

2017 Economic Report on Africa

Urbanization and Industrialization for Africa's Transformation

SIDE EVENT

Tenth Joint Annual Meetings of the African Union Specialized Technical Committee on Finance, Monetary Affairs, Economic Planning and Integration and the Economic Commission for Africa
Conference of African Ministers of Finance, Planning and Economic Development

Dakar, Senegal

Date and Place

CONCEPT NOTE

Introduction

1. Structural transformation is a top priority for Africa to achieve its long term development goals, including in the context of Agenda 2063 and the 2030 Sustainable Development Goals. Despite registering high economic growth rates in recent times, Africa continues to face a host of challenges such as high unemployment, inequality and poverty, among others which is particularly concerning in light of the youth bulge in the region. These shortcomings are attributed to the inability of Africa's growth model to lead to structural transformation, shifting from low productivity to higher productivity sectors. There is wide continental agreement that the challenge confronting Africa is not only to maintain the rapid economic growth, but to transform it into sustained and inclusive development, based on a new growth model through economic diversification, with special focus on industrialization and modernization of agriculture.

2. Four essential and interrelated processes define structural transformation: a declining share of agriculture in GDP and employment; a rural-to-urban migration underpinned by rural and urban development; the rise of a modern industrial and service economy; and a demographic transition from high rates of births and deaths to low rates of births and deaths. Structural transformation is also associated with rising agricultural productivity, an integrated economy and rising per capita growth rates. Industrialization is a cornerstone of this transformation and represents the next important shift that Africa needs to make to expand wellbeing and consolidate its rising economy in a sustainable and inclusive manner.

3. History and experience show that urbanization has been closely related to structural transformation and industrialization. The dominant trajectory has been for urbanization to be a consequence of productivity increases in both agriculture and manufacturing freeing up rural labour to shift to urban tradable sectors.ⁱ Many past economic transitions have confirmed the postulate that industrialization could occur only with urbanization. In developed and emerging economies, industrialization happened together with an urban transition, brought about by both, green and industrial revolutions, with urbanisation following and thriving, as economic activity shifted away from agriculture. This has not been the case with respect to Africa's urban transition.

4. African countries acknowledge the rapid pace of urbanization taking place in the continentⁱⁱ. Projections suggest that Africa will be predominantly urban by 2035 when 50 percent of its population will live in urban areasⁱⁱⁱ. The high growth rate means that some cities will double their population in 15 years, and some others even in a shorter period, and new cities will emerge. Africa's urban transition also overlaps with a demographic transition, the process of moving from high mortality and high fertility to low mortality and low fertility, which is occurring across the continent in spite of some exceptions where the fertility decline has stalled or even slightly reversed. Urban centres primarily lead this demographic transition. The demographic dividend arising from this transition can be a positive factor for economic development, with Africa's labour force estimated to increase over the coming decade.

5. In most African countries, urbanization has not been associated with industrialization. Many cities have de-industrialized since the 1980s; in small towns, a significant share of urban dwellers remains active in agriculture; and several countries have urbanized without economic growth. Urbanization has been increasing, while manufacturing has been declining or at best, stagnant. Urbanization in many African countries may have followed an alternative model of urbanization (compared to the structural transformation or the agglomeration economies models), triggered by development of natural resources exports rather than by improvements in agriculture and manufacturing productivity.

6. So, despite the theoretical and empirical evidence that urbanization has been accompanied by industrialization, considerations of economic geography, space and location barely feature in regional or national economic and industrial analysis and strategies in the continent. There is still a deep neglect to the extra costs of production and trade arising from dispersed geographical patterns (the "friction of distance"), and the multiple benefits brought by agglomeration in strengthening industrial synergies, productivity, innovation, and access to skills. Geography, space and cities are still conceived as inert containers of economic activity or passive recipients of investments and services. On the other side, the urbanization agenda has been conceived as a sectoral issue, with no connection to the overall transformation and industrialization agenda. Among the chief reasons behind this situation is the fact that the potential for urbanization to drive Africa's structural transformation and industrialization is not yet adequately appreciated. Many countries lack a long-term vision on urbanization in the context of the national development strategy and/or industrial policies.

7. A new trend is however emerging. The importance of the urban dimension of Africa's growth and transformation is being recognized at national, regional and international levels. Far from a pessimistic view of urbanization when it was considered as one of the causes of Africa's economic failure^{iv}, several seminal papers have been recently published making the case for Africa to harness urbanization as a factor for its inclusive and sustainable transformation^v. The African Union Vision 2063 recognizes that

urbanization can contribute to the transformation of the continent^{vi}. In 2016, African member States adopted two strategic documents with reference to the role of cities and their transformational potential^{vii}.

8. Given these trends, challenges and opportunities, it is therefore imperative for African member States, to explore the linkages between urbanization and industrialization given the profound implications for structural transformation in Africa. Responding to and harnessing urbanization is indispensable for Africa's sustained growth and structural transformation, including in addressing its economic, social and environmental challenges.

9. The 2017 edition of ERA, the main flagship publication of the ECA, examines how to accelerate industrialization as a vehicle for structural transformation in Africa by harnessing the opportunities arising from rapid urbanization. It provides a robust assessment of the bi-directional association between industrialization and urbanization in Africa, including through actual practice and experiences using eleven case countries, as well as select evidence from other countries and cities. The Report informs and enriches policies and strategies to ensure that Africa's urbanization supports industrialization to achieve inclusive and sustainable growth. In particular, the Report identifies and analyzes specific challenges and opportunities, as well as drivers, enablers and policy levers for strengthening linkages between industrialization and urbanization, explores best practices to identify lessons and necessary conditions for optimizing the urban advantage for Africa's industrialization, and further examines and provides a policy framework to better harness urbanization for Africa's industrialization. In doing so, the Report illustrates that industrialization requires better functioning cities, while cities require better performing industrialization. Therefore, under the right policy framework anchored in national development planning, it is possible to leverage the momentum of urbanization to accelerate industrialization for a more prosperous and equitable future.

Overview of ERA 2017

The thematic part of ERA is structured in 4 chapters. The first chapter provides an overview of the mega-trends of urbanization and structural transformation and their significance for development in Africa. The second chapter highlights the nexus between urbanization and industrial development drawing on the literature and empirical studies, organized according to a framework of drivers, enablers, barriers and levers. The third chapter considers actual practice and experiences in Africa, using eleven case countries, as well as select evidence from other countries and cities. The case countries are Cameroon, Cote d'Ivoire, Republic of the Congo, Ethiopia, Madagascar, Morocco, Mozambique, Nigeria, Rwanda, South Africa, and Sudan. The final chapter provides a set of recommendations to support member States in their efforts to better harness urbanization for industrialization.

Objectives of the side event: The main objective of the side event, is to share the key findings of the Economic Report on Africa on Industrialization and Urbanization for Africa's Transformation. The event will provide the rationale and the evidence based on case studies to policymakers and other stakeholders on linking industrialization and urbanization processes and frameworks to achieve inclusive and sustainable structural transformation.

Specifically, the side event will provide a platform for key stakeholders:

- To deliberate on the potential of urban areas in accelerating the industrialization of Africa's economies in support of the structural transformation agenda
- To share experiences on the role of urban areas in enabling Africa's economic transformation through value-addition and strengthening forward and backward linkages within the economy
- To consider policy options and specific strategies to transform urban areas as nodes of growth, diversification, industrialization and domestic resource mobilization

Expected Outcomes: In line with the above objectives, the side event aims at achieving the following outcomes:

- Deeper understanding of the centrality of urbanization as a building block for achieving Africa's industrialization and transformative development, as envisioned in the AU's Agenda 2063
- Enhanced knowledge on linkages between urbanization and industrialization as a vehicle for structural transformation and related best practices and policy options
- Increased policy dialogue on the implications of urbanization for national strategies, particularly with respect to development planning, industrialization and urbanization
- Enhanced opportunities for representatives of African Governments, regional intuitions and development partners to reflect on the implementation of the New Urban Agenda, in the context of Africa's structural transformation agenda.

Key Outputs: A final report of the Pre-Event, including key policy recommendations, will be produced and disseminated among participating institutions, policy makers and key stakeholders.

Format: The side event will take the form of an interactive panel discussion with Ministers and other senior government leaders, distinguished experts from international and regional organizations and institutions, including the United Nations system and the African Union Commission. The discussion will be preceded by a presentation of the ERA 2017 to help frame the key issues for consideration. High level panellists will participate including from, among others: member States, UN agencies, and academia. The multidisciplinary panel will tackle the various priority issues and stimulate reflection on responses that need to be taken.

Participants: The side event targets a wide range of experts and stakeholders, from within and outside Africa, including senior policymakers from African member States, African Union Commission officials, Regional Economic Communities, United Nations agencies, African academic and research institutions, development planners, urban and industrial experts, pan-African financial institutions, and the diplomatic community. Invitations will be extended to other cooperating partners, non-governmental organizations and the private sector.

Documents: The Executive summary of the report and the ERA 2017 will be shared.

Date and Place: The side event will be held on XXXX at XXX, in, Dakar, Senegal.

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ⁱ Friere, M., S.Lall, D.Leipziger (2014) “Africa’s Urbanization: Challenges and Opportunities” ,
http://www.dannyleipziger.com/documents/GD_WP7.pdf

ⁱⁱUnited Nations (2013), “Africa Regional Report: Main Findings and Recommendations”, African Regional Conference on Population and Development , Addis Ababa (Ethiopia), ECA/SDPD/PYS/ICPD/RP/2013

ⁱⁱⁱ Idem

^{iv} For example: World Bank (2000) “World Development Report: Entering the 21th Century”; The Economist (2000);

^v OECD (2016); UNFPA (2007); UN-Habitat (2008, 2010, 2013); African Development Bank (2011); World Bank (2009, 2011, 2013); The Economist (2011); IMF (2011); McKinsey (2010); Ernest & Young (2011); Monitor (2009); MasterCard (2013).

^{vi} African Union (2014) “Africa Vision 2063: The Africa We Want”

^{vii} Common African Position on Habitat III and the Abuja Declaration for Habitat III