"It was the best of times; it was the worst of times." 160 years since Dickens penned the well-known opener of the world’s second best-selling novel, the words came to mind recently while delving into urban market systems in Addis Ababa and Dar es Salaam. Cities are the main drivers of economic growth, providing up to 70% of the world’s gross domestic product, the proverbial “best of times.” And yet, nearly a billion people live in slums, in conditions that might look familiar to Dickens himself, vulnerable to health, environmental, and livelihood shocks, the literal “worst of times.”

My own foray into urban development issues has come full circle – from one of my earliest assignments reviewing toilet emptying technologies in Dar es Salaam nearly fifteen years ago to mucking around in the same city’s solid waste market system last week. We’ve spent quite a bit of time over the last 18 months in two different contexts – Addis Ababa, Ethiopia, and Dar es Salaam, Tanzania, supporting inception phases of programmes testing market systems approaches to creating jobs and improving incomes in urban areas. And whilst the contexts, challenges, and opportunities for pro-poor growth vary greatly between rural areas and urban areas, this soapbox shares some highlights of what we’ve learned so far.

Why focus on urban areas?

Data suggests that most people living in extreme poverty still live in rural areas. So why the interest in urban areas for agencies tasked with improving lives and livelihoods? A colleague who’d worked on improving rural livelihoods for twenty years concluded that the best way to reduce rural poverty would be to give people bus tickets to cities. I don’t think any donor has picked up on that idea yet, but there is some truth in his reflection:

- No country has achieved its level of development without urbanising
- Cities provide new opportunities to people leaving rural areas and to those who remain in rural areas through remittances in rural areas
- By 2030, all developing regions will have more people living in urban than rural areas
- By 2020 urban poverty will account for more than 40% of total poverty in several African cities.

In “the best of times,” cities offer a range of benefits that explains why they contribute so much to global GDP: thicker markets – more producers and more purchasers of goods and services; a greater and more diverse labour pool; denser networks and more efficient information flows; and enabling infrastructure. In the “worst of times,” unplanned and unmanaged growth in cities leads to underperforming services, such as transportation, water, sanitation, energy, solid waste management, that threaten opportunities for individual and societal growth. This developmental paradox – that cities both contribute to economic growth and poverty reduction yet can also “urbanise” poverty – has led an increasing number of policymakers, donors, and implementers to add urban development projects to their portfolios.

What’s different between rural MSD and urban MSD?

The different between urban and rural areas mentioned above lead to some implications for MSD programmes in urban areas. Although not exhaustive, a few of the trends we’ve spotted in two different cities working in a range of urban market sectors suggest that the following are important, irrespective of the urban market systems that a programme opts to work in.
Who is poor? And where are they?

All poverty is not created equal. Most poverty lines use income-based calculations that include the costs of basic nutritional requirements plus a percentage for non-food expenses. Low-income urban dwellers have to pay for much more than just food, including rent, basic services, and transportation. Transportation alone for people in the lowest quintile of income consumes up to 50% of their income either looking for work or going to work. Or people are confined to where they can walk to, limiting their employment options.

In typical rural MSD programmes, agricultural value chains are identified with pro-poor growth opportunities. In urban contexts, this is not as clear cut and poor people are involved a variety of self-employment activities in the informal economy, service industries, or not unemployed at all. The ILO estimates 90% of adults and 97% of youth in developing countries engaged in the informal economy. It is thus not surprising that, in various cities in developing countries, the informal economy is the main engine of production, employment generation and income, suggesting that any efforts to improve economic development and poverty reduction will need to work with informal sectors of the economy.

Although poverty rates tend to be lower in urban areas, those who are poorer tend to be younger and female. Youth, especially recent migrants, may not have the skills or social networks needed to secure formal or informal work, nor the capital to invest in self-employment. And gendered dimensions to urban poverty are also quite different. Data collected in Addis showed that unemployed young women spent two days per week looking for work, compared to five days per week for young men. Domestic responsibilities, as well as social mobility norms, affected the amount of time women were able to devote to looking for work. And in Tanzania, survey data showed that women who were not using childcare services would have preferred to send their children to school to enable the mothers to work more and earn more.

A further important consideration in many growing cities is where could they be employed? This has particular relevance for cities and countries that are pursuing an industrialization agenda, as low-skilled labour can often be absorbed by factory work. Low wages are often a country’s comparative advantage when it comes to industrialisation, but whilst that might motivate a foreign firm to shift operations to an emerging economy, those same low wages might not motivate people to stay in those jobs. Research in Ethiopia showed people make trade-offs between formal, secure employment in factories and informal work, in which incomes might be greater and/or more frequent, a higher degree of independence, and less workplace hazards. And in Tanzania, it was not unheard of to find people who had left jobs in plastics factories because they could make more money collecting plastic bottles and selling them to the factories where they used to work.

Power of social networks: A commentary on Facebook this is not, but rather a reflection of the importance of social networks in urban livelihoods. A colleague in Tanzania recently referred to this as one’s “technical know-who,” as a critical factor in success in business and politics in Tanzania. We found similar dependence on social networks in Ethiopia, in which one’s social networks played a key role in market information, financing, and marketing for small businesses—dare I say the BDS service providers to the informal economy. Trust and social networks in informal economies provide similar functions to due diligence and contract enforcement found in the formal economy, but personal referencing function also extends to formal employment. During an interview with a recruitment agency in Addis, when the CEO mentioned the importance of references, I naively assumed she meant professional references. “Oh no,” she said, “we don’t check those. We need to check their personal references to make sure they are trustworthy. From casual labourers to executives, personal references matter a lot in determining who gets urban work.

Rules of the game? Or games within the rules? Constraints to business growth and improving incomes in urban areas are often found in formal and informal rules. For example, research has shown that one of the greatest threats to the commercial viability for solid waste companies in Tanzania is “street level politics,” or the involvement and preferences of neighbourhood leaders. Engaging in urban development involves a greater range of actors, including local government employees and elected officials. Regulations, and their enforcement—or lack of—shape the performance of many urban sub-sectors, from environmental licenses to light manufacturing companies to allowing unregulated child care facilities to provide a much-needed service. Given the influence of local authorities in many urban sectors, we’ve seen the possibility of identifying a “lead” municipality, as opposed to a lead firm, who want to try a pro-poor innovation. Finally,
MSD is always considered more art than science and applying MSD in urban areas may require a different skill set and networks to successful engage with government officials.

What’s the same?

With such different contexts, challenges, and opportunities, one might wonder what is the same – is market systems development applicable to urban contexts? Our experience through multiple inception phases suggests that it is. Starting with good diagnostics – where are the opportunities to generate employment, improve incomes, or support better service delivery? This likely needs to include a deeper analysis of political economy and informal social structures than might occur in rural market systems. Understanding a greater variety of actors, especially public sector and those with “hidden” power, incentives and capacities to change their behaviours remains as true in urban contexts as it is in rural areas. And keeping scale and sustainability at the forefront of any intervention plan is possible - some might argue, even simpler in urban areas, with thicker markets and denser networks. Stay tuned on future updates from what we learn from implementing MSD in urban contexts!