



Urbanization is improving household welfare in Ethiopia

By Kibrom A. Abay, Luca Tiberti, Tsega G. Mezgebo and Meron Endale

Key messages

- Policies are needed to regulate and monitor urban expansion in Ethiopia so that more of the population can benefit.
- Urbanization, expansion of rural towns, increases household welfare.
 - › Urban expansion increases households' engagement in non-farm economic activities, mainly wage employment.
- But there is a trade-off as inequalities between households and the cost of food also increase slightly.

An unprecedented rate of urban growth in Ethiopia

Urbanization in Ethiopia is increasing—4.5% every year for the last two decades—and more quickly than the sub-Saharan African average (3.5%). Now, 19% of the country's population lives in urban areas.

Ethiopia's towns have grown at such a pace that having the infrastructure and services to meet the needs of the increasing population is proving a significant challenge for the country.

To help make sure that growth is sustainable and inclusive, the Ethiopian government is monitoring social and economic trends associated with urbanization as part of its Growth and Transformation Plan (GTP)-II (2015/16 – 2019/20).

So far, very little is known of the effects of urban expansion on people's welfare in the country.



The analysis

Exploring how the expansion of towns affects household welfare

A team of local PEP researchers investigated the impact that the expansion of small rural towns in Ethiopia has had on people's livelihoods and whether such urban growth is helping to improve standards of living.

In addition to exploring the impact of this growth on consumer spending, the research team also looked into how it has affected household

participation in the labor market, food prices, and welfare distribution.

The team merged nationally representative household-level panel data from the 2011-12 and 2013-14 Living Standard Measurement Study-Integrated Surveys on Agriculture (LSMS-ISA) for Ethiopia with night light intensity data.

Night light intensity as a measure of urban growth

The research team used satellite-based night light data to measure the short term implications of urban growth. This data measures the level of light on the earth's surface in a particular area. Social and economic activities—such as industry, roads or people's homes—need light, so increasing night light intensity can be a plausible indicator of urban growth.



Key findings

Urban growth—particularly the expansion of small towns—**can improve household welfare in the short-term.**

- A one unit increase in night light intensity is associated with about a two per cent improvement in household welfare.
 - Mostly driven by the non-farm labor market opportunities (wage employment) that urban growth brings.
- Urbanization is linked to increased household (non-farm) wage employment.
- Urbanization slightly increases welfare inequality and food prices.

Conclusions and policy implications

These findings highlight important factors that should inform public policy debates on the consequences and implications of urban expansion in Africa.

The finding that urban expansion can improve household welfare suggests that when small rural towns grow, people have a broader range of economic opportunities, including work outside of the farming sector.

However, some populations benefit slightly more from this growth than others. Households that are already better-off enjoy a slightly greater improvement in welfare than the households at the bottom of the welfare distribution. That these effects are small suggests the positive impact of urban expansion on welfare may outweigh the negative effects.

These findings highlight the trade-off countries face when towns expand: household welfare improves, but welfare inequality also slightly increases. This effect reinforces the **need to regulate and monitor existing urban expansion in Ethiopia so that more areas of society can benefit from the advantages it brings.**



Photo: DFID



This brief summarizes outcomes from **PMMA-20210** supported under the **PAGE II initiative (2016-2020)**. To find out more about the research methods and findings, read the full paper, published as part of the **PEP working paper series**.

PAGE II is a global research and capacity-building initiative for Policy Analysis on Growth and Employment in developing countries. PAGE II is supported by the Department for International Development (DfID) of the United Kingdom (or UK Aid) and the International Development Research Centre (IDRC) of Canada.

The views and opinions expressed in this publication are those of the authors and do not necessarily reflect those of PEP.