



Combined Scenario

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Chart 7 reinforces the traditional sequencing of development, which is also discussed in the theme on governance, namely that a governing elite firmly committed to economic growth is needed to start the developmental transformation process from subsistence agriculture to manufacturing.

Underlying much of this is the need for Africa to progress more swiftly through its demographic transition by empowering women, rolling out modern contraceptives, investing in female education and managing deliberate urbanisation. Although Africa is urbanising, it is generally not planned, and instead of serving to boost productivity, it sometimes has the opposite effect. Cities sprawl out further, characterised by low urban density and increasing the cost of providing additional infrastructure, often gobbling up prime agricultural land. Consequently, instead of increasing productivity and access to services, one of the main advantages of urbanisation, these measures start to decrease.^[1]

Cities become poverty traps Without economic growth and rising incomes. Some African countries (e.g. Tunisia) are already predominantly urban, but East Africa is the most rural region in the world. Here, the growth of a city such as Addis Ababa has become a significant source of tension as urban sprawl encroaches on surrounding Oromo farmland, eventually contributing to [violent riots](#).

Digital solutions can contribute to providing essential services in poor urban communities through pay-as-you-go models that allow low-income customers to make small, incremental payments towards otherwise unaffordable goods and services, including water, clean cooking gas and sanitation. The result is a sustainable business model able to respond to the challenges of the urban poor and urban [poverty traps](#). Managed correctly, urbanisation represents immense opportunity.

The solutions to Africa's urbanisation challenges are well-known:

- Early infrastructure installation, such as roads, water, sewage, and electricity connections, must happen in anticipation of urbanisation while densities were still low. Where this is not possible, modern technology can help overcome the deficits in crowded settlements but cannot fully compensate for a lack of urban planning and foresight. Urbanisation is an opportunity to build climate resilience and manage the spread of infectious diseases such as COVID-19.
- Cities develop if they can crowd significant inhabitants into formal systems, increasing the tax base and improving efficiencies and productivity. Cities that are overcrowded or characterised by low-rise informal housing and urban sprawl have higher production costs and do not benefit from the concentration of knowledge and traded goods.

Ideally, basic infrastructure must be in place *before* people arrive. Once an informal settlement has reached the size of Khayelitsha in Cape Town or Kibera in Nairobi, it is challenging to uproot populations to install plumbing or build proper roads. Providing water and sewer connections for half a million people is a hard enough task. However, if all these people must be relocated to provide that infrastructure, it is significantly more expensive and complicated. Modern technology can help by combining smart metering, pay-as-you-go services, big data, geolocation and the Internet of Things to establish smart grids, solar home systems, mapping sanitation facilities, monitoring decentralised water points, operating water ATMs in informal settlements, mitigating peak traffic flow and managing waste flows. That is because, as an enabler, the ICT sector has strong backward and forward linkages, with almost every sector of the African economy needing rapid development ranging from increasing yield in agriculture to electricity and water demand management and e-learning in the educational sector.

Urbanisation, digital transformation, and electrification using pay-as-you-go services should be adopted as deliberate strategies towards providing basic services, better education, and improved healthcare and educational opportunities. The

digital transformation of Africa will require massive investment to make the Internet accessible. Still, there is real potential in initiatives such as those from [SpaceX](#) that promise global satellite Internet coverage within the next few years.

In addition to managing urbanisation, successful governments typically pursue low-end manufacturing, even as the educational focus now shifts to secondary, vocational and tertiary education. Entry into manufacturing requires participation in regional value chains and the need to attract foreign direct investment and foreign companies, with clear incentives for them to build local capacity and ensure technology transfer.

Because of the dire impact of climate change but also because of the enabling dynamic of digital and other technologies, Africa needs to look at modern manufacturing and seek competitive advantages in areas such as ICT, food processing and so-called “industries without smokestacks” (see below) that can play a role analogous to that of manufacturing in [East Asia](#). As countries go up the manufacturing value chain, the spillovers from manufacturing facilitate and incentivise a more productive agriculture sector and the development of higher-end services such as finance until, in some instances, services start to serve as the main engine of growth or agriculture (such as in the Netherlands). Typically, large-scale commercial agricultural development and exports depend upon the progress of industrialisation. Thus, according to Erik Reinert, ‘no country without an industrial sector ... has ever managed to raise the wage level of its farmers.’^[2]

The legacy impact of COVID-19 has significantly advanced the point at which services play a more significant role in economic development. This is similar to the communications and IT revolution that created complex global value chains in the manufacturing sector some decades ago. The service sector will dominate Africa’s future, too.

Development requires a capable government committed to growth that pursues strategic integration with the world economy, the mobility of resources, particularly labour, and high savings and investment rates. Patience, pragmatism and experimentation are the key growth ingredients for each [country](#).

Leadership and government are essential at low and middle levels of development. Then, as countries go up the income ladder, economic growth becomes increasingly dependent on the role of the private sector. The government’s role remains crucial, although it should shift to a predominantly regulatory and compliance function while ensuring inclusive growth through progressive tax policies, support to rapid growth efforts (particularly manufacturing) and various redistribution measures.

A recent, widely acclaimed study identifies investment as crucial, indicating that it should proactively be directed towards activities with high potential for increasing returns of scale and scope, raising demand for labour, and earning foreign exchange.^[3] Elsewhere, the authors argue in favour of rapid export growth, a modestly undervalued exchange rate and an ambitious global trade strategy. They argue that a country’s prospects ‘are not determined by what that country has and is ... instead, a country’s prospects are determined by what a country *does*.’^[4] For these authors, as in our analysis, leadership, capable government and expanding wage employment (more and better jobs in the formal economy) lie at the heart of improved prospects. Africa needs to enhance efforts in domestic resource mobilisation. In addition, the emerging debt challenges point to the need to focus on investment instead of aid and loan financing in development cooperation engagements.

Endnotes

1. P Collier, *African Urbanisation: An Analytic Policy Guide*, London: International Growth Centre, 2016, 23.
2. ES Reinert, *How Rich Countries Got Rich ... and Why Poor Countries Stay Poor*, London: Constable, 2007, 63
3. C Cramer, J Sender and A Oqubay, *African Economic Development: Evidence, Theory, Policy*, Oxford: Oxford University Press, 2020, 9.
4. C Cramer, J Sender and A Oqubay, *African Economic Development: Evidence, Theory, Policy*, Oxford: Oxford University Press, 2020, 10

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