



ECA POLICY BRIEF

Urbanization and industrialization for Africa's transformation: opportunities and policy priorities

Introduction

Africa, 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 31 per cent of Africa's population was urban; by 2035, the figure is projected to reach 49 per cent.

Most countries are urbanizing rapidly amid declining or stagnant industrial growth 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 and generating "consumption cities". The challenge confronting Africa is 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, in general, been weak or absent in Africa, underlining the urgent need to connect urban and industrial development, given their interdependence and growth impacts. The present policy brief highlights the key policy messages of the *Economic Report on Africa 2017*, which presents an examination of how to accelerate industrialization as a

vehicle for structural transformation in Africa by harnessing opportunities from rapid urbanization. It contains an analysis of the challenges and opportunities, as well as the drivers, enablers and policy levers, for strengthening linkages.

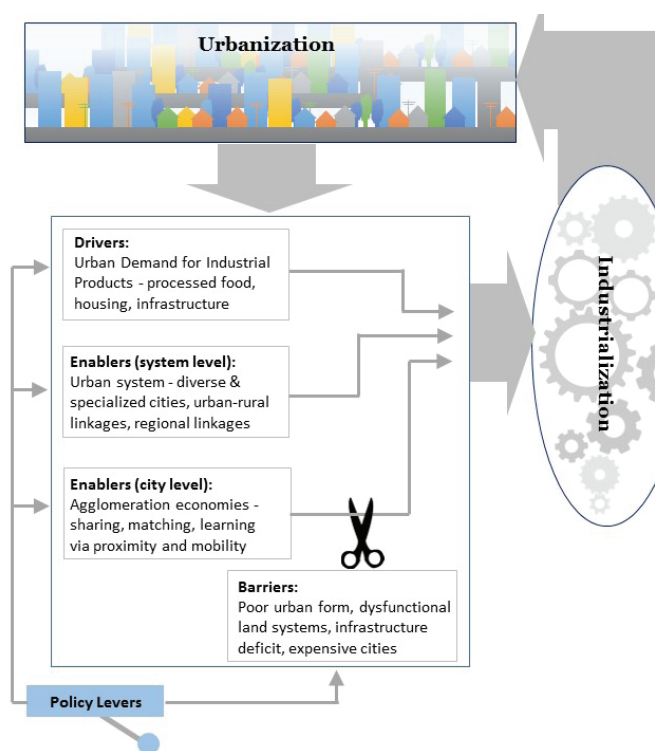
Drawing on a wide array of sources, including case studies from Cameroon, Côte d'Ivoire, Ethiopia, Madagascar, Morocco, Mozambique, Nigeria, the Republic of the Congo, Rwanda, South Africa and the Sudan, the report provides an outline of policy intervention areas that are essential for ensuring that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

A. Urbanization–industrialization nexus: key opportunities

1. Urban demand could be a driver of industrial development

The demand for manufactured and processed goods is increasing, which presents a major opportunity for industrialization in Africa. The automotive industry is 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.

Figure 1: Urbanization–industrialization nexus



Source: ECA, Economic Report on Africa 2017, Addis Ababa, Ethiopia

2. Diverse and connected systems of cities could provide industrial location options

A diverse urban system can offer industrial firms a variety of locational choices to meet their disparate locational needs. The decentralization of industry to lagging areas has, in general, been unsuccessful, given that 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. Special economic zones, notwithstanding their mixed success, can have a bigger impact if well managed and connected to well-functioning cities and agglomerations, rather than remaining as enclaves.

3. Better functioning cities could provide large productive benefits

Agglomeration economies of cities hold powerful benefits for firms, and there is evidence of these benefits at work in African industries. Nevertheless, diseconomies are setting in prematurely in many African cities, 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.

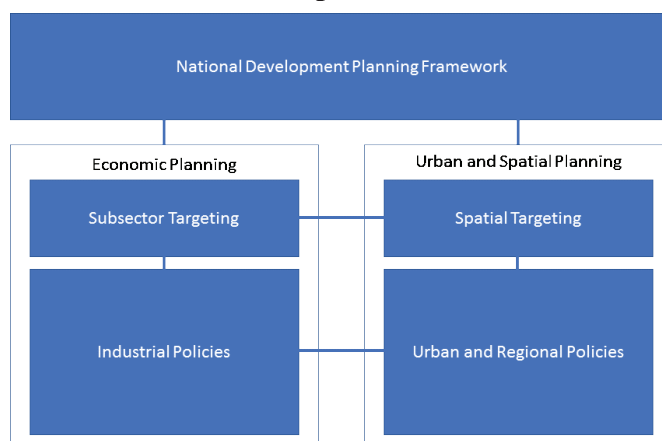
4. Urban and industrial development could connect Africa

Policies, planning, strategies and institutional frameworks in Africa are frequently disconnected. Rapid urbanization has to be harnessed through a strategic cross-sectoral policy framework anchored in national development planning. Strategic interventions prioritized and implemented under national development planning would benefit urban and industrial development.

B. Harnessing urbanization for industrialization: policy priorities

Making cities and urban systems productive and tapping into urban advantages for industrial development require 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 spatial pattern and urban form that they want to see.

Figure 2: Connecting policies for national, industrial and urban development



Source: ECA, Economic Report on Africa 2017, Addis Ababa, Ethiopia

1. 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.

2. Industrial policies should enable sector targeting

Given the opportunities generated by urban consumption, related high-growth sectors should be targeted, in particular 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. Similarly, governments should leverage both market-based and social housing to expand the domestic construction and building material industries. In addition, infrastructure investment can generate jobs and develop local capacity in the construction industry, especially when the infrastructure can be built using labour-intensive technologies.

3. Spatial considerations are fundamental for industrial policies

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 investment. When sector and spatial planning are coordinated, industrial projects and infrastructure investment move in tandem to priority cities and urban regions.

Governments attempting to select a specific location for industrial development should pay attention to natural location-based characteristics and the powerful forces of infrastructure and agglomeration.

4. 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 multimodal mobility, with an emphasis on mass transit, non-motorized modes and freight; addressing bottlenecks in access to housing through both an enabling environment and social housing programmes; prioritizing strategic infrastructure investment; and placing industry at the forefront of planning for local economic development. For their part, cities should specifically promote the business services sector and its links to industry, in particular with regard to information and communications technology and finance.

5. Addressing the gaps: finance, institutions, knowledge and implementation

Policies need to be supported by financing and by institutional set-ups that allow for coordinated implementation and budgetary support. The institutional set-up for national, industrial and urban policies should match the structure of the policies to ensure alignment between policy goals and institutional purposes and capacities.

A critical challenge in harmonizing urban and industrial development is the paucity of knowledge and evidence. In particular, spatial economic data, especially at the subnational level, are lacking and constrain progress. Closer cooperation is therefore needed between urban agencies and national statistical offices.

C. 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 for growth and transformation. They may appreciate the need to coordinate urbanization and industrialization, but there is still room to strengthen their capacities on the basis of practices that have worked in Africa and elsewhere. Regional partnerships, coupled with purpose-fit technical assistance, could be very useful in this regard.

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