

# Executive summary

## A new perspective on Africa's urban economy

The policy debate on urbanisation in Africa has long suffered from a paucity of robust evidence. This report provides a new perspective on the economy of African cities, based on the most comprehensive analysis of data on African cities to date. It uses information from more than 4 million individuals and firms in 2 600 cities across 34 African countries to describe the economic performance and social conditions in cities of different sizes across the continent.

### *African cities outperform the rest of their countries in almost all dimensions*

Cities are attractive because of the job opportunities they provide. Hourly wages in large cities are more than twice as high as they are in rural areas. While the share of adults without any employment is slightly lower in cities than in rural areas, underemployment is less prevalent, as urban workers work 30% more hours per week than rural workers.

Education opportunities, similarly, are better in cities than in rural areas. Depending on the size of the city, young city dwellers receive on average between 2.5 and 4 years more of education than young rural residents. This will have lasting consequences, because a good education generates economic and social benefits throughout a person's lifetime. Moreover, the rise in education levels due to urbanisation creates the human capital base to allow the transition to a skilled economy. Already today, the share of skilled jobs in cities is approximately 2.5 times higher than in rural areas.

More generally, cities facilitate the provision of infrastructure and of public and private services. Of households in large cities, 80% are connected to the electricity grid, whereas only 20% of households in rural areas have access to electricity. Approximately half of all urban households hold the title to their house, but only 20% of rural households do. Likewise, the percentage of individuals who live in a household with a bank account is more than 50% in large cities and almost 40% in small cities, but below 20% in rural areas.

Quite apart from offering better economic opportunities and higher living standards, cities are

incubators of social and cultural change. For example, they facilitate the demographic transition, because fertility rates are more than one-third lower in large cities than in rural areas. Correspondingly, cities have more favourable dependency ratios.

### *Small and mid-sized cities deliver many of the benefits of larger cities*

Most indicators analysed in this report are correlated with city size. Larger cities perform better than small cities, while small cities are well ahead of rural areas. The gaps between cities of different sizes tend to be smaller than the gap between cities and rural areas. For most outcomes, the consequences for those who move from a rural area to a city of fewer than 50 000 inhabitants are greater than for those people moving from a city of fewer than 50 000 inhabitants to a city of more than 1 million inhabitants. This indicates that even small cities deliver many of the benefits of urbanisation, ranging from better service and infrastructure provision to more advanced economies.

### *One-third of Africa's per capita GDP growth is due to urbanisation*

Cities generate agglomeration economies that increase the productivity of urban firms and workers. As cities grow in population size, the agglomeration economies that they generate increase, which in turn leads to GDP growth. Based on estimates of agglomeration economies in Africa and recent population growth rates of cities, it is possible to approximate the effect that urbanisation has on GDP growth. A conservative estimate suggests that urban population growth contributes 0.33 percentage points to the average annual per capita GDP growth in Africa. This is equivalent to approximately 29% of the average annual per capita GDP growth across Africa between 2001 and 2020.

### *Urbanisation has improved access to services, infrastructure and economic opportunity for hundreds of millions of people*

Africa's urban population has tripled in size since 1990. Despite absorbing 500 million new urban residents,

cities in Africa have continued to perform well relative to rural areas. The evolution of most indicators in urban and rural areas followed national trends, and the gap between cities and rural areas has remained roughly constant. This shows that cities were able to integrate millions of people without a measurable decline in aggregate economic performance or living conditions. For example, between 1990 and 2020, approximately 390 million urban residents have been connected to the electricity grid. Thus, even though African cities fall short in many ways, urbanisation has improved the access to services, infrastructure and economic opportunities for hundreds of millions of people.

In the face of dramatic population growth, African cities have maintained a good economic performance relative to the rest of their countries, which is in itself an achievement. However, despite the benefits it offers, urbanisation has not resulted in a sustained transformation of cities. African economies have grown only slowly since the 1990s, and key indicators of Africa's urban economy have improved equally slowly. For example, the share of skilled jobs in cities has remained largely constant, and ownership rates of durable consumer goods, such as cars and refrigerators, have increased little or not at all.

## Realising the economic potential of African cities

### *Urbanisation is an opportunity for Africa*

The new set of indicators shows the impressive benefits from urbanisation for individuals and businesses in Africa. While a transformation on the scale of Africa's urbanisation necessarily has its downsides, they are outweighed by the economic opportunities and by the improved living standards that cities generate. Governments should treat urbanisation as an opportunity and manage it with the goal of making its benefits available to as many people as possible. That means investing in large urban centres, but also strengthening small and mid-sized cities that serve as hubs for surrounding rural communities.

### *Rural areas benefit from proximity to cities*

Cities provide rural residents and businesses access to services, infrastructure and markets. The integration of the rural economy into rural-urban value chains encourages rural innovation and diversification. It is thus not surprising that rural areas close to cities tend to perform better than rural areas that are more remote. For example, the share of rural households that has a bank account is twice as high among rural households that live within 5 kilometres of a city as among those that live 30 kilometres from the closest city.

Since 1990, the number of cities in Africa has more than doubled, from 3 300 to 7 600. Thousands of new cities have emerged, often in rural areas with high population densities. They provide access to services and infrastructure for rural residents and firms that would otherwise be far from the closest urban centre. Urbanisation has thus facilitated the economic and social transformation of rural areas, too. In particular, the emergence of a large number of small cities has been important for linking rural and urban areas. For more than two-thirds (68%) of the rural population in Africa, the closest city has fewer than 50 000 inhabitants.

### *Clusters of cities create new pathways for the development of urban economies*

Throughout Africa, clusters of cities are emerging. While urbanisation rates were low, African cities were located far from each other and served primarily as national administrative centres and gateways for resource exports to global markets. As the number and size of cities in Africa grows, cities are increasingly located close to each other. In 2015, Africa had 31 city clusters with more than 2.5 million urban residents within 100 kilometres of each other, and six city clusters with more than 10 million urban residents within 250 kilometres.

Within clusters, cities benefit economically from close proximity to each other. This allows small cities to attract specialised industries and perform economic

functions that only larger cities can otherwise perform. Yet, not all cities in close proximity function as economically integrated clusters. To do so, they need good infrastructure links that facilitate economic exchanges between cities.

Some of the most important clusters of cities span multiple countries. These clusters stand to benefit from the reduction in trade barriers after the implementation of the Africa Continental Free Trade Agreement (AfCFTA). Yet, even cities beyond cross-border clusters can be major beneficiaries of the AfCFTA. In particular, the reduction in intra-African trade barriers will benefit the tradable sector in cities and will reduce prices for urban consumers. However, the opportunities offered by implementation of the AfCFTA need to be matched by cross-border infrastructure investments and other measures to promote trade.

### *National development plans need to centre on the urban economy*

Africa's economic future lies in its cities. National development strategies should reflect the opportunities offered by urbanisation and include measures to put them to use. Four priority areas are particularly important:

1. Each year, a large number of jobs needs to be created to provide employment for young and fast-growing urban populations. Governments should aim to encourage solutions that provide jobs and to support the sectors that create jobs in urban areas.
2. The performance of an economy is determined by its productivity. To increase the productivity of urban areas, governments should invest in cities, promote the growth of highly productive sectors, such as manufacturing and tradable services, and remove barriers to the creation and scaling up of urban businesses.
3. Each country has a unique system of cities of different sizes and different economic specialisations. Effective national policies take this into account and develop targeted policies that respond to the specific needs of different cities and to the roles they play in a national economy.
4. National policies affecting cities need to be coordinated across levels of government and across sectors to make sure they reinforce each other. Moreover, national policies need to ensure that local governments have the means (fiscal and otherwise) to play an active role in economic development.

To develop targeted policies for cities and to adapt to evolving contexts, governments need up-to-date information on the state of urban economies. This

report demonstrates how robust subnational indicators can contribute to a better understanding of cities. National statistical systems must be enhanced to be able to produce timely statistics that can be disaggregated at the subnational level.

### *Local governments need greater capacities and responsibilities to support economic development*

As cities grow in size, local governments become more important for economic development. Local governments know their cities best and can target policies better to local needs than other levels of government. They are also more directly accountable to their local population and have a strong interest in the good performance of their city. Yet, in most African countries, local governments have weak administrative capacity and responsibilities that are not clearly defined. This makes it difficult for them to pursue effective economic development policies. Devolving statutory powers to local governments and building local capacity is therefore essential to allow local governments to support economic development effectively.

Moreover, local governments in Africa need to prioritise economic development in their policies. In many fast-growing economies (notably China) local governments consider economic development their central responsibility. They develop infrastructure, promote their cities to investors, connect businesses with universities, assemble land for new developments and assist firms with administrative procedures. Providing similar levels of support to local economies in Africa would boost economic growth.

Local governments that aim to develop local economic development strategies can base them on several principles:

- Concerted policy packages that combine coordinated interventions are more effective than isolated measures. Effective local economic development strategies involve multiple policy sectors as well as governmental and non-governmental actors.
- Different places have different competitive advantages that can be the basis for economic development. Identifying and utilising these competitive advantages is a key feature of many successful local economic development strategies.
- Local economic development policies that aim to upgrade existing sectors and activities are more likely to succeed than local economic development policies hoping to attract entirely new economic sectors. Local governments need to work with local businesses to learn about economic opportunities and develop policies to use them.

- Cities contribute to economic diversification at the national level by developing distinct economic specialisations. Most highly diversified countries are not economically uniform. Typically, they are home to many cities with distinct economic specialisations that, in the aggregate, create a diversified economy.
- Universities and other higher education institutions can be sources of innovation and entrepreneurship. They should be encouraged to co-operate closely with local businesses, for example by providing educational programmes that respond to businesses' needs or by setting up business incubators.

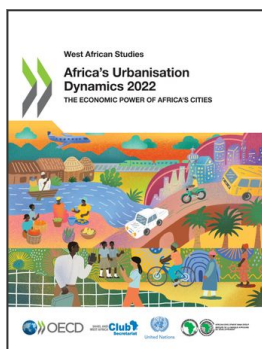
*New sources of funding for local governments are indispensable*

Local governments in Africa have exceptionally low fiscal resources. The share of own-source revenues in their budgets is small, and transfers from other levels of governments are limited and often unstable. Moreover, the overwhelming majority of local governments lacks access to credit for financing investment, even if that investment offers high returns. As a consequence, local governments struggle to develop administrative capacity. They also often lack the fiscal capacity to invest, even when investments would be economically

and socially beneficial and generate higher tax revenues in the long term.

No single solution can meet the funding needs of local governments. National governments must thus scale up their financial support to local governments, giving them the fiscal stability to undertake long-term fiscal commitments, such as major investments in infrastructure. Meanwhile, local governments need to collect greater own-source revenues, by improving the return from existing tax instruments and by developing new sources of revenue. In many countries, this will require that local governments be granted greater powers of taxation.

However, even significantly increased transfers and tax revenues are unlikely to meet African cities' investment needs. National and local governments should work together to enable local governments to use debt financing for infrastructure investments. A first step in this process would be to provide credit to local governments through public investment funds. Such funds are a source of financing for local governments in their own right, but they can also be used to give local governments experience with debt financing that can help to prepare them to access other forms of credit.



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