

The rural small towns in ethiopia economics essay

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Introduction

The nonfarm sector in Ethiopia is particularly important for smallholder farmers particularly for women and poorer households because these opportunities provide alternative income generation options for vulnerable smallholders who make their living by the yearly cultivation of the small plot with no other viable source of livelihoods (World Bank, 2009). Although the nonfarm benefits are small, they create diversified income sources and present additional ventures to develop entrepreneurial skills during dry seasons with no agricultural activities. Generally, "agriculture and the nonfarm sector are mutually reinforcing through market synergies," (World Bank 2009: 1). But Ethiopian agriculture faces a "fragmented, small and localized" markets with no infrastructure yet farmers use these rural markets for their traditional marketing activities with little prospect for linkage to external markets and consumers. Moreover, these markets are also spaces where smallholder farmers contact with government bodies and services which are important for rural human development. Therefore, the presence of rural small towns can be a good opportunity both for the government and for the farmers, and hence there is a need to develop and support the rural small towns in order to lead rural development by bringing jobs, markets, and services nearer to the farmers. World Bank (2009) states that as the Ethiopian economy continue to perform well, it will create conducive condition for the nonfarm sector in the rural towns to grow which in turn create opportunities to the hinterlands. That means, the new opportunities will attract rural labour to the small towns which in turn will play a significant role in reducing migration into big cities preventing creation of mega cities

with more urban poverty. Thus, this section tries to explore the current state of rural small towns and the nonfarm sector in the country in terms of infrastructure development, decentralized public institutions, and market functions. The chapter is divided as follows: first, it gives a brief description of what we mean by small rural towns in Ethiopian context and then goes on to argue for the need to develop basic social and economic infrastructure necessary to realize their potentials. The chapter uses data from Dercon and Hoddinott (2005) to discuss the economic significance of the rural small towns in 15 villages in Ethiopia. The chapter finally concludes that presence of small market towns provides better space for economic activities in most of the rural settings in Ethiopia and this translates into increased income levels and household consumption to the rural households. Thus, this paper identifies that focusing at the policy level on either agricultural development (as it is the case in ADLI and SDPRS) or urban development or just shifting suddenly into large scale commercial agriculture and infrastructure-access-based commercialization of agriculture (as in the case of PASDEP), misses out the most important part of rural and regional development i. e. small rural market town development and their link to agriculture and smallholder households.

Rural Small Market Towns in Ethiopia

Ethiopia is divided into 11 decentralized regions within a federal system and each region is sub-divided into zones and the zones into woredas and woredas into Peasant Associations (PAs) or kebele, which is the lowest administrative unit consisting of a number of farming villages (Dercon and Hoddinott, 2005). In Ethiopia, woredas (this is much like county in UK) and

kebeles contain small market towns where all kinds of market transactions take place among farmers. A typical rural town in Ethiopia can contain 1000-5000 households with residential units built from corrugated iron roof, and the towns host government lower administrative offices and extension units, primary school, a road crossing by, a health post, farmers' cooperatives or related offices and a weekly market (Dercon and Hoddinott, 2005). Although these market towns are strategic places to the surrounding farming households who live anywhere between 0.5 km and 15 km, they lack basic services and infrastructure such as telecommunications, electricity, roads, water and sanitation as well as well-established schools and health centres. Furthermore, there are no proper roads and transportation services linking small towns with their hinterlands nor are there road networks to connect the towns with larger markets except those roads that bypass the towns to connect two larger urban centres (xx). Irrespective of being under-developed, these agro-towns have always been historical centres of both social and minor market significance for their respective hinterlands (xxx). If developed, these rural towns can be considered both as markets in themselves and areas where surrounding agricultural community can be ideally linked to larger towns and markets. Their relationship with the farming community thus far has been more of a traditional social and market significance but their role can be scaled up to the extent that these towns can become hub of economic activities for their respective villages.

Their Potential Contributions

These rural small towns provide new opportunities for surrounding farming communities to exchange their produce and services, to access jobs, service,

and to engage in nonfarm business activities (Dercon and Hoddinott, 2005). These spaces offer new opportunities to rural households to smooth their consumption gaps by using their household resources which have never been used previously and taking advantage of new openings in the towns. Dercon and Hoddinott (2005) argue that rural households can also benefit from higher incomes coming from better price once the rural towns are linked to larger markets. The development of small towns will also allow farmers to access quality agricultural inputs and services in a timely manner and with a much better price. Although the potential benefits of small town development in terms of economic implication and food security at national and household level is proved to be greater (e. g. xx; xx; xx), the sector faces lack of research particularly regarding the potential contribution of small towns to economic development and food security in Ethiopian context. As a result, there is a strong knowledge gap in the field which might be the reason why the successive policies of the country increasingly focused on agricultural intensification or large scale commercial farming rather than creating market opportunities to smallholder agriculture (xx). Consequently, agricultural sector failed to become source of growth and food security when it is expected. Thus, understanding the nature and extent of the link between farming households and rural market towns is crucial for development policies and food security programmes in the country (xxx). There are several reasons to believe that small towns give various economic benefits to its surrounding farming communities (Dercon and Hoddinott, 2005). First, smallholder farmers make higher proportion of traditional market transactions in the nearby small towns and these towns contribute nearly half of agricultural inputs purchase, sale of crops, livestock and

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livestock products (Dercon and Hoddinott, 2005). They are the main markets for the sale of artisanal products by women and source of more than half of consumer goods. For these hinterlands, the nearby small market towns are usually the only areas for transaction and to access services as for most of the farmers, larger towns and the capital city are distant to affect their lives (xxx). Thus, the presence and easy access to small rural towns has significant positive household economic and food security implications (Dercon and Hoddinott, 2005).

Link to Hinterlands

In addition to creating a link between small towns and larger markets, the small towns also need to be linked to the surrounding hinterlands to create a chain of strong economic transactions. In the current status, access to the market towns is usually affected by absence of roads and bridges which can cause a major problem during heavy rainy season when rivers are full and there is heavy flood. Improved rural roads, bridges and transportation networks between the hinterlands and small towns are critical as it affects economic activities which in turn affect household welfare (Dercon and Hoddinott, 2005). Dercon and Hoddinott state that rural areas with better road access to market towns exhibit better growth performance than those who have poor road networks. Particularly, improving bridges and roads that connect small towns to their surrounding hinterlands would be important for stimulating agricultural innovation and encouraging rural community to diversify intomarkets (World Bank, 2009). Dercon and Hoddinott, (2005) conducted a research on 15 rural areas to test how purchases and sells of agricultural produce and inputs is affected by access to road and

location/distance of rural households to small market towns. The findings are given in figures 1a, 1b, and 1c below. As shown in Figure 1a, nearly half of households purchase agricultural inputs from small market towns both during meher (long rain) and belg (short rain) seasons. 40 percent of households purchase livestock feed, 24 percent sell eucalyptus, 59 percent sell wheat in small market towns. Significantly large number of households sell livestock and livestock products in small market towns. Figure 1a—Purchase and sale of agricultural items, by location

- Both analysis and figure above adopted from (Dercon and Hoddinott, 2005) Figure 1b shows the source of non-agricultural source of income in 15 villages under the study by (Dercon and Hoddinott, 2005). While significant amount of income coming from remittances is originated either from Addis Ababa, the capital city, or from regional capitals, non-agricultural products such as artisanal products of rural households (e. g. handicrafts) are sold in small market towns. In addition, almost all wage labor is done at villages and just few wage works sourced in small market towns. The figure indicates that small market towns are important spaces for women to sell their artisanal product. Figure 1b—Non-agricultural incomes, by location Figure 1c shows that consumption goods are almost entirely purchased from small market towns although the percentage is greater for grains and vegetables (64 percent) than meat and dairy products (49 percent). Because of distance and lack of access roads to the small towns, villagers showed consistency in purchasing most of these consumer goods in one go. Figure 1c—Location of expenditures (Dercon and Hoddinott 2005) also indicate that although

villages themselves shown significance for purchases and sells of farmers' products in the 15 study villages, small market towns become more important with improved access to roads and this was clear in the study in terms of increased purchase and sell of inputs as well as increased transaction of agricultural and non-agricultural products and consumer goods in small towns which ultimately lead into enhanced wellbeing. The study also examined how villagers travel to the small towns: the type and availability of transportation (whether on foot, bus, or donkey), quality and availability of roads and bridges, and the time taken to reach to market towns. The survey found that, due to absence of roads and bridges between the villages and their respective market towns and because of absence of vehicle transportation, most of the travel to and from the towns is done on foot and the time taken depends on topography and distance (Dercon and Hoddinott, 2005). The study also analysed distance from small towns as one factor in market utilization of the villagers. It indicates that villagers who are located less than 8 kilometres from market towns use the markets to sell and buy all kinds of agricultural and non-agricultural products than those who live further than 8 kilometres from the market towns (Dercon and Hoddinott, 2005). The study suggests, therefore, that "easier access to these towns is indeed associated with an increase in purchase of inputs and market sales, which could lead to improvements in the welfare of rural households," (Dercon and Hoddinott, 2005: 10). The study also finds positive relationship between improved road quality and growth and consumption level. Increased quality of roads from villages to respective small market towns leads into increased transportation services (of trucks and busses) which in turn lead

into 3.5 percent higher growth and strong positive effect on household food security (Dercon and Hoddinott, 2005: 10).

Link to larger markets

In addition to facilitating infrastructural and institutional growth in the small towns, it is also important to create connection between these market towns with larger towns and cities. The fact that rural nonfarm sector generally performs low in rural areas suggests that rural small towns should be developed but also integrated into regional and national markets to enhance growth in the towns themselves, to create agricultural markets and to increase livelihood options to the remote rural population (xxx). The improved connection will also lower the transaction costs between the rural towns and larger markets which will also benefit firms from cities where they get advantage from economies of scale (World Bank, 2009). In addition, because of the link with larger markets via small market towns, rural families benefit from new and larger market demand for their agricultural and artisanal products, they get easy access to inputs and social services such as health, education, 'contractual enforcement', off-farm jobs and access to consumer goods. These opportunities benefit smallholder households in terms of food security, alternative source of livelihood and transformation of rural economy through increased enterprise development. Farming households could also benefit from increased income coming from better market access with greater demand and added value to their agricultural produce (Dercon and Hoddinott, 2005). The small towns in the country have been disadvantaged as most of the road networks tend to connect two larger markets and cities bypassing the small towns. Thus, it is important to make

sure that these small towns are not bypassed by putting in place enough attractions and comparative advantages in the small towns. To support their competitiveness, small towns need to get improved public investments such as agro-processing units, storage facilities, retail stores, different kind of shops as well as encouragement for private investment on hotels, recreations and agricultural shows (World Bank, 2009). These investments along with initiatives in other social and economic services are likely to create positive market and investment climates in small towns which would give a competitive advantage to the towns and attract external investors and consumers. This will stimulate development and diversification of livelihood options to the residents and surrounding farmers which will in turn stimulate growth and more investment in infrastructure leading into integration with more external markets (xxx). The Ethiopian government acknowledges in PASDEP lack of basic infrastructure as the major development constraint coupled with low density of rural settlement, and isolated nature of some of the remote rural regions (PASDEP....), yet its investment in infrastructure still focused on larger urban centres. The PASDEP also recognizes that inadequate road network and transport services have contributed to weak spatial integration, predominance of rural settlements in isolation from one another, and low economic activity between the towns and the towns and larger urban centres (PASDEP..). Generally, given that small towns are important sources of demand for agricultural and non-agricultural produce, and the rural areas are the source of demand for urban goods, access and quality of rural transportation from and to small towns and to larger cities is critical to facilitate the interrelationship between these areas and to intensify economic transactions (Dercon and Hoddinott, 2005).

Internal Infrastructure: the current status and future needs

Yet, the rural nonfarm sector in Ethiopia operates in 'isolated', infrastructurally underequipped and 'fragmented' markets and the rural communities in these areas sell agricultural and non-agricultural produce to consumers with limited income base (World Bank, 2009.....). Unlike large urban areas, rural small towns face much low access to services, capital, and infrastructure facilities. Rural town based nonfarm enterprises express infrastructures such as roads, transportation, bridges, telecommunications, electricity and credit access as the major constraints facing rural small towns in the country (World Bank, 2009). Evidence suggest that identifying and developing small rural market towns is critical for Ethiopia as these towns are the best options to link urban areas with farming communities (World Bank, 2009; Dercon and Hodinott 2005; Woldehanna 2000). Generally, the towns lack basic infrastructure that stimulate enterprise growth and that would attract economic activities from surrounding hinterlands and larger markets (xxx). Creating and developing existing markets brings a solution to some of the major constraints in the rural areas (xxx). This includes the importance of giving priority to the rural small towns in infrastructure development including investment in telecommunications, roads, electricity, and water. Moreover, because of the apparent infrastructural shortages in small rural towns, Ethiopia could only achieve its Millennium Development Goals (MDGs) if investment in these small towns is intensified and rural people get relatively easy access to basic services of education, and health that are key for achieving MDGs. In addition, global experience shows that key financial and other services such as banks, services, training centres, insurance tend to bias places where basic infrastructures are fairly

developed (Binswanger, 1989). Once the basic infrastructures are built and the government started to focus on these remote rural towns, the other support services (example, banks and insurance) would start to penetrate into the towns. The presence of the financial and service institutions in the towns in turn is critical for enterprise development, jobs and other opportunities to the farmers such as credit services, crop failure insurance services etc. which are important to avoid food insecurity and risks. Furthermore, it is important that more and more public and private institutions are decentralized into the rural towns to meet wider consumer base and to create markets for the farmers and small town enterprises. This policy measure could have multiple implications to the government, to the private sector, the small towns and the surrounding farming communities. By decentralizing its key social and economic institutions such educational institutions (such as colleges, vocational and secondary schools), health institutions (such as health posts and centres, and veterinary institutions), development banks, courts, police, and other lower level government departments, the government can save considerable amount of public money because of decreasing distance and therefore cost of service provision (xxx). The government can also build an important tax base by creating vibrant rural town enterprises (xxx). In recent times, there are encouraging progress being made by the Ethiopian government in formulating urban-friendly policies particularly the Government's Urban Development Strategy, which gives priority to infrastructural development in larger urban centres, which can also be relevant to rural market towns (xxx).

Conclusion

Development theory approaches urban and rural areas separately and in effect the interdependence between the two areas lacked research and policy attention (xxx). In Ethiopia, presence of hundreds of small rural towns failed to bring any economic significance on rural smallholder families mainly due to lack of policy focus particularly addressing the issue of rural market development (xxx). Above all, there is a huge knowledge gap in the field that can inform policy on the interrelationship between small market towns and their hinterlands. Only few studies could be found which directly address the issue of small town development and its economic and food security implications on the rural households. These limited number of studies (xx; xx; xx), however, point out that there are numerous economic links between small market towns and their hinterlands. A longitudinal research carried out by Dercon and Hoddinott (2005) in 15 Ethiopian villages (above) indicate that most of the farming households carry out their economic activities in small market towns including nearly half of the purchase of agricultural inputs, sells of crops, livestock, artisanal products, purchasing of consumer goods such as fuel, batteries, salt, clothing, etc.. For most of the villagers, small market towns are the only urban markets where they can make economic transactions because rural households do not have the direct link with these larger cities other than through remittances (xx). The other positive impact described in the study above resulting from the presence and easier access to small market towns is the positive effects of small towns on rural economic activities (xx; xx). The nearer the villages to market towns and the easier the access (of roads and bridges) between towns and hinterlands, the higher the economic activities in rural areas because of easy

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access to inputs, consumption goods and markets and the higher the impact on household consumption and the less likely that these households would become food insecure (xx). Conversely, the further away these villages to market towns and the more difficult for them to access transportation because of absence of or poor quality of the road and bridges, the less likely that these households will have frequent economic transactions including purchasing of agricultural inputs or selling of agricultural and non-agricultural products, and it is more likely that these households would be exposed to recurrent food shortages and loss of incomes (xxx). Similar studies therefore argue that investments in roads and bridges to and from small towns to hinterlands would have direct welfare impact on smallholder farmers (xx; xx). Particularly those who are located further away from small towns are disadvantaged more from absence of roads, bridges and transportation systems showing the need for more public investment that connect remote farmers to their nearest market towns. Also, several studies at the global level now reveal that communities with better road and transportation access to their nearby market centres do get additional economic benefits and positive household consumption outcomes (xx; xx; xxx). These recommendations are consistent with the rationale put forward in the introduction of this paper that at least some of the persistent food insecurity problems faced by smallholder farmers can be explained by their lack of access to markets and/less attention being given to market development by the Ethiopian policies of the last 20 years. PASDEP, which is the latest policy framework in Ethiopia, while acknowledging commercialization of agriculture as part of the solution to food insecurity and rural development, it pays less attention (both in terms of details in the <https://assignbuster.com/the-rural-small-towns-in-ethiopia-economics-essay/>

policy paper as well as in practice) to the development of small rural market towns and to the investment on road and bridge networks that link the towns with their hinterlands (xxx). Instead, PASDEP focuses on commercial agriculture in more resourceful areas that are easily accessible to large markets and road networks (xx). However, based on the evidence in different research outputs (xx; xx; xx), it can be argued that distance to small market towns determines economic activities of farming households mainly because of the fact that closer households to the market towns get easier access to inputs and technology which increases agricultural output; better access to the markets increases innovation of farmers in producing agricultural and non-agricultural produce and it enhances their economic transaction in the market towns; and access to a more developed market towns further increases economic benefits to households due to their access to nonfarm employment and better market integration (xxx). Furthermore, there are other noneconomic impacts associated with better access to market towns in the country. Especially, access to social services such as health, education, water and sanitation facilities (if developed well in the market towns) would translate into better rural human development in the hinterlands (xxx). Generally, the results of different studies (e. g. Dercon and Hoddinott 2005) suggest that the presence of small market towns provides better space for economic activities in most of the rural settings in Ethiopia and this translates into increased income levels and household consumption to the rural households. Thus, this paper identifies that focusing at the policy level on either agricultural development (as it is the case in ADLI and SDPRS) or urban development or just shifting suddenly into large scale commercial agriculture and infrastructure-access-based commercialization of agriculture <https://assignbuster.com/the-rural-small-towns-in-ethiopia-economics-essay/>

(as in the case of PASDEP), misses out the most important part of rural and regional development i. e. small rural market town development and their link to agriculture and smallholder households. By doing so, it also bypasses the most important components of the MDGs which are especially linked to hunger, health, and education because of less priority being given to small market towns where majority of the country's population get access to these services (xxx). A policy framework focusing on growth in urban areas and expecting it would ultimately trickledown to the poorest smallholder households, misses the weak linkage between rural and larger urban areas. Conversely, a growth strategy that focuses on agricultural growth and that expects a strong positive effect on rural and urban households misses lack of economic linkages between rural and urban areas in the country. Therefore, the study understands that there is a necessary linkage that should be made between rural and urban areas as the rural population are sources of demand for urban goods and urban population is the source of demand for agricultural and non-agricultural produce produced in rural areas. For the linkage to function effectively, policy strategies in Ethiopia should target the small towns as critical spaces of these interactions and therefore develop infrastructure networks both inside the small towns and their linkages with hinterlands and larger market areas.