

# EXECUTIVE SUMMARY

## OPPORTUNITIES AND POLICY PRIORITIES

**A**frica, along with Asia, is the epicentre of global urbanization. It is undergoing a rapid urban transition and is set to be the fastest urbanizing region in the coming decades. In 1990 only a third of Africa's population was urban (31 per cent)—by 2035, the figure is projected to reach 49 per cent.

This shift has profound implications for achieving the continental and global targets for inclusive growth and transformation, including Agenda 2063 and the 2030 Agenda on Sustainable Development. Theory and global experience show that urbanization and structural transformation are closely linked—but less so in Africa, which has largely followed its own urbanizing path weakly tied to structural transformation, including industrialization. It has thus lost many opportunities for enhanced growth and productivity, for poverty reduction and for social development.

Urbanization in many African countries has not been driven by improving agricultural productivity. Indeed, most countries are urbanizing rapidly amid declining or stagnant industrial output and low agricultural productivity. In resource-rich countries, natural resource exports and related spending, largely on non-traded services, appear to be driving urban growth, generating “consumption cities.”

**By 2035 Africa's urban population is projected to reach 49 per cent presenting considerable demands for employment, services and infrastructure, but creating advantages for economic growth.**

**Africa is at the epicentre of global urbanization.**

Africa's target of structural transformation is to shift labour out of low-productivity agriculture into higher-productivity manufacturing and modern services. But the long-run trend of this shift has been dominated by the informal sector—often services—where jobs remain concentrated, many in urban areas, with detrimental effects for economy-wide productivity.

African cities thus face low productivity, tepid job creation, high informality, huge infrastructure and service gaps, weak linkages with rural areas, high levels of informality, increasing inequalities, growing environmental damage and vulnerability to climate change and weak institutional systems and capacities. Unless resolved, these impediments will undermine Africa's urban potential for structural transformation.

The challenge confronting Africa is thus to accelerate structural transformation by harnessing the rapid urban transition to promote economic diversification, with a special focus on industrialization that will create jobs, enhance access to basic services and reduce inequality and poverty.

The links between urbanization and industrialization have generally been weak or absent in Africa, underlining the urgent need to connect urban and industrial development given their interdependence and growth impacts. This Economic Report on Africa 2017 examines how to accelerate industrialization as a vehicle for structural transformation in Africa by

harnessing opportunities from rapid urbanization. It analyses the challenges and opportunities, as well as the drivers, enablers and policy levers for strengthening linkages.

Drawing on a wide array of sources—including case studies from Cameroon, Republic of Congo, Côte d'Ivoire, Ethiopia, Madagascar, Morocco, Mozambique, Nigeria, Rwanda, South Africa and Sudan—the report outlines policy intervention areas essential for ensuring that Africa's urbanization supports its industrialization. A key conclusion is

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that under the right policy framework, anchored in national development planning, African countries can leverage the momentum of urbanization to accelerate industrialization for a more prosperous and equitable future.

## THE URBANIZATION-INDUSTRIALIZATION NEXUS: KEY OPPORTUNITIES

### URBAN DEMAND COULD BE A DRIVER OF INDUSTRIAL DEVELOPMENT

As Africa's middle class and urban consumption are on the rise, and as patterns of consumption are changing, demand for manufactured and processed goods is increasing, presenting a major opportunity for industrialization. The report highlights the automotive industry, an area that demonstrates the ability of African industrial policies to select and support high-growth sectors. The urban demand for food is also rising and changing, with a growing number of urban residents beginning to buy groceries from supermarket chains. Furthermore, African cities are facing large unmet urban housing needs that could also provide opportunities to improve urban living conditions and generate construction and service jobs. Urban development also creates demand for public infrastructure, which could be leveraged through procurement policies and support to domestic firms in the construction industry. Regional geographical advantages could be further strengthened by Africa's regional economic communities and the new Continental Free Trade Area.

### DIVERSE AND CONNECTED SYSTEMS OF CITIES COULD PROVIDE INDUSTRIAL LOCATION OPTIONS

Many African countries have a high degree of urban primacy—the largest city is too large, there are few

other large or mid-sized cities, and smaller cities are too small. The report highlights the benefits of well-balanced urban systems and well-functioning cities for industrial development. It argues that a diverse urban system can offer industrial firms a variety of locational choices to meet their disparate locational needs. And while the report recalls that many countries have policies aimed at fostering urban and industrial development in smaller cities, it stresses that the decentralization of industry to lagging areas has generally been unsuccessful, as the benefits of proximity to existing competitive cities, including access to markets, labour, inputs, knowledge and infrastructure, cannot easily be replicated. Policies to create new cities have struggled in a similar fashion. Regional integration offers opportunities for further leveraging momentum of cross-border urbanization for industrial demand. Special economic zones, despite mixed success, can have a bigger impact if well managed and connected to well-functioning cities and agglomerations, rather than remaining as enclaves.

### BETTER FUNCTIONING CITIES COULD PROVIDE LARGE PRODUCTIVE BENEFITS

The report argues that agglomeration economies of cities hold powerful benefits for firms, and there is evidence of these benefits at work in African industries. But in many African cities diseconomies are setting in prematurely, undermining the urban

productive advantage. Barriers to well-functioning cities are related to dysfunctional land markets, poor mobility, inadequate infrastructure, social segregation and poor urban form. Many African cities are at a critical juncture with opportunities to solve spatial and institutional challenges before a massive wave of poorly managed urban development. Urban dysfunctions are partly to blame for the high costs of living and working in African cities—for people, industry and value chains. Set against the size of urban constraints and the economic importance of cities, policies to address these issues have so far been inadequate.

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## URBAN AND INDUSTRIAL DEVELOPMENT COULD CONNECT AFRICA

Despite the importance of cities for industrial development and vice versa, policies, planning, strategies and institutional frameworks in Africa are frequently disconnected. Rapid urbanization could be a powerful asset for industrialization provided it is harnessed through a strategic cross-sectoral policy framework anchored in national development planning. Given the multi-dimensional implications of urbanization for industrialization and economic growth, strategic interventions prioritized and implemented under national development planning would benefit urban and industrial development. Although there are positive experiences of addressing urbanization in national development vision and planning processes, there is room for improvement to ensure that the complexity, and the inter-sectoral and multi-level facets of urbanization, are fully considered.

## HARNESSING URBANIZATION FOR INDUSTRIALIZATION: POLICY PRIORITIES

Today's policy decisions for urban design and infrastructure will have a long-term lock-in effect and thus shape the development path of Africa's cities. So, making cities and urban systems productive and tapping into urban advantages for industrial development is determined today, not tomorrow—requiring a concerted effort with policy levers and implementation instruments, especially with Africa soon approaching 50 per cent urbanization. Governments at all levels have to make hard choices for the scale and type of investments they need to make, and for the spatial pattern and urban form they want to see. These are partly determined by national development visions, industrial priorities and their spatial implications.

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## **POLICYMAKERS SHOULD ACT TO RECONNECT URBANIZATION AND INDUSTRIALIZATION FOR THREE REASONS:**

- Better functioning cities require better performing industrialization.
- Better performing industrialization requires better functioning cities.
- Industrialization and urbanization face common challenges.

**The key elements are as follows.**

### **THE CENTRALITY OF NATIONAL DEVELOPMENT PLANNING**

Under national development planning, a cross-sectoral and strategic perspective is required to link urbanization and industrialization. Sectoral policies for industrial development need to factor in the implications of Africa's rapid urbanization, and urban policies have to better integrate job-rich industrial development for sustainable urbanization. In this way, urban and industrial strategies can be explicitly linked to broader national goals such as employment creation, poverty reduction and improving the quality of life in both urban and rural areas.

### **INDUSTRIAL POLICIES SHOULD ENABLE SECTOR TARGETING**

Sector targeting will have direct implications for industrial, urban and investment policy. Given the opportunities generated by urban consumption, related high-growth sectors should be targeted, particularly those that will respond to urban demand. Sectorally, the institutional frameworks and infrastructure to support each of the linkages in the food value chain are essential for domestic food production. Working with lead firms to raise the capacity of suppliers in this area can be a powerful policy lever. Similarly, governments should leverage both market-based and social housing to

expand the domestic construction and building materials industries. And infrastructure investments can generate jobs and develop local capacity in the construction industry, particularly where the infrastructure can be built using labour-intensive technologies. Support to domestic firms will no doubt be needed to enable them to meet quality standards.

Domestic firms will probably be unable to respond to the multiple opportunities presented by urban demand without policy support. They need an enabling regulatory framework, they need opportunities for training and skill building and they need infrastructure. Targeted support can promote these sectors and associated value chains, including policies to enhance local content sourcing, industrial upgrading, skill development, clustering and supply-chain support facilities.

When sector targeting is paired with strategically planned secondary cities and transport corridors aimed at exploiting national resource endowment such as agriculture, the impacts could be wide ranging.

### **SPATIAL CONSIDERATIONS ARE FUNDAMENTAL FOR INDUSTRIAL POLICIES**

Industrial policies seek to answer what to produce and where to produce, and both have spatial dimensions. Strategies should be tailored to the specific spatial needs of targeted sectors and firms, and different types of cities should be developed to match different needs of industries. Spatial targeting determines which industries should go where and which cities and urban regions should receive priority in specific infrastructure investments.

As industrial value chains exist and operate in a geographical backdrop, cities and the connections between them should be planned. Countries need to adopt spatial targeting by strategically directing and prioritizing investments to leverage urban advantages for industrial development while saving on scarce resources. Such targeting must evaluate the benefits and the costs of investing in different cities to compare the returns on investments in different locations, but existing primary cities must not be neglected since they will remain central in economic diversification and growth.

When sector and spatial planning are coordinated,

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industrial projects and infrastructure investments move in tandem to priority cities and urban regions. So countries need to promote urban differentiation and support a more balanced national urban system. They can cater for spatial needs of targeted industries. They can leverage special economic zones in a connected geographical context. They can consider the geography of comparative advantages, including natural resources and networks. And they can support functional complementarity between cities in the national urban system.

Governments attempting to select a certain location for industrial development should pay attention to natural location-based characteristics and the powerful forces of infrastructure and agglomeration. And providing serviced and viable secondary city alternatives may give mature firms better locational options. Investments will be more cost-effective in cities close to the competitiveness threshold and targeted at industries already interested in locating in them. Investing in roads and connectivity between cities will, in the long run, reduce primacy and decentralize industrial development.

### **URBAN POLICIES IN SUPPORT OF INDUSTRIALIZATION**

Governments need to take a host of actions, including better managing emerging urban form; improving public land management and the efficient functioning of property markets; investing in multi-modal mobility with an emphasis on mass transit,

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non-motorized modes and freight; addressing bottlenecks in access to housing through both an enabling environment and social housing programmes; prioritizing strategic infrastructure investments; and placing industry at the front rank in planning for local economic development. For their part and more specifically, cities should promote the business services sector and its links to industry, particularly in information and communications technology and in finance.

Cities and urban agglomerations should develop local economic development strategies with an explicit focus on accelerating industrialization, mirroring national industrial policy and national urban policy, factoring in the competitive advantages of certain cities—including knowledge sharing in large, diverse cities and urban–rural linkages for smaller cities.

Agglomeration economies hinge on improved accessibility to larger markets, to pools of labour, to selections of inputs and to new knowledge and ideas. Policies are thus required to help diverse economic actors interact within cities to improve productivity. Managing urban transportation and land use are central to urban functionality. And with agglomeration economies now undercut by poor connectivity, urban mobility and infrastructure, governments should provide a network of connected transport links, including industrial areas, and supportive policies to reduce transport costs and congestion.

### **ADDRESSING THE GAPS—FINANCE, INSTITUTIONS, KNOWLEDGE AND IMPLEMENTATION**

Policies need to be backed by financing and by institutional setups that allow for coordinated implementation and budgetary support. The institutional setup for national, industrial and urban policies should match the structure of the policies to ensure alignment between policy goals and institutional purposes and capacities. The dispersal of urban development competencies among several entities and the overlap between them is an institutional challenge. In particular, the link between urban development, economic development planning and industrialization is tenuous.

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Coordination with sectors other than industry is thus crucial. Energy, transport, communications and technology are especially important in shaping the urban landscape. That makes it essential to set up a mechanism for strategic coordination and harmonized approaches. Articulating key principles and parameters in a policy note or white paper can guide the drafting of urban and industrial policies. Setting up an inter-sectoral coordination platform is an important first step in addressing the multiple geographical scales of urbanization—local, metropolitan and regional.

Disconnects between policies, budgets and organizational structures are often at fault for failures in implementation. National and subnational budgetary processes, particularly for capital projects, should be based on industrial and urban policies and strategies, as should capital spending. Infrastructure investments should be targeted to improve urban functionality in support of industry for the national urban system and within cities. Engaging the private sector and coordinating investments will be critical in implementation. Also crucial is empowering urban local authorities with mandates and financial capacities to plan and manage their cities for industrial development.

A critical challenge in harmonizing urban and industrial development is the paucity of knowledge and evidence. In particular, spatial economic data, especially at subnational level, are lacking and

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constrains progress. Closer cooperation is thus needed between urban agencies and national statistical offices.

In conclusion, it is vital to develop tools to guide policymakers, planners and practitioners in formulating and implementing urban and industrial policies in a coordinated way, as they focus on national targets of growth and transformation. They may appreciate the need to coordinate urbanization and industrialization, but there is still room to strengthen their capacities, based on practices that have worked in Africa and elsewhere. Regional partnerships, coupled with purpose-fit technical assistance, could well be useful in this.

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