the pedestrian loads for farmers taking produce to the markets. Motorcycle taxis are the most popular transport service in rural Africa, filling the gap in the market where four-wheeled taxis cannot go. It was found that motorcycle taxis improved access to market and trading of agricultural products, created employment for young men in the transport sector, improved access to non-farm employment in rural areas, and reduced the perception of remoteness for towns<sup>21</sup>.

## **Electricity**

Similar to transport, rural electrification has always relied on funding from government programmes due to the high cost of supplying electricity to rural areas. The Distributed Generation and Supply model has proven successful in China and the Philippines. China extended the grid to small private sector hydropower operators who constructed and managed the generation of power. At the end of 2008, 45,000 small hydropower stations had been installed supplying electricity to 300 million people in rural areas from hydropower sources<sup>22</sup>. The private sector distributors in the Philippines are selected through a competitive bidding process and are chosen based on the least expensive and most technologically efficient methods to provide off-grid electrification to serve rural areas.

Private sector investment has been mobilised to provide renewable energy to rural areas, via financing instruments such as loans, guarantees, grants, equity via venture funds. Most of the private sector involvement is in structured climate funds, debt and equity finance, accompanied by high level programmes to develop renewable energy policies.

## **Business environment and local governance**

In many places, local governments' programmes to improve business development go hand in hand with investment promotion initiatives. These include local quick-wins to lower market entry barriers and the cost of starting a business. Local governments go further by introducing policy measures that keep the business in operation such as reducing the time for tax compliance, improving access to finance, supporting business development, improving public services such as health and education, etc. Business enabling programmes have been implemented with considerable impact in many countries.

### **2 Towns who receive some private sector investment are offering limited employment opportunities; however, the rural labour cannot get to these opportunities**

For these towns, the objective is to turn more informal workers into employable formal workers by providing them with necessary skills. At the same time, interventions should focus on improving the market system to provide more employment opportunities, using the M4P approach. This can be done by looking at the root causes for underinvestment, including access to finance, cost of borrowing, access to land, productivity, linkages to

---

20 Mullich, J., China's "Second-Tier" Cities Take Off, Wall Street Journal, <http://online.wsj.com/ad/article/chinaenergy-cities>

21 Porter, G., Transport Services and Their Impact on Poverty and Growth in Rural Sub-Saharan Africa, Africa Community Access Programme, DFID, 2013.

22 Empowering Rural India: Expanding Electricity Access by Mobilizing Local Resources, World Bank, 2010.

other markets, or ICT. Interventions then could try to correct market failures by aligning the incentives among market players.

- Skill development programmes: It has been argued that national vocational and technical training programmes do not serve the young work force leaving rural areas to work in the non-farm informal sector. Providing specific technical skills that are in high demand by the private sector in rural areas will help create employment opportunities for rural labour. The skills vary from English language to mechanics, IT, accounting, and hospitality. There are a few options done in Africa:
  - Dual system that combines traditional apprenticeship with theory and management training. This scheme was developed in Benin and Togo by the Hans Seidel Foundation, a German NGO. The ILO adopted this system of apprenticeship in Mali, Ivory Coast, Senegal and Tanzania. However, the schemes were found to underperform, due to both lack of funds and problems in incorporating the apprenticeship within the existing TVET system<sup>23</sup>.
  - Expand public training offered by Technical and Vocational Training Education (TVET) centres to cover practical skills that the market needs, rather than white-collar job training<sup>24</sup>. In Kenya, the Jua Kali voucher programme provides vouchers to unemployed youth to choose a training that fits their skill set needs. This approach created competition among training institution and improved the quality of training, and provided the youth with the skill training of their choice. The voucher programme was only piloted within a small programme and was not replicated; however there was evidence that “the scheme has had a positive impact on those who were trained and that it has boosted employment, assets, and business”<sup>25</sup> for participating enterprises.
- The World Bank supported the Adolescent Girl Initiative between 2008 and 2011 in 8 countries: Afghanistan, Jordan, Lao PDR, Liberia, Haiti, Nepal, Rwanda, and South Sudan.<sup>26</sup> The initiative provides training that matches the needs of women aged 15-24 and includes technical and vocational training, business development training and life-skills training. The model addresses the challenge of access to jobs previously reserved for men through technical and vocational training, improves the opportunities for self-employment through business development training, and improve their confidence and personal skills through life-skills training. Preliminary results from Liberia show that the programme “led to a 47% increase in employment and an 80% increase in average weekly income among project beneficiaries”<sup>27</sup>. The business development training was found to have the highest impact.
- WIEGO (Women in Informal Employment Globalizing and Organizing) network provided skill training for women workers in construction in Ahmedabad, India. They were trained in basic literacy, as well as masonry, painting, plastering, plumbing, mechanics, etc. WIEGO also had an incentive structure in place with private construction firms to provide job placements and certification for women workers. Between 2003 and 2006, 5000 women were trained, among which 45% were able to find a new type of job, 18% found better quality jobs, and 25% found jobs in plastering and masonry which were previously considered men’s job<sup>28</sup>.

---

23 Walther, R., *Building Skills in the Informal Sector*, UNESCO 2011

24 *Youth and Employment in Africa – The Potential, the Problem, the Promise*, World Bank, 2011

25 *Youth and Employment in Africa – The Potential, the Problem, the Promise*, World Bank, 2011.

26 <http://www.worldbank.org/en/results/2014/04/01/learn-work-thrive-innovative-features-of-adolescent-girls-initiative-pilot-projects-help-girls-make-vital-transition-between-school-and-work>

27 Status of Pilot Implementation, Adolescent Girl Initiative, September 2014

28 Chen, M., *Skills, Employability, and Social Inclusion: Women in the Construction Industry*, WIEGO, 2006.

- Tata Steel operates in Jamshedpur, where the low-caste population is high. The Tata Steel Rural Development Society provides training in sewing, knitting, dairy farming, poultry farming, leaf plate making, construction of smokeless chullah, veterinary training, etc. Similarly, Tata Chemicals set up a Rural Development Society in Mihapur, to help upgrade skills for the local population.
- USAID's Siyaha project in Jordan supports training programme in hospitality and tourism industry in partnership with the private sector. The programme reformed training curricula in school to fit the skills needed by the tourism sector. Students were trained in hospitality, food and beverage, communication, and English. The training centres signed contracts with hotels and restaurants for training placements, thus students had 6 months training and 6 months practical experience. After 5 years the training programme 7600 students graduated from the programme after a 6 months internship, and 75% of which found immediate employment in Jordan's burgeoning tourism sector<sup>29</sup>.

### **3 Towns/second or third tier cities that have received significant investment in the form of foreign direct investment are offering low-skilled formal jobs.**

There have been programmes to improve welfare of factory workers, such as the Better Work Initiative, a cooperation between the ILO and the IFC. DFID funded the implementation of the Responsible and Accountable Garment Sector Challenge Fund in India, Bangladesh, Nepal and Lesotho. However, even with better working conditions, current manufacturing centres will soon be competing with new locations where there is cheaper labour. In some cases, the now semi-skilled workers are over qualified to be working in manufacturing factories, thus are replaced by lower skilled workers who are willing to accept a lower wage. Urban centres in Malaysia, China, and Vietnam, are seeing factories moving to other countries with cheaper labour cost, such as Cambodia and Bangladesh. These urban centres need to consider shifting away from labour-intensive industries such as manufacturing to capital and skill intensive industries, such as automobile, electronics, biotechnology, or into manufacturing related services such as design, R&D and logistics.

This is an opportunities for this type of towns to nurture and develop transformational businesses that have the ability to shift economic structure from low-skilled manufacturing to high-skilled services. It is the only way to sustain economic growth. Intervention programmes should focus on modern business linkages that enable medium enterprises to become bigger businesses.

Countries in Asia have followed two approaches: a) the special economic zone; and b) the cluster development approach. Both try to address constraints and the supply and demand sides of development. On the supply side, local governments put in place reforms and policies to provide infrastructure and incentives to companies to locate in a particular town or economic zone. On the demand side, businesses take advantage of the technologies and networks and available skill sets in increase efficiency and productivity. Special economic zones are considered "growth poles" for the region. They are set up to attract foreign direct investment from large multinational companies. Chosen for their location or access to natural resources, the special economic zones or industrial zones provide infrastructure and tax incentives for investors. For example, Laos is promoting the development of the Savannakhet economic zone, which is on the East West Economic Corridor linking Vietnam, Thailand and Myanmar. The cluster approach increases economic specialisation by concentrating skills and capital for higher productivity. Some clusters focus on the higher segments of the value chains such as R&D and innovation. The Thai government turned Chiang Mai, a town usually know for tourism and crafts, into a centre for private sector innovation. The multi-sector cluster in Chiang Mai emphasises R&D activities across all sectors. For example, R&D activities in the handicrafts cluster

---

29 Jordan Tourism Development Project, Phase II, Final Report, USAID 2013

result in the use of clean technology to improve productivity and reduce cost, introduction of new product lines for niche markets<sup>30</sup>.

Amongst all this, the national and local governments need to recognise the needs for supporting urban centres in upgrading skills to accommodate new emerging sectors, therefore ensure sustained growth. The economic shift from labour intensive to skill intensive requires high skill training. This is currently done by multinational corporations who see enough potential to set up factory operations. Subsequently they invest in training programmes for the local population either under their own programme or in collaboration with local universities<sup>31</sup>. However, the training programmes tend to take place in larger cities where skilled labour is more abundant and the level of education is higher. It is unclear that the local rural population will benefit from this.

Aside from high-skill training initiatives spearheaded by the private sector, national governments recognise the needs to restructure their labour force and as a response develop skill development plans, which are a combination of TVET reforms, practical training, special programmes within universities on science and engineering. There is little evidence on donor programmes in this area. This is a green-field area that can be further explored.

---

30 Competitive Cities in the 21st Century, ADB, 2012.

31 In 2010, Intel opened a \$1 billion plant in Vietnam to test and assemble computer chips, it interviewed 2000 graduating students. Only 90 passed the test and 40 spoke good enough English to be hired. Intel considered that the worst result in all the countries it had invested in but believed in the potential trainability of the work force into hi-tech workers. Via Intel scholarship programme, it has funded students to pursue engineering degrees in the US with the agreement that they will work for Intel upon graduation. Companies such as Siemens, Samsung and LG are also starting to participate in similar skill training programmes.

## Part 6. Conclusion

Local market centres, second and third tier cities can be destination for rural-urban migrants seeking better services and employment opportunities. The choice of destination depends on the skill sets of migrant labour and what the market centres and towns can offer. Market centres could increase their capacity to absorb labour, therefore increase purchasing power and consumption for the town, which results in further investments, thus creating more jobs and economic growth.

However, small towns are constrained by the lack of skills, poor transport and infrastructure, poor business environment and weak local governments. To overcome these constraints, investments could be made in the following areas:

- Better access to transport services and links
- Easier access to and lower cost of finance for medium size businesses
- Improved infrastructure such as electricity and water supply to attract investment
- Improved local economic governance and policy making capacity that are favourable for business
- Business development services for transformation businesses
- Business linkages with large international firms
- Specialisation along value chains
- Skill development that tailors to the economic needs of the region

Up until now, large cities in developing countries are considered the main economic drivers and thus attract most attention from development programmes. Previous efforts in integrated rural development have focused mainly on micro and small enterprise development; however, this has proven not to be the right approach due to the lack of critical mass among the micro enterprises to drive sustainable economic growth. There haven't been comprehensive donor programmes that target the market centres, second and third tier cities that occupy the space between rural areas and metropolitan cities, as they have not been considered engines for growth and do not offer opportunities for employment and poverty reduction. In the next part of the research we will examine the best entry points and operation models for skill training programmes.