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THE ROLE OF SMALL CITIES IN SHAPING YOUTH EMPLOYMENT OUTCOMES IN INDIA AND INDONESIA

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Executive Summary

Across the world, many emerging economies find themselves at a critical juncture known as the “demographic dividend” – where the ratio of working-age adults to children and the elderly is climbing towards a peak. If leveraged through the creation of productive work for youth, these favorable demographics can enable a major transition towards greater prosperity.

While much ink has been spilled on forecasting, measuring and realizing the demographic dividend, research has focused less on an essential aspect of this policy challenge: the “where” of the demographic dividend. Where are these young people seeking productive work? Where can their economic potential be fulfilled? Where do youth aspiring for economic mobility move in search of more opportunity?

This report argues that the demographic dividend actually lies in spaces that have been overlooked: a diverse collection of non-metropolitan urban places. Small towns, secondary and tertiary cities, ‘rurban’ settlements, and corridors of urban transformation – which this report collectively refers to with the shorthand “small cities” – lie on the front lines of the demographic dividend opportunity and challenge. The report explores the dynamics of small cities – the economic opportunities they contain, the migration patterns they witness, and the urban governance

challenges they confront – through an examination of two of the world’s largest emerging economies: India and Indonesia.

We argue that small cities are critical in realizing the demographic dividend for three reasons:

1. A high share of non-farm employment already exists in small cities

In India, about 1 in every 4 youth employed off the farm lives in a non-metropolitan urban area. In Indonesia the ratio is even higher: 38.5 percent of non-farm youth employment is in non-metropolitan urban settlements. These places are also growing quickly. In Indonesia, 85 percent of future urban growth is predicted to occur in urban areas whose 2010 populations were less than 750,000 people. In India, while the population in million-plus cities grew by 6.7 percent between 2001-2011, census towns – those settlements that became urban from reclassification – grew by 6.4 percent as well.

2. Small cities are critical in facilitating rural-urban migration

In Indonesia, a young person (15-29) was more likely to leave than come to the urban core of a metropolitan area between 2010 and 2015. Even peri-urban areas surrounding metropolitan areas saw roughly even rates of in- and out-migration among youth. In contrast, small cities in Indonesia are swelling from

1. For the purposes of this report, we define non-metropolitan urban in India as all settlements classified as urban with fewer than 1 million inhabitants. Non-metropolitan urban in Indonesia refers to urban settlements outside Indonesia’s 9 major metropolitan areas – as defined in a 2012 report prepared by the World Bank (Ellis, P. (2012). *The Rise of Metropolitan Regions: Towards Inclusive and Sustainable Regional Development in Indonesia*. Jakarta: World Bank. Retrieved from: <http://www.worldbank.org/en/news/feature/2012/08/13/towards-inclusive-and-sustainable-regional-development>).

rural-urban migration; on average, they witnessed a 3 percent growth of their youth populations over the 2010-15 time period due to migration alone. In India, 24.6 percent of migrant youth move to non-metropolitan cities as compared to only 12 percent into metropolitan cities, where migration rates are falling.

3. Small towns are proliferating thanks to in situ rural-to-urban transformations

Many rural youth live in settlements that are gradually becoming urban, thanks to demographic growth, densification and a transition toward non-farm economic activity. These new towns are an increasingly important part of the non-metropolitan urban landscape in India and Indonesia, and therefore critical sites for boosting the availability of productive work.

Given their increasing importance in the processes of economic development and structural transformation, this report examines small cities in India and Indonesia through four interrelated themes:

- **Labor market transition:** The large-scale transition from agricultural work to employment in industry and services – required to harness the demographic dividend – presents major policy challenges in small cities. Young people must acquire not only new technical skills but also new soft skills. Moreover, in addition to facilitating the transition from farm to non-farm work, policy frameworks must also forge employment pathways for young people so that they experience genuine and sustained economic mobility.

- **Mobility:** In addition to creating productive employment opportunities for young migrants, small cities face a broader set of challenges too with respect to high levels of mobility. Some of these are related to conventional urban planning issues: housing, water and sanitation, and transportation. Other challenges are more linked to the social, cultural and political negotiations that migration entails. How can new migrants to small cities be supported in their efforts to integrate – in the labor market but also socially – and find a sense of belonging?

- **Gender:** Given the chronic challenge of providing women equal access to the labor market in India and Indonesia, these issues ought to be seen from the perspective of women workers. How can the structural transformation occurring in non-metropolitan India and Indonesia enable women's economic empowerment? What sorts of policies and institutions can support women's efforts to negotiate or push beyond the limitations imposed by patriarchal labor markets?

- **Urban governance:** Given their rapid pace of growth and transformation, critical governance questions in small cities will include: What are the right administrative structures for governing spaces that are neither rural nor urban? How can local revenue be generated for critical investments in people and infrastructure in small urban settlements where nearly the entire economy is informal? How can rural-urban linkages be harnessed to the benefit of both small towns and rural villages?

Case City Approach

In addition to secondary data analysis, the research in this report relies on an in-depth case study approach, based on four cities across the two countries. The cities were selected with attention to national urbanization trends, geography, and labor market diversity in India and Indonesia. In each of these four locations, the research team conducted 500 surveys with working youth, carried out 10-15 focus group discussions and interviewed 20-30 local stakeholders from government, the private sector and civil society institutions.

- **Kishangarh, Rajasthan [INDIA]:** A city of 154,000 people located in Ajmer District of Rajasthan, Kishangarh is a significant marble processing and trading hub. The marble industry propels rural-urban migration to Kishangarh in addition to rural-urban commuting from the impoverished rural areas that surround it. The city is rapidly growing due to several infrastructure projects in recent years, including a new wholesale grains market, a railway freight corridor, and a new airport.

- **Mangalore, Karnataka [INDIA]:** A port city of 498,000 people in the southern Indian state of Karnataka on India's western coastline, Mangalore is the administrative and financial headquarters of the Dakshina Kannada district. In geographic terms, the city serves as a node in established migrant networks that stretch from the southern state of Kerala to Goa and is one of India's most cosmopolitan small cities – linguistically and in terms of the mix

of religious groups. Employment is concentrated in agro-processing, petrochemical manufacturing, and an emerging service sector.

- **Kupang, East Nusa Tenggara [INDONESIA]:** Kupang is an island of relative prosperity surrounded by one of Indonesia's least-developed regions, the province of East Nusa Tenggara (NTT) in the southeastern corner of the archipelago. The provincial capital has become a magnet of opportunity for youth migrants from rural areas in the province, and has grown rapidly due to state-driven growth and development following major decentralization reforms. With investments in education and infrastructure, young people in the province of NTT increasingly view Kupang as an urban destination offering social and economic mobility. However, its economy remains heavily dependent on state spending and consumption.

- **Semarang Regency, Central Java [INDONESIA]:** Of the four sites selected as case studies under this project, Semarang Regency is the only one that is not officially designated as a city. The regency is part of an area of Central Java that is characterized by high population density, a mixture of rural and urban economic activity, and a diversity of land uses – making it a classic example of a *desakota* region. While the regency hosts about 1 million people living in a land area 35 percent larger than Singapore, its urban population is approximately 400,000 – organized mostly along a dense highway corridor. The rapid growth of labor-intensive manufacturing has driven urbanization and expansion over the last two decades.

2. Owing to the smaller size of Kishangarh, only 400 surveys were conducted with working youth in the city.

Key Findings

This report emerges from three years of engagement with the topic of small city transformations in India and Indonesia. The research findings are presented under five thematic umbrellas – each pulling from both primary and secondary data and drawing heavily on grounded examples from the four case cities that were analyzed under the project.

Theme 1 – At the cusp of multiple mobility pathways

Migration junctions

Small cities act as migration junctions in several different ways. A rural young person might migrate to a small city, acquire skills and further migrate to another location for employment, in the manner of ‘step-migration’. Or she might move to the small city for work and then return to her place of origin eventually. A small city might see young people leave for better opportunities elsewhere, perhaps in a metropolitan area, while another group of migrants come in to replace the labor deficit thus created. These multiple mobilities, which intersect in small cities, shed light on the complex migration landscape in India and Indonesia.

A diversity of local, regional and national migration pathways

In terms of the area from which they attract youth migrants, our case cities show considerable variation. While the Indonesian case cities draw workers

primarily from within the same province – and especially from neighboring cities and regencies – we find that the Indian case cities host internal migrants from both proximate and distant locations.

Small city mobility pathways reflect broader economic geographies

While the largest shares of India's population live in its least developed states, the situation is reversed in Indonesia. These contrasting relationships between population concentration and economic development drive different migration pathways. Poorer states in north and east India have high volumes of out-migration, and migrants from these states are found in labor markets large and small throughout the country – including in small cities like Kishangarh and Mangalore. In contrast, the absolute number of out-migrants from Indonesia's less developed states, in the eastern part of the country, is too few for these migrants to comprise a significant share of the urban labor force in small cities of Java, the country's most industrialized and populous island.

Commuting and return migration

In all but one of our case cities (Kupang), we find that commuting is a common livelihood strategy for residents of rural areas in the vicinity of small cities. This is facilitated by improvements in transport infrastructure and by access to cheap credit for purchasing two-wheelers. Even in cases where migrants move to the small city, many retain strong linkages with their origin communities and imagine an eventual return. This is particularly the case where

3. The term *desakota*, coined by Terry McGee, refers to areas with high population density, intensive agricultural use, developed transport networks, high population mobility, increasing activity outside the agricultural sector, and the coexistence of many different forms of land use.

industrial employment has ballooned – such as in Kishangarh and Semarang Regency—since these jobs do not offer long-term economic opportunities.

Theme 2 – Emerging small city economies: Specialized or diverse? Resilient or vulnerable?

Specialized economies, diverse labor markets

Our case cities demonstrate the wide variety of employment opportunities available in small cities – even while their economies rely substantially on particular sectors, such as apparel manufacturing in Semarang Regency or marble processing in Kishangarh. For example, in Semarang Regency, the high volume of factory workers has created demand for many other goods and services. Clusters of informal economic activity emerge around large factories—with small enterprises offering housing (kosts), laundry services, fast food (warung), secure parking lots, and motorbike repair.

“Footloose” versus “sticky” sectors

Small cities tend to specialize in lower-value-added sectors, where the vast majority of workers have basic education and are expected to perform a limited range of routine tasks. Only 6.8 percent of our sample of youth in Kishangarh and 1.8 percent in Semarang Regency have a university degree. This could have significant consequences for specialized small-city economies. Tradable lower-value-added sectors are often “footloose”—in the sense of being able to operate in a wide range of locations – as compared to “sticky” sectors that depend on unique local conditions, such as a highly skilled workforce. Moreover, the routine-intensive nature of many low-value-added sectors

leaves them vulnerable to automation. If they do not develop unique local advantages, small city economies may be threatened by these long-term structural challenges.

Local assets, local capital

These vulnerabilities may be reduced in cases where small cities develop economies on the basis of local assets and grow through infusions of both local and foreign capital. Despite issues with the quality of work in its marble processing industry, Kishangarh is a good example. Local investors from Rajasthan were largely responsible for the development of the marble processing hub, and local firms appear to have a long-term commitment to its continued development and expansion. There are early indications that the sector might outlive the finite supply of nearby marble: processing units in Kishangarh have begun importing raw marble from elsewhere in India and even abroad.

Theme 3 – Economic mobility, circumscribed: The paradox of small city employment landscapes

Moving one rung up the economic ladder

Small cities enable different forms of economic mobility. In most cases these are movements one rung up the economic ladder. The poorest of migrants, many coming from families that depend on subsistence agriculture, come to small cities in search of opportunities for wage work—or as many describe it, cash. Those who have basic education and come from households that are no longer facing severe poverty largely find in small cities an opportunity for regular work in formal firms that pay the formal minimum

wage, such as in Semarang Regency's apparel manufacturing cluster. Finally, a much smaller set of youth reach the Indian and Indonesian middle classes by working in small cities as skilled entrepreneurs or employees in professional or government services. Aside from these employment opportunities, small cities attract youth seeking educational opportunity. About one third of migrant survey respondents in Kupang cite education as their primary motivation to migrate.

Getting stuck: threats to economic mobility

Despite the opportunities for young people in small cities in the form of wage work, formal economy jobs, entrepreneurship and education, evidence from our case cities also suggests that these pathways are limited. One of the primary concerns among youth workers in small cities is the probability of winding up in “dead-end jobs” with few opportunities for advancement, particularly in small cities whose economies are built around industry.

A related issue is the limited return on education in many small city labor markets. The industrial sectors in Kishangarh and Semarang Regency appear to have a “flattening” effect on the labor market, where factories absorb large volumes of young people with both low and medium levels of education and the wage distribution is narrow. In more diverse and service-oriented economies, like Kupang and Mangalore, the distribution of wages is much wider, but employment is highly concentrated in low-value-added, low-paying service sector jobs. Unlike metropolitan economies, which host large numbers

of professional class jobs, small city economies struggle to offer quality jobs for university graduates. In Kupang, youth with higher levels of education experience a slower pace of income growth.

Finally, many young people must face precarious working conditions in order to climb their “one rung” of economic mobility. In Kishangarh, less than 2 percent of the workers in our survey have a written contract, and 37.3 percent work an average of 10 or more hours per day. Over half the factors workers surveyed in Semarang Regency reported workplace hazards, with 46.6 percent of these having experienced a physical injury or health issue on the job. These issues of precariousness differ across cities. In more informal labor markets, daily wage laborers face the issue of unpredictable work cycles; many respondents in such situations reported skipping meals on days when they were not able to find work.

Theme 4 – The small city as a site of negotiated opportunities for women

Feminization of work and migration

Women's work in small cities reflects broader trends in the feminization of labor, especially in export-oriented industries. For women migrants, the opportunity the small city represents is interwoven with a sense of responsibility towards family. In Indonesia, this manifests in the ‘factory daughter’ trend found in Semarang Regency or similar experiences of women ‘being sent’ to live with relatives to work in Kupang. In India, the phenomenon of ‘marriage migration’ – brides relocating to their marital home after marriage – brings women workers to urban labor markets

where, statistically, they are more likely to work than their non-migrant counterparts.

Beyond the sphere of “women’s work”

In the case cities, women’s employment predominantly falls in the category of “women’s work” – tasks that align with what society considers “natural” for women to do. These roles include work in the garments sector in Semarang Regency, where “nimble fingers” are a prerequisite, care work in nursing in Mangalore, and cleaning, home-based crafts and tailoring work in Kishangarh. However, the growth of the services sector has created new work opportunities for young women in less gendered occupations like retail in Kupang and information technology in Mangalore. This trend indicates that small cities hold some potential for enabling young women to break out of conventional labor market roles.

Barriers and levers for women in small city labor markets

While more men work in insecure jobs than women in small cities, women face specific forms of precariousness owing to patriarchal social structures. It is not uncommon for women employees in Kupang to be provided food and lodging by employers who also place restrictions on their mobility and expect them to work long hours without additional compensation. In Mangalore, female domestic workers reported limited financial autonomy within the home, and labor practices like performance-based remuneration in the female-dominated garments cluster in Semarang Regency reduce women’s earning potential and increase work hours. Additionally, in

the case cities, women tend to be concentrated in the kinds of routine-intensive jobs that are both “dead-end” and vulnerable to automation.

Migrant women face a triple burden. For example, beyond navigating the experience of migration, the women who power industries in Semarang Regency face repetitive work with limited options for skill development while also shouldering substantial responsibilities to family in terms of both care work and remittances. In Kishangarh, women “marriage migrants” have to negotiate restrictions on mobility and severe stigma against women’s work. Small cities therefore offer opportunities to migrant women at significant costs.

A lack of start-up capital restricts options for women in entrepreneurship. In the absence of career pathways, many women end up in unpaid family work or low-productivity micro-enterprises once they become pregnant or age out of industrial work. Skill development opportunities and capital are unavailable for middle-aged women who are seeking to re-enter the workforce after having taken a break to raise their children.

Despite the challenges faced by women in employment, some supportive institutions and practices make it easier for women in small cities to manage precarious jobs or navigate patriarchal structures. In Semarang Regency, migrant women rely on a system of boarding houses, locally known as *kosts*, which offer accommodation that is decent, safe, affordable, and in most cases proximate to their place of work. In Mangalore, a robust, efficient and safe bus system makes commuting easier for women. Access to the formal banking system, group savings

and credit schemes, and, to a lesser extent, unions are some other mechanisms that working women leverage in small cities.

Carving out space: women's relationship with the small city

In small cities, young women negotiate and strategize around marriage in order to improve their prospects for work. These strategies may involve delaying marriage by staying in education for a longer period of time, or opting to work within family enterprises or in home-based work. Some women also negotiate with their families to marry into more progressive households in more desirable locations. Because they have comparatively limited exposure, young women have to assert themselves and take risks in order to find work opportunities and establish an independent professional identity.

Theme 5 – Planning the small city

Agency a pre-condition for capacity

Both India and Indonesia have embarked on ambitious decentralization programs, but with different aims and different effects. While both decentralization processes began in the 1990s, a key difference is that Indian states retained importance as the tier of government that receives and disburses central government grants and loans. In Indonesia, meanwhile, cities (kotas) and regencies (kabupatens) – the third tier of government – receive large fiscal transfers directly from the center. As a result, Indonesian urban areas – especially kotas – have

much more control over their affairs than do Indian cities.

Local governments in Indonesia have been given several key governance functions – including health, education, public works, infrastructure, services, environment, transport, agriculture, manufacturing, industry and trade, land, labor and capital investment. While the central government remains a key player, local governments have significant authority over expenditure. In India, by contrast, the constitutional promises made to localities – authority over land use, urban planning, economic and development planning, among others – have not been fulfilled.

Planning within a multi-level governance framework

Despite the different models of decentralization, both Indian and Indonesian local governments often find themselves reacting to large-scale, top-down infrastructure investments by the central government. For example, recent infrastructure projects including industrial parks, a new rail freight corridor, a private sector logistics park and a new airport have positioned Kishangarh to become a transportation and logistics hub, but the municipality was not involved in planning these projects nor does it have the capacity to estimate the impact of these new developments on land prices, housing demand or demographics. These top-down processes appear efficient, but are vulnerable to the influence of powerful factions among local and regional elites.

Issues of planning across different jurisdictions tend to emerge in this context. For example, in Central Java, Semarang Regency finds itself competing with neighboring regencies for the same pool of investors,

a scenario encouraged by a provincial government that benefits from the taxation of enterprises. Within regencies (kabupatens), the 'rurban' nature of settlements complicates planning efforts, as local governments struggle to balance the needs of rural and urban development.

The struggle with envisioning economic futures

While local economic planning is more robust in Indonesia than in India, local governments in both countries struggle to develop sustainable, inclusive economic development strategies. Interventions are generally limited to the guidelines of central government schemes, stymying innovative localized approaches to targeted skills development or scaling up of small enterprises – as examples. Top-down governance with low levels of coordination between tiers of government and among government departments also leads to fragmentation in programs related to jobs – with each intervention too small and siloed to have a real impact on the local labor market.

Policy Directions for Small Cities

Building future-oriented economies

1. Develop targeted, locally relevant programs to facilitate labor market transitions, skill development and economic mobility.

Current education and skill development policies in both countries largely focus on getting youth into jobs, without the foresight of envisioning career

pathways for them. Training programs and labor market information systems in small cities must be designed to support workers at different stages in their employment journeys. In doing so, the unique position of small cities as migration junctions can also be harnessed to provide different forms of skills development for different populations. If different kinds of workers and migrants are transiting through these spaces – whether on their way in or out – they may be strategic locations for governments to concentrate their workforce development efforts.

2. Refine entrepreneurship strategies to focus on building a local private sector.

One of the “quick fix” employment strategies utilized in both India and Indonesia is entrepreneurship programs that do little more than create micro-enterprises of single self-employed workers. The right kind of entrepreneurship strategy would focus on the vital goal of expanding and formalizing a locally rooted private sector, through supporting viable enterprises that have the potential to grow and create productive jobs on a meaningful scale.

3. Harness the potential of rural-urban linkages through collaborative governance.

Many small cities have a unique economic advantage when it comes to their intimate connections with the rural regions in which they are embedded. These rural-urban linkages are already strong, but much of their potential remains unrealized. A higher degree of coordination among and within local governments is necessary to reap the gains that could come from

building mutually beneficial economic relationships between small cities and their rural surroundings.

4. Pursue economic niches that are “sticky,” adaptable and upgradable.

To generate productive employment and scope for upward mobility in their local labor markets, small cities will need to develop economic niches that are viable in non-metropolitan locations and then root those industries in local economic interactions through forward and backward linkages. Moreover, in building an economic development strategy for the long run, small cities ought to build on their assets rather than seeking outside investment at any cost.

5. Combine top-down investment with strong community-level leadership.

While large-scale, top-down investment can be a boon for small cities, its transformative potential could be greater if combined with a stronger culture of participatory planning and locally driven economic development. Local leadership can help ensure that major infrastructure projects are carried out with an appropriate and genuine form of local consultation. Moreover, by cultivating leadership in local bureaucracy, the private sector and civil society, small cities can ensure that diverse communities of producers are positioned to benefit from new investments.

Managing migration and mobilities

1. Practice inclusive land regulation and urban design.

Small cities have a chance to reshape land markets and recognize multiple forms of land and housing tenure beyond the formal-informal binary. Small cities should adopt context-specific regulation that conserves traditional and mixed-use neighborhoods—thereby protecting traditional occupations and small business that are especially important for women's work, which is likely to be in home-based occupations or family-owned businesses.

2. Improve services to attract and retain migrants.

Extending services to informal settlements where many migrants live can create livable, affordable neighborhoods for migrant populations in small cities. In doing so, local governments must choose the most context-appropriate technology – avoiding attempts to replicate costly metropolitan-style infrastructure—and leverage the investment potential of local households. Investments in services must go beyond waste management, water and sanitation – for example, enhancing connectivity with rural areas from which migrants commute, and boosting quality of life through initiatives around transport, education, healthcare, childcare, and public spaces.

3. Develop robust rental housing markets with appropriate forms of rental housing for young workers.

In order to continue acting as accessible migration destinations, small cities' first housing priority must be to develop robust rental markets. Local governments should articulate clear rental housing policies, which build on traditional – and often informal – practices that are strongly entrenched in both countries and

all four case cities. Usually operated by local residents and not capitalist investors, these small-city rental markets are themselves forms of livelihood as well.

4. Embrace diversity to foster innovation.

Small cities must evolve local policy frameworks for embracing migrants and, through awareness campaigns, signal an acceptance of diverse cultures, languages, traditions and ways of life. This would not only help to retain migrant labor, but also encourage new forms of enterprise that emerge from collaborations between migrants and residents. In this way, small cities can also position themselves strategically against the exclusionary impulses of major metropolitan areas.

Increasing women's workforce participation and economic mobility

1. Adopt a life-cycle approach to women's work.

To retain young women in the labor force, policies must hold employers accountable for ensuring equal opportunity hiring, women's safety and compliance with sexual harassment regulations. Childcare services are also essential in this regard. Moreover, as entrepreneurship often enables women to stay active in the labor market as they age and start families, policy frameworks must also focus on affordable credit for women entrepreneurs through formal institutions like banks and microcredit institutions. In this, the experience of self-help groups in India can be scaled up, with a greater emphasis on enterprise support. To help women succeed as entrepreneurs,

local governments must also offer gender-sensitive training in soft skills, enterprise management and accounting.

2. Practice gender-inclusive urban design and governance.

Through a focus on urban design and neighborhood improvement, small cities can invite women to participate in the labor market. Mixed-use neighborhoods that promote walking and street-level activity are safer overall. Conserving and enhancing such neighborhoods with good infrastructure like quality sidewalks, lighting, street furniture and seating can contribute to making women feel safer going out alone – expanding their opportunities to work beyond daylight hours, while also increasing street interactions that give them access to social networks and labor market information. Moreover, incentives for entrepreneurs to set up hostels for young women would go a long way in enhancing young women's ability to migrate independently for higher education, skill development and work.

¹Naik, M. and Randolph, G. (2018). *Migration Junctions in India and Indonesia: Reimagining Places, Reorienting Policy*. New Delhi: JustJobs Network & Centre for Policy Research

