# AFRICAN CITIES
## RESEARCH CONSORTIUM

# Structural transformation: Domain report

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**Abstract**

In this ACRC domain report, we present cross-city analysis of the spatial distribution of economic activities as well as the drivers and constraints of structural transformation (particularly focusing on the configuration of power in each city), spanning the cities of Accra, Addis Ababa, Dar es Salaam, Harare, Lagos and Nairobi.

The key finding across cities is that urbanisation has been associated with movements from agriculture into low-productive activities. In all cities, economic activities are distributed very unevenly across urban space. In cities such as Accra and Nairobi, where enterprise data is available, we find that there is heterogeneity in labour productivity across a number of factors. Location matters for business productivity; only a few municipalities act as effective hubs of transformation for businesses.

Analysis of the way different types of national political settlement interact with cities and businesses shows that, apart from Nairobi, all settlement types tend to be inimical to investment growth in productive sectors of cities. In Accra, Addis, Dar es Salaam, Harare and Lagos, the interactions have resulted in collusive state–business relations which favour non-productive services, hence their continual growth in African cities. The poor and uneven delivery of infrastructure and basic services at the sub-city level – resulting from political machinations by political elites to maximise votes – further hinders the emergence of high-productivity sectors. Therefore, many of the firms that would facilitate structural transformation are missing. However, in Nairobi, some efforts

are being made to promote transnational businesses and the IT sector, owing to their productive potential; these efforts are partly driven by a large transnational elite that wields significant power in the city's political settlement.

**Keywords:** Structural transformation, urbanisation, spatial distribution, political economy, productive sectors, African cities, political settlement

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## Executive summary

Structural transformation involves the movement of workers from low-productivity sectors to high-productivity sectors (Lewis, 1954; Kuznets, 1966). It has been associated historically with a shift from agrarian to more industrial economies based around urban areas, which play a crucial role in economic growth and poverty reduction by hosting enterprises that create jobs and improve labour productivity. This structural transformation seems to have been achieved in many countries of the West, as well as in the Southeast Asian "Tigers". In Africa, however, increasing rates of urbanisation and urban population growth appear not to be leading to structural transformation; thus, the prospect of thriving high-productivity sectors (such as manufacturing) and tradable services (such as IT, finance and tourism) in the foreseeable future seems unlikely in many African countries. The economic sectors of African cities remain dominated by low-productivity informal enterprises – specifically wholesale and retail trade, but also some informal manufacturing; large segments of urban populations are engaged in low-income informal wage labour or self-employment.

Understanding the connections between cities and structural transformation is essential for poverty reduction, as structural transformation has the potential to foster economic diversification and inclusive growth. Although there are some studies that seek to explain why African cities have not experienced structural transformation, these are mostly from the "economic factors of production" perspective. There is relatively little literature that seeks to understand how political economy factors drive/inhibit structural transformation, and the actual scope and patterns of structural transformation in African cities. Understanding how political leaders shape the economies of cities is key: ruling elites play a significant role in the extraction and allocation of economic rent to business elites and their associations, financial institutions and state agencies.

Economic policies are influenced by the degree of autonomy of the business elite and/or its connections with those in political power. Ruling elites need to be committed to creating an enabling environment for firms to grow, providing the public infrastructure required for firms to operate productively, and building productive forms of state–business relations. However, this can stand in tension with elite incentives to extract rents from firms and household enterprises and to enter into collusive relationships with them, such as offering subsidies and contracts in return for political and personal financing.

For effective policymaking, it is important to understand the scope and patterns of structural transformation in connection with the political economy drivers/inhibitors at the city level. In this report, we present cross-city analysis of Accra city region, Addis Ababa, Dar es Salaam, Harare, Lagos and Nairobi, thereby contributing to debates on the positioning of cities as centres of economic transformation. We draw on quantitative (descriptive) and qualitative analysis to examine the spatial distribution of economic activities and patterns of structural transformation, as well as the drivers and constraints of structural transformation, particularly focusing on the configuration of

power within the structural transformation domain in each city, and ways in which the balance of power at the national and city levels shapes the possibilities of enhancing structural transformation and the sustainable development of cities. Limited data in some cities has restricted the analysis.

**Figure 1: Structural transformation domain cities**
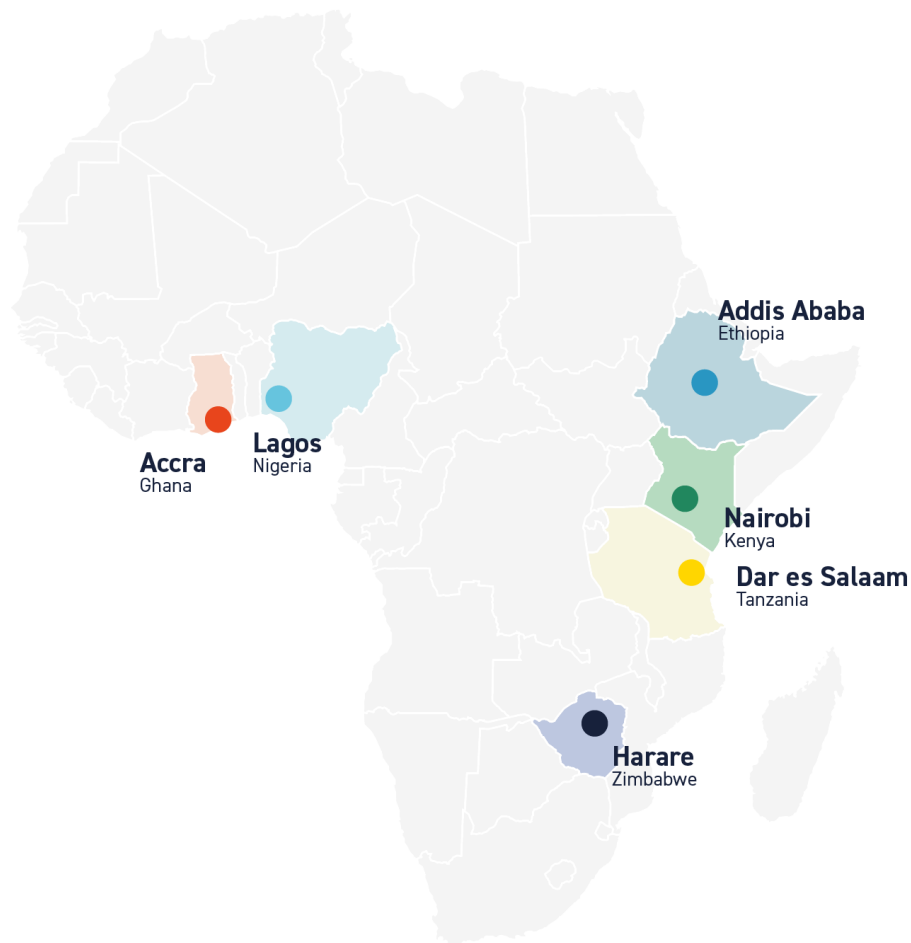


The key finding across cities is that urbanisation has been associated with movements from agriculture into low-productive activities in non-tradable services and largely informal manufacturing. In all cities, economic activities are distributed very unevenly across urban space, with employment and economic activities in manufacturing, construction and services concentrated in different parts of the city. In cities such as Accra and Nairobi, where enterprise data is available, we find that there is heterogeneity in labour productivity across a number of factors. Larger formal enterprises have higher levels of labour productivity. Location matters for business productivity; only a few municipalities act as effective hubs of transformation for

businesses. Creating highly productive manufacturing and tradable services appears a daunting task, with some cities, such as Harare, experiencing continuous decline in economic activities in these sectors.

Why is the lack of structural transformation so consistent? In the key informant interviews across cities, we find that politicians tend to be very powerful in urban governance, and therefore in state–business relationships within the domain. Analysis of the way different types of national political settlement[1] (broad-dispersed in Accra and Dar es Salaam, borderline broad-dispersed/broad-concentrated in Nairobi, narrow-dispersed in Harare, and narrow-concentrated in Addis and Lagos) interact with the cities and businesses shows that, with the exception of Nairobi, all settlement types are inimical to investment growth, particularly in more productive sectors of cities, such as manufacturing and tradable services. Sen (2025) builds on the data summarised here to elaborate on the relationships between specific political settlements in the cities and structural transformation.

In summary, in Accra, Addis, Dar es Salaam, Harare and Lagos, there are collusive state–business relations, and poor and uneven delivery of infrastructure and services, which is not conducive to enterprise development. In these cities, there seems to be an undue focus by political elites on extracting rents from natural resources, procurements, award of government contracts, lands and conglomerates producing or importing for the local market, which seems to favour the non-productive service sectors against manufacturing and tradable sectors, particularly to access exports markets. The lack of support, especially in providing public infrastructure to some municipalities in the city due to the nature of political settlement, tends to hinder the facilitating role of municipalities to support agglomeration economies. This, in turn, decreases productive employment in these cities. In contrast, in Nairobi, there seems to be some interest in promoting transnational businesses and the IT sector, due to the prominence of these sectors in the city and the presence of a large transnational elite, who have significant power in the city political settlement.

In all six cities, the following constraints on structural transformation are also present: an unstable macroeconomic environment; inefficient systems of governance; weak city governments; unavailability of markets for good and services; dysfunctional city systems (particularly electricity); lack of access to affordable and long-term credit; difficulty in acquiring land; and a complicated regulatory environment. The cities' challenging business and regulatory environments impede the growth of potentially high-productivity enterprises and sectors. The research showed that these challenges are connected to the prevailing political settlements as well as to contestation between national and city governments. For instance, in Lagos, political power contestation

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1 In the study, "political settlement" is used in a loose sense, to refer to a broad array of political factors – balance of power, prevalence of rent seeking and patronage – that produce the challenging environment for structural transformation in African cities. See Sen (2025) for the application of the political settlement theory in a systematic way to data from the six cities in this study.

between the federal government and Lagos state slowed down the implementation of policy reforms and critical investments in infrastructure.

The achievement of structural transformation in African cities requires well-coordinated reforms and interventions that build a stable, open business environment and a collective voice to facilitate predictable relations between political elites and manufacturing and tradable services enterprises. This is of fundamental importance in underpinning an enabling environment and policies to drive investment, growth and citywide structural transformation.

# 1. Introduction

Structural transformation (ST) involves the movement of workers from low-productivity sectors to high-productivity sectors (Lewis, 1954; Kuznets, 1973). It has historically been associated with a shift from agrarian to more industrial economies based around urban areas, and with playing a crucial role in economic growth and poverty reduction, by creating jobs and improving labour productivity. This structural transformation seems to have been achieved in many countries of the West, as well as in the Southeast Asian "Tigers". However, the growth of thriving manufacturing industries seems to have eluded many African countries; they have witnessed urbanisation without structural transformation.

Urbanisation is taking place at an extraordinary rate in Africa. The continent has more than two-thirds of the world's fastest growing cities (United Nations, 2022). It is projected to have the fastest urban growth rate in the world, at 3.2%, and the urban population is estimated to double from 600 million to 1.2 billion (World Bank, 2022). However, urban poverty is rising, due to the lack of inclusive growth and productive jobs in African cities. The lack of structural transformation is evident from Figure 2, where we plot manufacturing employment share against the urbanisation rate (which is the percentage of the total population that is urban) for 2015. We note that definitions of urbanisation may vary across countries, given the differences in local context, which may make comparison difficult, especially international comparison (Roberts et al., 2024). However, the available estimates show that, even though sub-Saharan Africa is far more urbanised than South Asia (a difference of around 12 percentage points in the urbanisation rate), the share of employment in manufacturing is significantly higher in South Asia (see de Vries et al., 2021; World Bank's WDI, 2022). South Asian cities tend to have much higher rates of tradable employment (from manufacturing and tradable services) and formal employment than African cities. The intersection between tradable goods and services (increasing exports of manufactured goods and services) and city labour markets leads to higher wages and formal jobs, particularly more formal jobs for women in South Asian cities (Artuc et al., 2019).

**Figure 2: Share of employment in manufacturing vs urbanisation rate (2015) by region**



By Region

Urbanisation rate is urban pop(% of total pop)
Data sourced from ETD & WDI
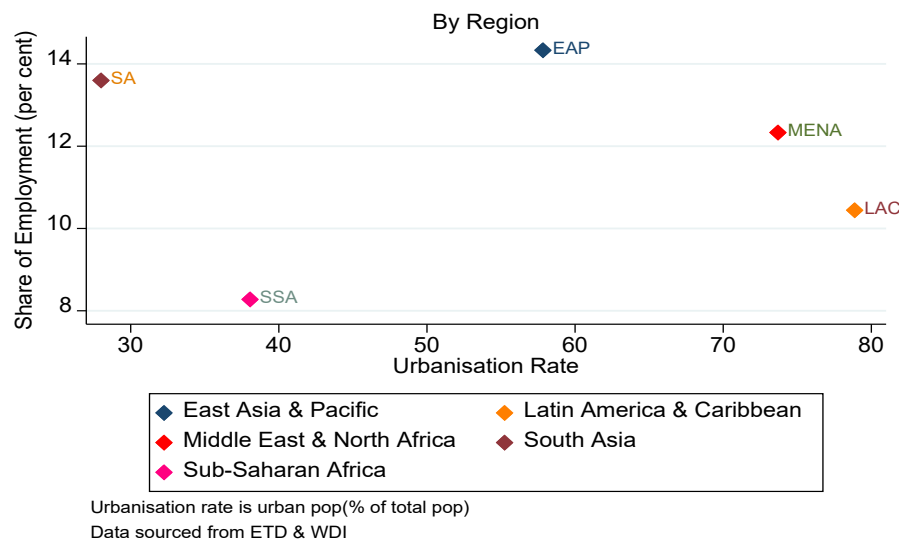
Source: GGDC/UNU-WIDER, Economic Transformation Database; and World Bank's World Development Indicators.

Note: EAP: East Asia and Pacific, LAC: Latin America and Caribbean, MENA: Middle East and North Africa, SA: South Asia and SSA: sub-Saharan Africa.

Consequently, the economic sectors of African cities are dominated mainly by low-productivity informal enterprises (OECD, 2022), with a large segment of the population employed in the informal wage economy, often through self-employment (Danquah et al., 2021). Many of these informal enterprises are found in the services sector, mainly wholesale and retail trade in imported goods, whilst a few enterprises are engaged in informal manufacturing. Although there are pockets of formal manufacturing and business services (such as in IT, financial intermediation and tourism) across African cities, their shares of employment are very low.

The lack of structural transformation indicates the inability of African cities to function effectively as engines of inclusive and resilient economic growth. African cities face many challenges in this regard – particularly related to underinvestment in key urban infrastructures and services, such as connectivity, public transport, water, waste management and housing, which have rarely kept pace with rapid urbanisation. In this challenging context, the agglomeration of firms and workers in cities and urban centres has failed to unlock the "miracle of productivity" and enhance living standards via economies of scale and specialisation (Collier, 2016).

Understanding the connections between cities and structural transformation is essential for poverty reduction, as structural transformation has the potential to foster economic diversification and inclusive growth. Although there are some studies that seek to explain why African cities have not experienced structural transformation, these are mostly from the "economic factors of production" perspective (see Collier, 2016; Lall et al., 2017; Gollin 2018, OECD 2022). These economic factors include agglomeration

benefits, weak connectivity and transportation links, weak land rights in cities and inadequate public infrastructure, among others. While these factors are important (as noted above), there has been little attempt to understand the broader political economic context shaping these (and other) drivers/inhibitors of structural transformation.

Understanding how the political economy at the national level influences the dealings of national and city elites in urban economies is key: ruling elites play a significant role in the extraction and allocation of economic rent to business elites and their associations; financial institutions; and state agencies. Economic policies are influenced by the degree of autonomy of the business elite and/or its connections with those in political power. Ruling elites need to be committed to creating an enabling environment for firms to grow, providing the public infrastructure required for firms to operate productively, and building productive forms of state–business relations. However, this can stand in tension with elite incentives to extract rents from firms and household enterprises and to enter into collusive relationships with them, such as offering subsidies and contracts in return for political and personal financing.

It is also important to understand the political economy drivers/inhibitors of structural transformation at the *city level*, and what alternative patterns of structural transformation – notably, leapfrog development (economic transition from agriculture to services jumping the manufacturing stage) – mean for the sustained growth of African cities (McMillan and Headey, 2014).

In this report, we present cross-city analysis of Accra city region, Addis Ababa, Dar es Salaam, Harare, Lagos and Nairobi. We draw on quantitative (descriptive) and qualitative analysis to examine the spatial distribution of economic activities and patterns of structural transformation, as well as the drivers and constraints of structural transformation, particularly focusing on the configuration of power within the structural transformation domain in each city, and ways in which the balance of power at national and city level shape the possibilities of structural transformation and sustainable urban development. Therefore, the analysis in this report goes beyond state–business relations, and looks at a broader array of political factors that produce the challenging environment for structural transformation in African cities, including how political machinations to maximise votes and rents in cities inhibit the emergence of productive pathways to high-productivity sectors. This report provides detailed information on the findings from the cities. Sen (2025) provides an in-depth analysis of the data using the "Deals and Development" framework. The analytical approach by Sen (2025) applies political settlement theory in a systematic way; this report is less systematic and, as indicated, the term "political settlement" is used in a loose sense.

## 2. Summary of prior knowledge

The theoretical foundations underpinning structural change, particularly Lewis (1954) and Kuznets (1966), show that the process of structural transformation leads to the reallocation of labour and other resources from less productive sectors of the economy,

like subsistence agriculture, to more advanced and productive activities like manufacturing and tradable services. This growth-enhancing structural change has been linked to high growth and development in developed countries. These countries were able to pull out of poverty as their economies diversified away from subsistence agriculture to "modern" economic activities.

Urbanisation is closely linked to structural transformation in most developed countries. The standard pattern shows that urbanisation is an outcome of either a "push" from agricultural productivity growth or a "pull" from industrial productivity growth (Gollin et al., 2016). Improvements in agricultural productivity push labour into urban activities, while improvements in productivity from manufacturing pull labour into urban areas. However, SSA's urbanisation and structural transformation patterns seem inconsistent with this standard pattern. SSA has urbanised without structural transformation or, rather, the structural transformation that has taken place in sub-Saharan African countries has been somewhat different from that of other regions (see McMillan and Headey, 2014).

Despite the high rates of urbanisation in many SSA countries, the rate of industrialisation is not comparable to China and the Southeast Asian Tigers, which have developed export-oriented manufacturing that transitioned people from subsistence farming to high-productivity formal jobs (Sen, 2025). Rather, many SSA workers moving out of agriculture are diversifying into informal jobs and services sectors. The share of the labour force in agriculture is declining, but this is not accompanied by broad-based economic dynamism. Whilst urbanisation led to the formalisation of the economy in most developed nations, it did not do so for SSA (Atesagaoglu et al., 2017; Ghani and Kanbur, 2013). The massive urbanisation in SSA has given way to urban informality.

Although the extant literature has attempted to explain the limited structural transformation in African cities (see World Bank, 2009; Collier, 2016; Lall et al., 2017; Gollin, 2018; OECD, 2022), there is still a gap in understanding the political economic factors shaping the scope and patterns of structural transformation. Thus, many studies paint a partial picture of urbanisation and structural transformation. This report aims to fill this gap, using all relevant national datasets. Our ability to construct proxies for structural transformation at the city level provides us with a detailed picture of the patterns of structural transformation in African cities. The six cities (Accra, Addis Ababa, Dar es Salaam, Harare, Lagos and Nairobi) play distinct roles in the political economy of their respective countries, as they are major sources of economic activity, rents, votes and political legitimacy.[2]

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2 Kunal Sen (2025) discusses in detail the political settlements in these six cities.

## 3.  Methodology

This report draws together information on the scale and nature of economic activities in each of the cities, with a focus on the differential performance of economic sectors and sub-city districts (as data permits). We also summarise the findings from interviews with key informants, who explain the factors that help and hinder structural transformation.

Studies on structural transformation are largely done at the cross-country level, using consistent annual time series data on employment, real and nominal value added by ten or more sectors over a long period. The availability of these datasets, in addition to information on enterprise and employee characteristics, allows for the analysis of the dynamics of sectoral employment and of changes in labour productivity and employment across sectors. Such annual time series datasets are not available for African cities. This study exploits available cross-sectional datasets on enterprises and population censuses, to construct relevant indicators to proxy structural transformation at the city level. This analysis paints a general picture of structural transformation at the city level. The lack of time series data hinders the analysis of detailed movements year on year, but the approach in this study provides some valuable information on structural transformation in African cities.

The approach for the city studies involved both quantitative (mixture of descriptive and regression methods) and qualitative methods. The quantitative analysis used relevant data from each city (see Table 1) on business and enterprise establishments (for Accra, Nairobi), population censuses (Dar es Salaam, Harare), industrial, enterprise and household surveys, and business registry (Addis and Lagos). The availability of both informal and formal enterprises in firm census data means that both businesses are captured at their place of work. Across cities, we classified enterprises as formal if they are registered with any of the relevant national authorities (such as the registrar general department and tax authorities), and informal if not. To understand the patterns of economic activities and structural change at the city level, we compute and discuss relevant indicators, such as location quotients, share of manufacturing employment and labour productivity, at the sub-city level across the cities. The location quotients figures present a quantitative assessment of the degree of specialisation and concentration of economic activities within each sector at sub-city level. Labour productivity represents the output per worker. It is measured as total sales per full-time worker. The measurement of labour productivity does not capture selection effects, whereby more politically or ethnically connected enterprises may have higher total sales (due to protection of their markets, allowing them to extract rents through higher prices), and therefore productivity may be high but only due to their relationship with political elites. Cross-sectional firm-level census data showing outputs, employment and characteristics of enterprises for one period were available only for Accra and Nairobi, therefore further quantitative analysis probing the constraints to structural transformation was carried out only for these two cities. In cities like Accra and Harare, where elections data is available, we attempt to look at the association between

political competitiveness and structural transformation. In all, comparing the "ideal" dataset to the cross-sectional datasets available in the cities indicates our inability to examine the proxies of structural transformation over a long period, even in cities where enterprise data is available.

**Table 1: "Ideal" dataset for computing structural transformation in cities against what is available in each city**

| "Ideal" dataset | Data availability in each city |
|---|---|
| • Annual time series or panel data at the city level on outputs, employments, real and nominal value added of enterprises by ten or more sectors over a long period.<br><br>• Enterprises and employee characteristics. | **Accra**: A cross-sectional dataset on enterprises (IBES), it contains data on outputs, employment as well as enterprise characteristics, as in the "ideal" dataset. The dataset is only for one period (2015); therefore, we are unable to look at the pattern over a longer period.<br><br>**Addis Ababa:** Mainly cross-sectional datasets on enterprise, industrial and household surveys. It provides details on economic activities in the city but not on indicators such as outputs, employments, value added of enterprises over a long period, and so on. We therefore use the share of manufacturing employment as proxy for structural transformation.<br><br>**Dar es Salaam:** Population census data for 2002 and 2012. The city samples in the World Bank Enterprise surveys are too small for any meaningful analysis at the city level. Given the lack of relevant indicators in the "ideal" dataset, we conduct the analysis using the share of manufacturing employment.<br><br>**Harare:** Population census data for 2002 and 2012. The city samples in the World Bank Enterprise surveys are too small for any meaningful analysis at the city level. As done for Dar es Salaam, we use the percentage shares of manufacturing employment in the city for our analysis.<br><br>**Lagos:** Administrative data from Lagos Chamber of Commerce and Industry, and cross-sectional data on household and living standard surveys. As these datasets do not contain information from the "ideal" dataset, we use other relevant indicators, such as percentage share of manufacturing employment.<br><br>**Nairobi:** There exists cross-sectional data on census of establishment, and MSME survey. These datasets capture information from the "ideal" dataset, albeit over one period. The census of establishment and MSME survey contain data for 2017 and 2016, respectively. |

The qualitative methodology focuses on understanding the drivers and constraints of structural transformation at the city level. In each city, we do 20-25 key informant interviews, and focus group discussions in some cities, conducted with key domain actors. We identify three clusters into which key actors involved in this domain can be grouped: the private sector; the state (including politicians); and non-state actors.

We map the key private sector actors, using the rents space tool from Pritchett et al.'s (2018) "Deals and Development" conceptual framework, to identify key informant interviewees. This framework takes a political settlements view of business–government relations, in order to analyse the rent space – that is, which individuals receive the returns on assets, and how. The criteria for creating the quadrants in Table 2 are based on whether "firms cater to domestic demand, or export to the rest of the world, and whether they generate profits through discretionary rents under the control of politicians or bureaucrats, or through normal market competition" (Pritchett et al., 2018: 21; Sen, 2025).

According to this framework, in the private sector, the "magicians" and "workhorse" segments of the rents space would tend to dominate. Key business associations, such as local chapters of small business associations, associations of business owners, and Rotary clubs are also relevant.

**Table 2: Rents space**

| | |
|---|---|
| **Rentiers** – companies in the natural resource sector which have offices based in the city. | **Magicians** – formal and upper-tier informal enterprises in manufacturing and tradeable services. |
| **Powerbrokers** – telecoms companies, utilities and other infrastructural companies based in the city. | **Workhorses** – lower-tier informal enterprises, in non-tradable services. |

The state actors are bureaucrats, local politicians and state/politically affiliated individuals or groups (mapped below). Bureaucrats and local politicians are more powerful and influential among this cluster.

**Table 3: State actors**

| Bureaucracy | Local politicians | State-affiliated |
|---|---|---|
| Officials in the ministries of urban development and industry, and other key ministries relevant for economic development. | Elected politicians representing constituencies in the city in regional or national governments. | Slumlords in informal settlements with political connections or affiliations. |
| Officials in municipalities. | Elected politicians in municipalities. | Brokers – individuals close to the top political leadership who play an important role in canvassing votes in local and national elections. |

The non-state agencies and actors are civil societies, the media and experts who are influential in the urban development space (see below). Civil societies and the media play a more significant role in this cluster.

**Table 4: Non-state actors**

| Civil society | Media | Experts |
|---|---|---|
| Slum dwellers associations, residents' associations. | Journalists aware of city politics and city-level economic development. | Retired bureaucrats previously influential in the urban development space. |
| Other NGOS/development partners interested in structural transformation at the city level. | | Academics working on urban development. |

The list of interviewees in the rent space, state and non-state actors categories for each city is provided in Appendix A. Some of the key questions in the interviews focused on the state of structural transformation in cities, including: who the key actors are in city-level structural transformation; how structural transformation is governed at the city level; what the core city systems are and their current state; and the key challenges faced in the structural transformation domain. We also asked probing questions on the political and systemic drivers and constraints. We asked about the importance of structural transformation to city and national political elites; what ST offers to political elites in terms of rents, legitimacy and votes; in what ways and to what extent political factors (including the political settlement at the city and national levels) shape the outcomes of structural transformation, as identified earlier in cities; and what other factors shape the main challenges identified by stakeholders. The detailed set of questions for respondents is also provided in Appendix B.

## 3.1. Sources of data

As indicated, all datasets used in the analysis are cross-sectional and therefore do not allow us to provide a detailed analysis over time. We combined different datasets for each city to carry out the analysis. Note that care must be taken with respect to the industry classification, which sometimes refers to only mining and construction, and sometimes includes manufacturing.

In **Accra**, the quantitative approach relied on data from the Ghana Integrated Business and Establishment Survey (IBES) sourced from the Ghana Statistical Service (2015), and election data from the Ghana electoral commission. The IBES covers both formal and informal enterprises. Enterprises are formal if registered with the Registrar General's Department or the Ghana Revenue Authority. We derived the data on sub-city-level government performance in Ghana from Chachu et al. (2023).

In **Addis**, we used data from Addis Ababa Labour, Enterprise, and Industry Development Bureau (AALEIDB) collected in 2020, the Urban Employment

Unemployment Survey (UEUS) (2021), the National Labour Force and Migration Survey (NLFMS) (2021), and the Large and Medium Manufacturing Industry (LMMI) survey (2019). All datasets were sourced from the Central Statistical Agency (CSA).[3]

In **Dar es Salaam**, the quantitative research used data from Tanzania's Population and Housing Census (PHC) for 2002 and 2012, the Informal Sector Survey (ISS) for 1991, 1995 and 2019, and the World Bank Enterprise Surveys (WBES) for 2006 and 2013. The PHC and ISS are sourced from the Bureau of Statistics, Tanzania (United Republic of Tanzania, 2002, 2012) whilst the WBES is sourced from the World Bank.

In **Harare**, the quantitative research relied on data from Zimbabwe's Population and Housing Census (PHC) for 2002 and 2012, elections data from Zimbabwe Electoral Commission (ZEC), and firm-level data from the World Bank Enterprise Survey for 2011 and 2016.

The quantitative analysis in **Lagos** is based on secondary data obtained from the membership database of Lagos Chamber of Commerce and Industry (LCCI), National Bureau of Statistics (NBS) General Household Survey (GHS) panel dataset for 2010/2011, 2012/2013, 2015/2016, and the National Living Standards Survey (NLSS) 2018/2019. Information for Lagos households is extracted from the GHS panel set and the NLSS. Data from LCCI contain only formal enterprises. The formal–informal employment ratio is extracted from NLSS, where formal employment represents workers covered by social protection provisions, such as pensions.

In **Nairobi**, we analyse firm-level data collected by the Kenya National Bureau of Statistics (KNBS); the Census of Establishments (2017); and the Micro-Small and Medium Enterprises survey (2016). Whereas the Census of Establishment (2017) contains information on formal establishments only, the MSME survey (2016) contains both formal and informal establishments. The formality status of establishments depends on registration with relevant national institutions.

## 4. Findings

In this section, we provide thematic discussions of the key findings across cities. Firstly, we highlight the findings on the spatial distribution of economic activities and patterns of structural transformation across the six cities. This is vital, as we seek to understand how best to facilitate agglomeration economies (in the phase of increased urbanisation) and position African cities as centres of economic transformation and inclusive growth. This is followed by a discussion on the drivers of limited structural transformation, largely focusing on the ways in which national and city political settlements influence structural change across the cities.

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3 CSA sources were the *Urban Employment Unemployment Survey* (various years), and the *National Labour Force Surveys* (various years).

## 4.1. Spatial distribution of economic activities and patterns of structural transformation

The findings across cities show that the prospects of thriving, highly productive manufacturing and tradable services are dim, with some cities, such as Harare, experiencing continuous decline in economic activities in these sectors. Across the cities, urbanisation has been associated with movements from agriculture into low-productive activities in (non) tradable services and largely informal manufacturing. Across all cities, there are significant spatial variations in economic activities at the sub-city level, with manufacturing, construction and services being concentrated in different parts of the city. In all cities, services have the highest sectoral share (mostly made up of micro and informal businesses engaged in wholesale and retail trade), followed by the industrial sector. The agriculture sector is negligible in most cities. Cities like Accra, Harare and Nairobi tend to be monocentric, with economic activities and employment in services concentrated in the centre, whilst the few manufacturing firms are at the edge of the city. In the other cities, particularly in Dar es Salaam, the concentration of employment in both services and manufacturing can be found in the same part of the city. These localised patterns within cities are largely due to historical, political and sociocultural factors. In cities such as Accra and Nairobi, where enterprise data is available, we find that there is heterogeneity in labour productivity across sub-cities, sectors, sizes and formality. Large (employing more than ten workers) and formal enterprises seem to have higher levels of labour productivity. Where businesses are located matters for their productivity, with only a few municipalities acting as effective hubs of transformation for businesses. In the ensuing discussions, we present detailed analysis for Accra, Addis Ababa, Dar es Salaam, Harare, Lagos and Nairobi. As indicated in the methods section, limited data on cities have restricted the analysis.

In **Accra**, we use enterprise data from the IBES I and II for analysis on this theme. The IBES contains both formal and informal enterprises. We find that spatial variation in establishments matters, with the Accra metro and Tema metro having the largest number of establishments, while municipalities such as La Nkwantanag Madina and Ashaiman have the least number of establishments (see Figure 3).
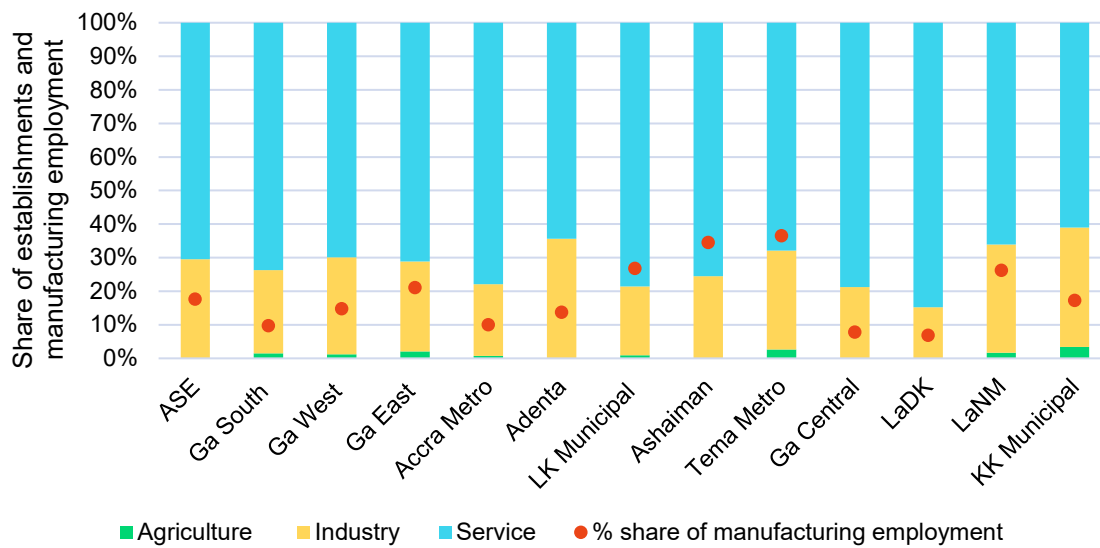
**Figure 3: Number of establishments**
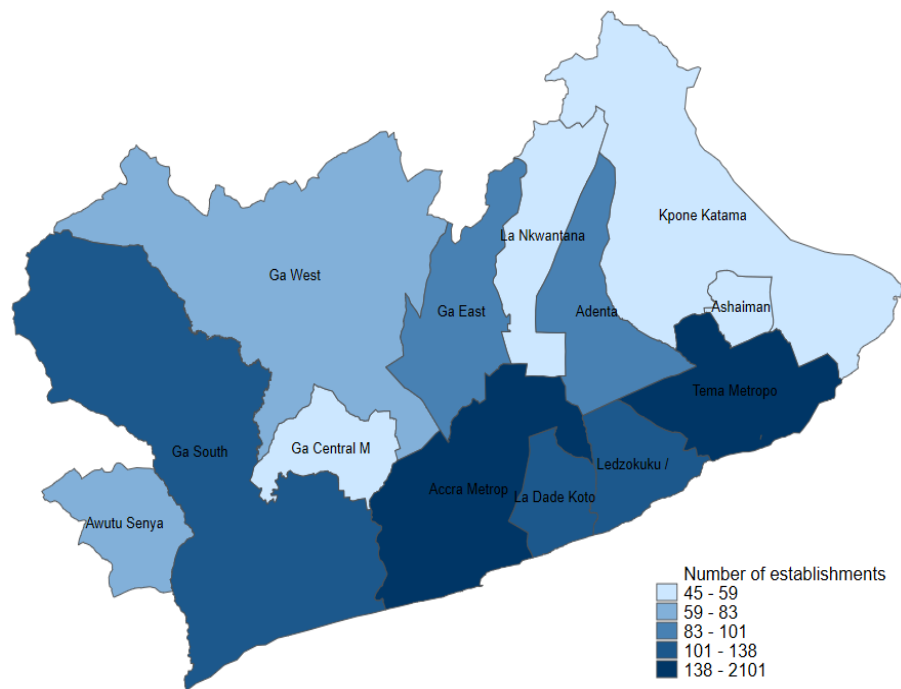


Source: Authors' construct, based on data from IBES (2014/2015).

Note: Accra metro is the Central Business District (CBD).

At the sectoral level, the services sector dominates in all municipalities with higher shares of establishments (see Figure 4) and employment. The concentrations of manufacturing, construction and services employment also vary across the city (see Figures 5-7). Further analysis of manufacturing employment at the sub-city levels and across cohorts of new establishments shows that shares of manufacturing employment across municipalities in Accra are very low (see Figure 4). In some municipalities, such as Ga South, Ga Central and La Dede Kotopon, the share of manufacturing employment is less than 10%. Only a few districts, like Ashaiman and Tema, have higher shares (slightly above 30%). Also, the shares of employment in each sector from 1976 to 2014 have been higher in services (about 80% on average at the city level) and very low in manufacturing employment.

**Figure 4: Shares of establishments in each sector and shares of manufacturing employment across districts/municipalities in Accra city region**



Note: Accra Metro is the central business district; ASE = Awutu Senya East; LK = Ledzokuku/Krowor; LaDK = La Dade Kotopon; LaNM = La Nkwantanang Madina; and KK = Kpone Katamanso.

Note: The bar graphs show the share of establishments per sector across municipalities. The circle separately displays the share of manufacturing employment across municipalities.
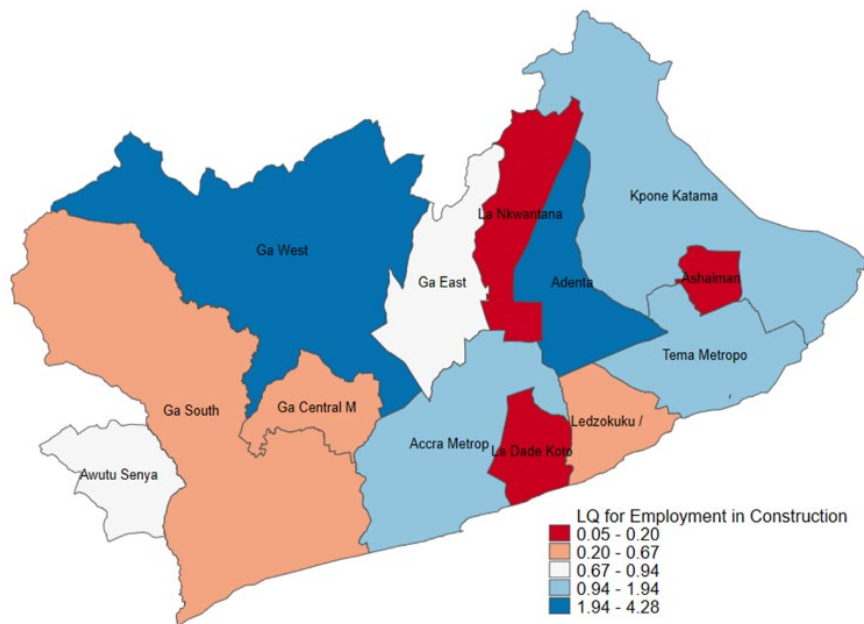
Source: Authors' construct, based on data from IBES II (2014/15).

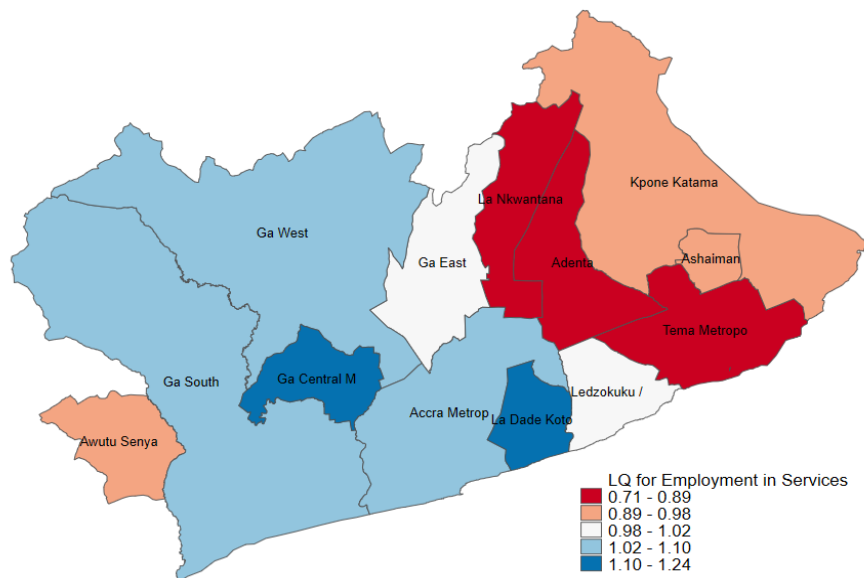**Figure 5: Location quotient for manufacturing**
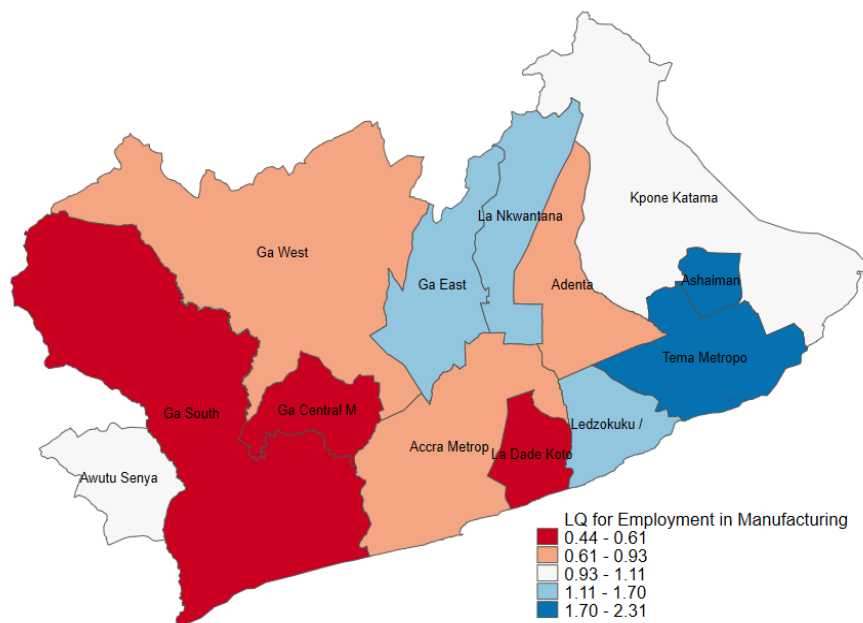


Note: LQ = Location quotient; values higher than 1 means higher concentration in the district than the nation

Source: Authors' construct, based on data from IBES (2014/2015).

**Figure 6: Location quotient for construction**



Note: LQ = Location quotient; values higher than 1 means higher concentration in the district than the nation

Source: Authors' construct, based on data from IBES (2014/2015).

**Figure 7: Location quotient for services**



Note: LQ = Location quotient; values higher than 1 means higher concentration in the district than the nation

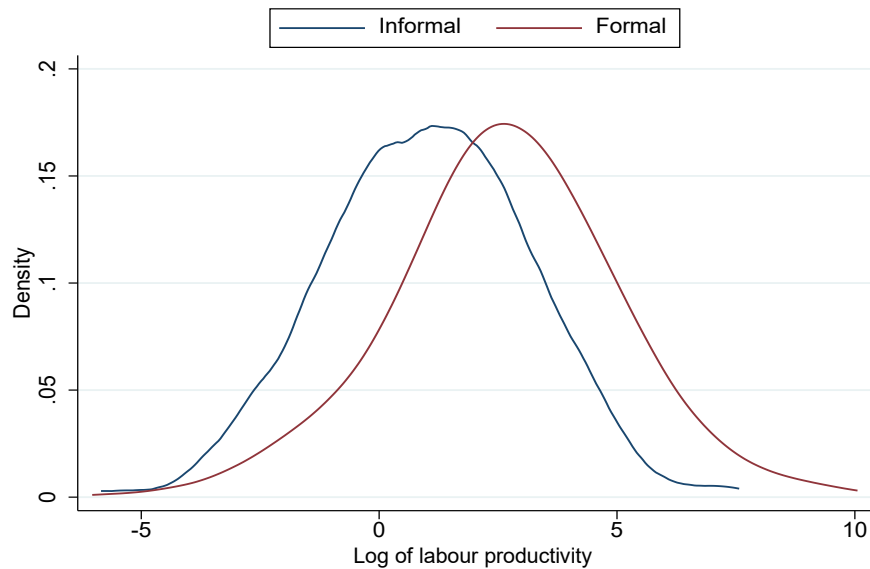Source: Authors' construct, based on data from IBES (2014/2015).

The labour productivity estimates for Accra show that there is heterogeneity in labour productivity at the sub-city level and also across sectors, sizes of enterprises and formality. The labour productivity of enterprises across municipalities shows that

Adenta and La Dade Kotopon host the most productive enterprises, while Ga South, Ga West, Ashaiman and Ga Central host the least productive enterprises on average (see Figure 8). Across sub-sectors, finance and insurance as well as construction seem to have higher levels of productivity. Large enterprises (with more than ten employees), and formal enterprises also exhibit higher levels of productivity (see Figure 9). In other words, there are more formal firms with higher levels of labour productivity than informal firms, as shown in Figure 9. The analysis shows that only a few municipalities, such as Accra Metro, Adenta, Tema Metro, Ledzokuku/Krowo and La Dade Kotopon, positively correlate with labour productivity. This shows that many of the municipalities do not invigorate the city to function as an engine of growth and economic transformation. The patterns above show that the city has not seen the growth of, and employment in, highly productive sectors such as manufacturing and tradable services compared to Asian cities with similar levels of urbanisation and income.

**Figure 8: Labour productivity of enterprises across municipalities**
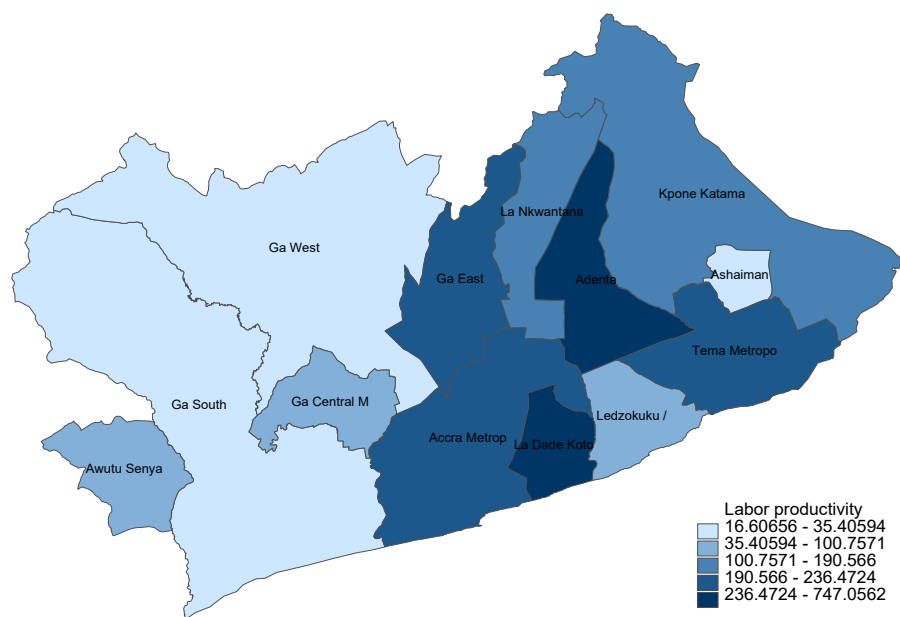


Source: Authors' construct, based on data from IBES (2014/2015).

**Figure 9: Labour productivity by formality status**



Source: Authors' construct, based on data from IBES (2014/2015).

In **Addis,** we employ the recent enterprise survey conducted by the Addis Ababa Labour, Enterprise and Industrial Development Bureau (AALEIDB) for the analysis. All enterprises in the survey are registered by the AALEIB and they are required to pay tax. These enterprises may also receive support, such as working premises. They may therefore be classified as formal. We observe a significant variation in distribution of establishments among the 11 sub-cities (see Figure 10). Yeka, Arada and Gulele sub-cities have the highest concentration of enterprises, indicating a larger presence of economic activity within those areas. On the other hand, the sub-cities of Bole, Lemi-Kura and Lideta have the lowest concentration of enterprises. The remaining sub-cities fall in the middle range. These variations indicate differing levels of economic activity, business opportunities and housing costs within each sub-city.

**Figure 10: Distribution of enterprises in Addis Ababa by sub-city**
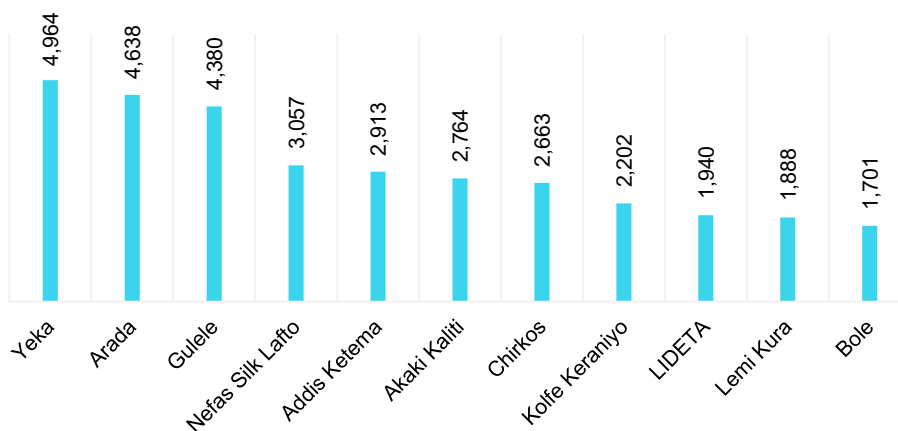


Source: Authors' construct, based on AALEIDB.

Note: Addis seems to be a polycentric city, but Chirkos and Arada are the CBDs.

In terms of sectoral distribution, approximately 40% of the enterprises registered in Addis Ababa are engaged in the service sector, which includes trade activities. The manufacturing sector and the construction industry each account for approximately 29% and 26% of the registered enterprises, respectively. The remaining 5% of enterprises fall under the category of urban agriculture.

**Figure 11: Sectoral distribution of enterprises in Addis Ababa in 2020**
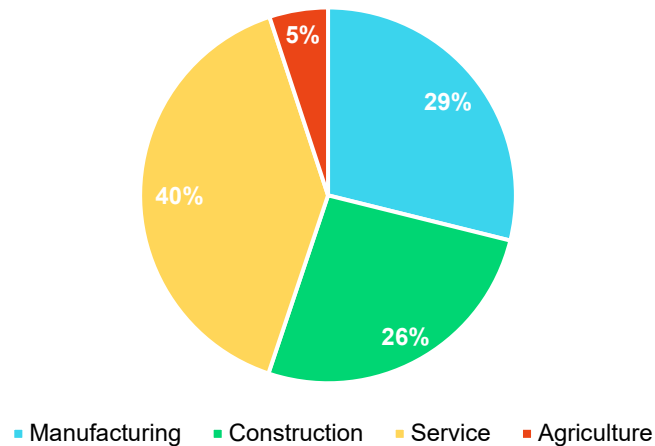


Source: Authors' construct, based on AALEIDB.

Across all sectors, microenterprises constitute the majority. The microenterprises accounted for are enterprises registered by AALEIDB. This means that many unregistered microenterprises in Addis are not captured. However, their prevalence is particularly pronounced in the service and agricultural sectors, accounting for 95% and 90%, respectively. The manufacturing sector exhibits a relatively higher percentage of small, medium and large enterprises compared to service and agricultural sectors.

**Figure 12: Sectoral distribution (%) of enterprises in Addis Ababa by size in 2020**
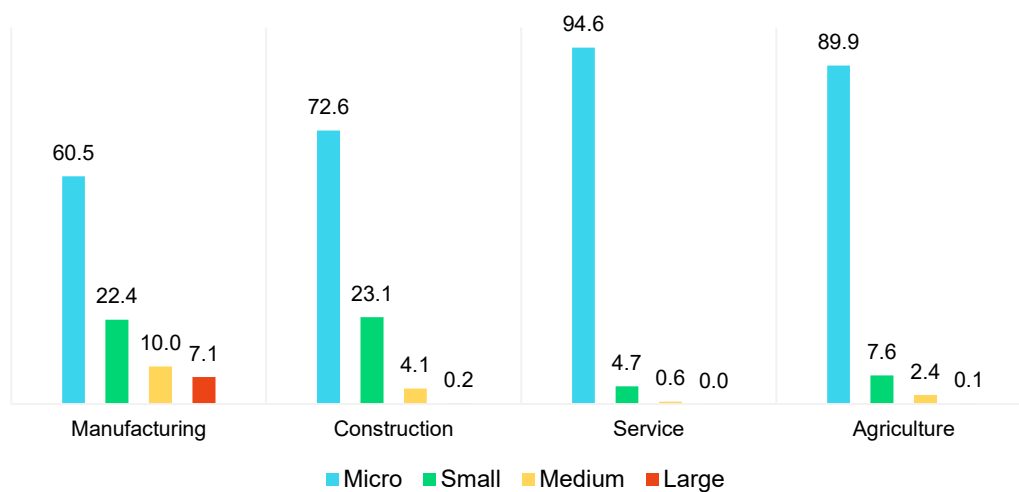


Source: Authors' construct, based on AALEIDB.

According to data from the AALEIDB, the rate of growth for enterprises in Addis Ababa indicates that only a small proportion of microenterprises successfully progress from their initial start-up phase to various stages of development. The majority of microenterprises (87%) remain stagnant and have not achieved significant progress or growth beyond their initial start-up stage. This finding highlights the challenges and barriers faced by many microenterprises in Addis Ababa in terms of scaling up and achieving sustainable growth.

The measure of the relative concentration or specialisation of manufacturing, service and construction sectors within the sub-city offers valuable insights into the spatial distribution and economic dynamics of Addis Ababa's sub-cities. Figures 13, 14 and 15 illustrate the location quotient (LQ) values for the manufacturing, service and construction sectors, respectively, within the sub-cities of Addis Ababa. The LQ analysis reveals interesting patterns in the spatial distribution of economic activities within the sub-cities of Addis Ababa. Addis Ketema and Gulele sub-cities demonstrate a higher concentration of manufacturing activities. On the other hand, the inner sub-cities of Arada, Chirkos and Lideta, which are smaller in size, exhibit a lower concentration of manufacturing. This can be attributed to factors such as the high cost of land in the Central Business District, which may discourage manufacturing activities in these areas. Consequently, these sub-cities have a relatively higher concentration of the service sector, as microenterprises in services do not require land for their activities. The outer and larger sub-cities of Yeka, Akaki-Kality, Bole and Lemi Kura display a higher concentration of the construction sector. This observation aligns with the rapid urbanisation and expansion of Addis Ababa, with these sub-cities serving as outlets for such growth. The increased construction activity in these areas is driven by the need for infrastructure development and the construction of residential and commercial buildings to accommodate the expanding population.

**Figure 13: Location quotient manufacturing**
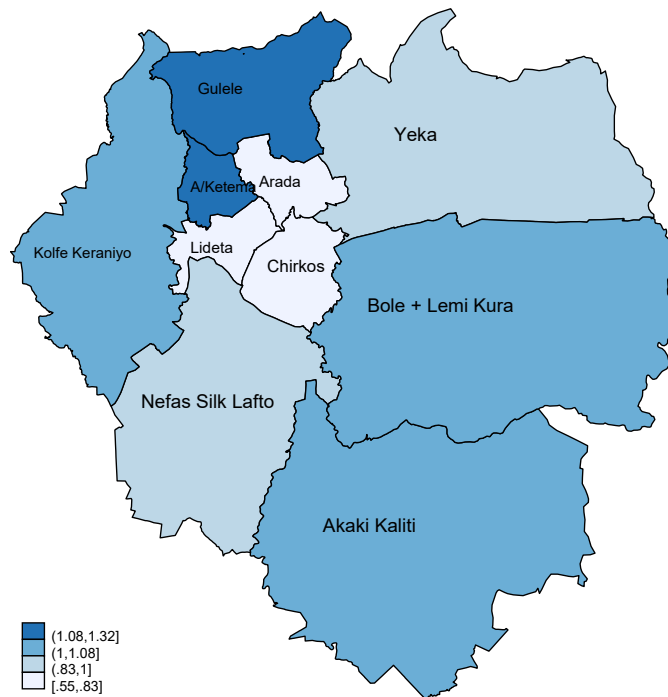


Source: Authors' construct, based on AALEIDB.

**Figure 14: Location quotient service**
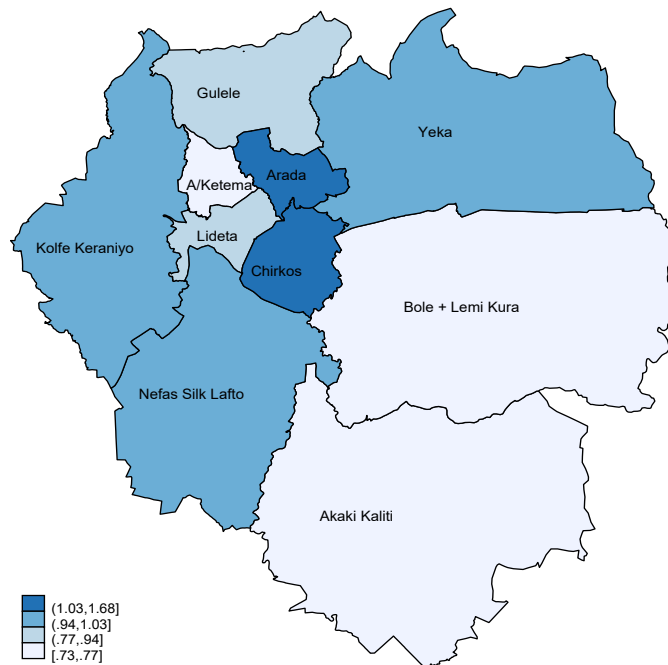


Source: Authors' construct, based on AALEIDB.

**Figure 15: Location quotient construction**
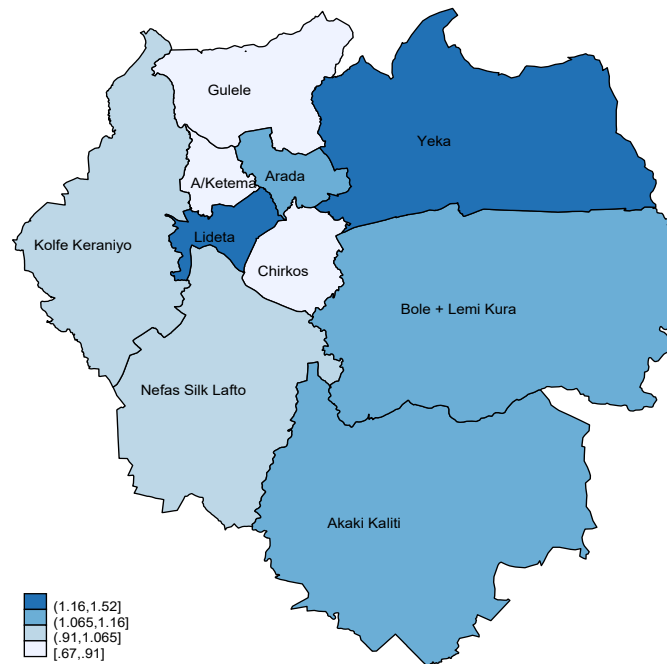


Source: Authors' construct, based on AALEIDB.

The Urban Employment and Unemployment Survey (UEUS) is used to analyse sectoral employment shares. The UEUS shows that the service sector is the main employer in Addis Ababa, absorbing about 76% of the workforce. The manufacturing sector is the next biggest employer, but it employs only 15% of those with work. The construction sector employs about 8.5%. Agriculture employs the remaining less than 1% (see Table 5). Between 2006 and 2018, the share of employment in services has increased from 70% to about 76%, while the share of manufacturing in employment declined from about 22% in 2006 to about 15% in 2018. The share of employment in agriculture in Addis Ababa has remained less than 1% over the period.

**Table 5: Trends in sectoral shares of employment in Addis Ababa**

|  | 2006 | 2012 | 2018 | 2020 |
|---|---|---|---|---|
| **Agriculture** | 0.56 | 0.47 | 0.57 | 0.62 |
| **Manufacturing** | 21.71 | 13.89 | 15.34 | 13.29 |
| **Construction** | 7.7 | 8.69 | 8.52 | 8.94 |
| **Service** | 70.03 | 76.95 | 75.58 | 77.15 |

Source: Authors' construct, using UEUS and the NLFMS.

In **Dar es Salaam**, due to the lack of enterprise surveys, we used two rounds of the Tanzania's Population and Housing Census (PHC) for 2002 and 2012 for this analysis.

The PHC does not cover enterprises, the unit of analysis is the person. As a result, we are not able to comment on the number, distribution and productivity of enterprises at the sub-city level. However, we are able to analyse relevant indicators, such as sectoral employment shares per district, and the LQs of employment per sector for the two census years across districts. We are not able to distinguish between formal and informal enterprises using these datasets.

Figure 16 presents the shares of sectoral employment across districts for 2002 and 2012. The service sector has consistently dominated across all districts as the largest employer. Compared to other industries, it employs a significant number of individuals in the districts. Manufacturing has the second largest share of employment, followed by mining and quarrying and agro-industry. Nonetheless, what has become increasingly apparent is the rise of informal labour in the service sector, while only a handful of workers engage in informal manufacturing (Informal Sector Survey, 1991, 1995 and 2019).

**Figure 16: Percentage shares of sectoral employment across districts in Dar es Salaam**
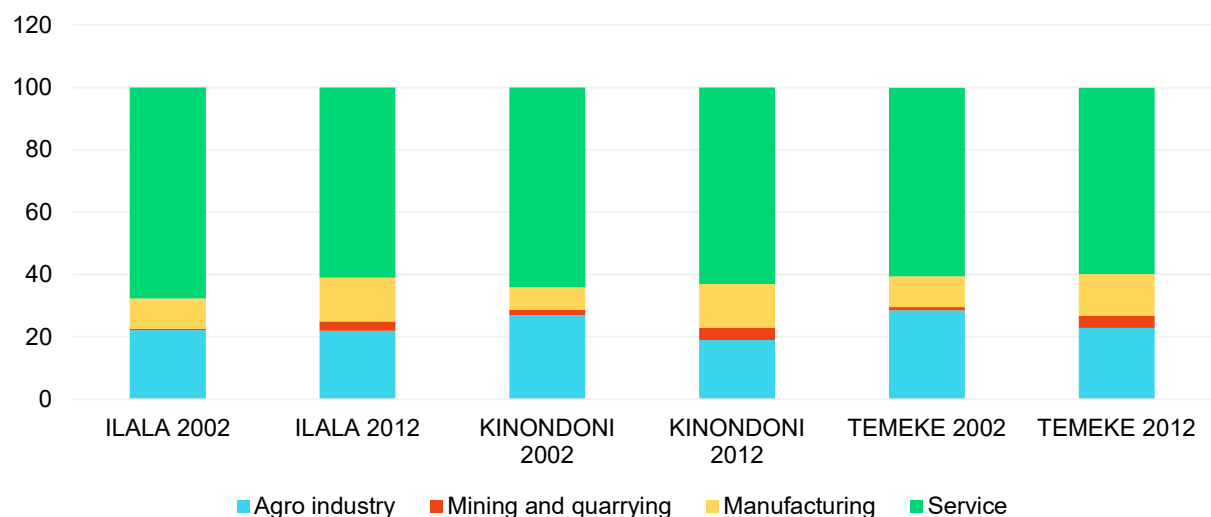


Source: Authors' construct, based on PHC data (2002 and 2012).

Note: The CBD (comprised of Kisutu, Kivukoni, Upanga and Kariakoo) is in Ilala district.

With respect to concentration of economic activities, the LQ in agro-industries is dominated by Kinondoni district in 2002 and 2012 (Figure 17). This indicates that there are more farmers in Kinondoni than in any other district in Dar es Salaam. The LQ for agro-industry looks larger than other sectors, such as manufacturing and services. Dar es Salaam is a leading agriculture trading hub in the country and the main destination of agriculture production.

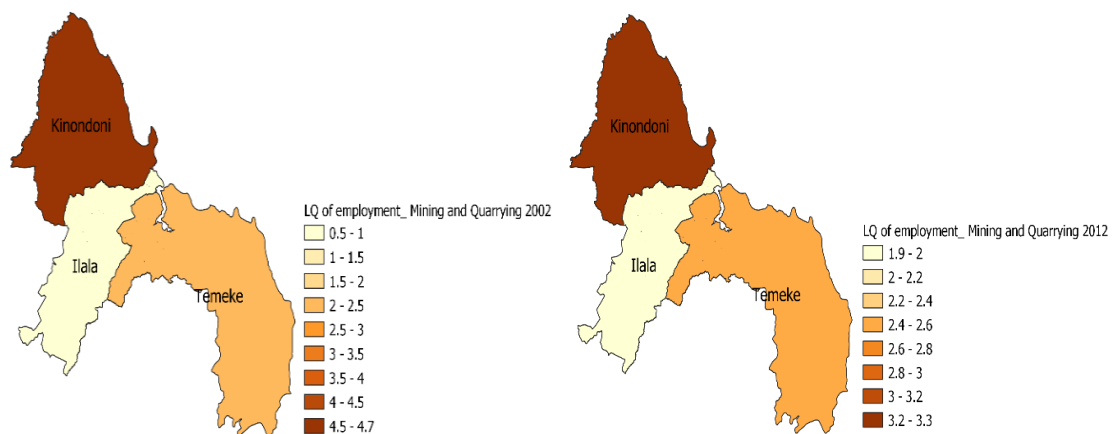**Figure 17: Location quotient of employments in agro-industry by districts for 2002 and 2012**
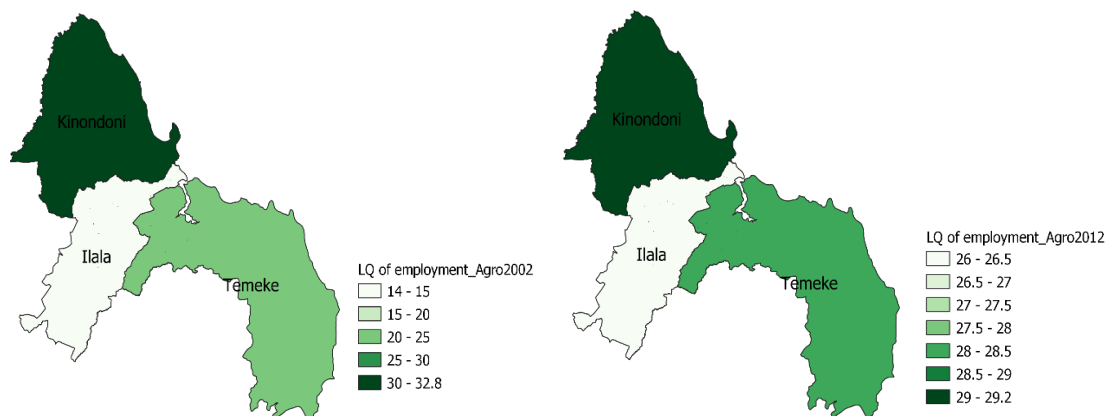


Source: Authors' construct, based on PHC data (2002 and 2012).

The LQ in mining and quarrying in Kinondoni districts seems to have reduced from 4 in 2002 to 3.2 in 2012. However, LQ in Kinondoni is higher than in other districts. This may be due to the construction that is taking place in the district relative to other districts in Dar es Salaam. Notably, Mbweni, Boko and Bunju are places where the majority prefer to build houses nowadays. The LQ of Temeke is almost the same from 2002 to 2012. However, in Ilala, there was some improvement since the LQ moved from 0.5 in 2002 to 1.9 in 2012 (see Figure 18).

**Figure 18: Location quotient of employments in mining and quarrying industry by districts for 2002 and 2012**



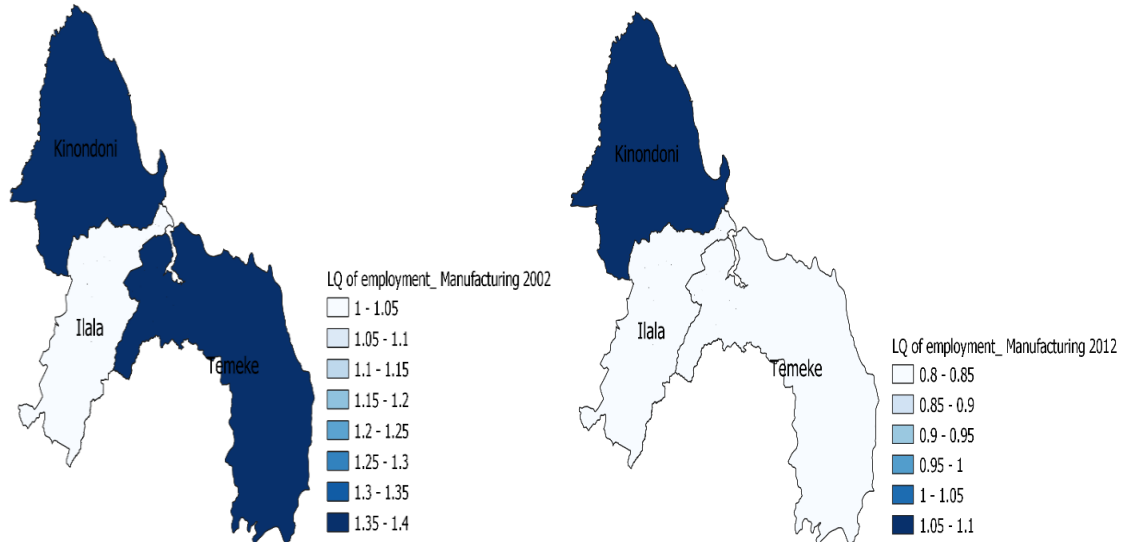Source: Authors' construct, based on PHC data (2002 and 2012).

In the manufacturing sector, Kinondoni and Temeke were in the lead in terms of LQ in 2002, but by 2012, only Kinondoni had high concentrations, and only by a margin of 1.05 to 1.1 over other district (see Figure 19). This may be attributed to the presence of industries in many parts of Kinondoni, such as along Bagamoyo and Morogoro roads.

In addition, at the present time, Kinondoni is the industrial district of the city, where both heavy and light industries are located.

**Figure 19: Location quotient of employments in manufacturing industry by districts for 2002 and 2012**



Source: Authors' construct, based on PHC data (2002 and 2012).

As depicted in Figure 20, the service sector accounted for the majority of employment in Kinondoni during the 2002 and 2012 census periods. Kinondoni recorded a modest increase from 1.4 in 2002 to around 1.5 in 2012. This may be because of the existing trade centres like Magomeni, Kinondoni, Mwenge and Wazo. Kinondoni is home to the largest mall in Dar es Salaam – Mlimani city – which was established in 2006 (currently in Ubungo district).
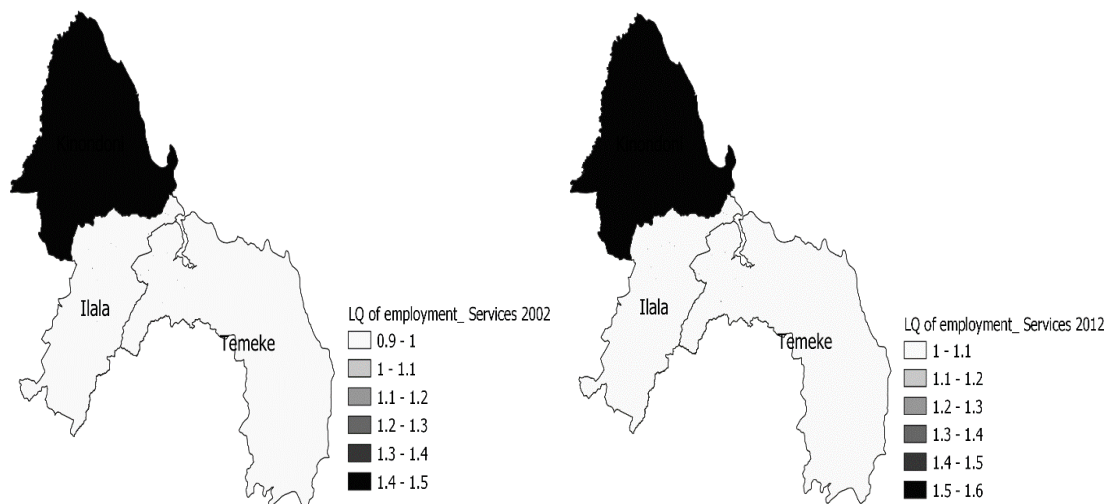
**Figure 20: Location quotient of employments in service industry by districts for 2002 and 2012**



Source: Authors' construct, based on PHC data (2002 and 2012).

In **Harare**, we use two rounds of PHC for 2002 and 2012. Related to the dataset used in Dar es Salaam, the PHC for Harare does not also capture enterprises, therefore the analysis does not cover enterprise-level characteristics like formality of businesses. The share of manufacturing employment has declined drastically. There are only isolated remaining informal manufacturing workers in some wards of the city. There is observable poor growth in formal service employment, as many entities have closed down, due to massive economic pressures and obstacles, as observed above. What has, however, emerged very strongly is increasing informal employment in the service sector.

Using data from PHC for 2002 and 2012, Figures 21 to 23 display employment LQs for major sectors of the economy by census divisions of Zimbabwe. Agro-industrial comprises those firms that are involved in processing of agricultural and farming products, such as maize milling. The shares of employment in agro-industrial in Southwest and Eastern areas of the Greater Harare region are relatively high compared to other areas in Greater Harare (see Figure 21). These regions comprise high-density areas of the City of Harare, where most industries are located.

In contrast, northern areas have an agro-industrial share of employment that is lower than the Greater Harare regional share, with a mean agro-industrial LQ of 0.60 in 2002 and 0.46 in 2012. The spatial distribution of manufacturing employment is revealing of historical locations of industrial zones. Industrial areas were located in Southern, Southwest and Southeast areas of Harare. However, there are new emerging industrial areas in other areas of the city. Traditional industrial areas have a higher share of employment in manufacturing than other areas in the city. This data includes both formal and informal enterprises.

Non-tradable activities in services tend to be distributed widely across regions, as production of the services has to be nearer to the customers. A growing range of financial, business and technical services are becoming increasingly tradable, but a large percentage remains local. Figure 22 shows that shares in employment in the services sector are widely distributed across wards in the Greater Harare region. This implies that there is little regional specialisation in the services sector. Harare CBD and northern areas have an LQ above 1, suggesting higher concentrations of employment in the services in this part of the city. Most finance, insurance and business services are located in those areas.

**Figure 21: Location quotient for agro-industry (2012 and 2002)**
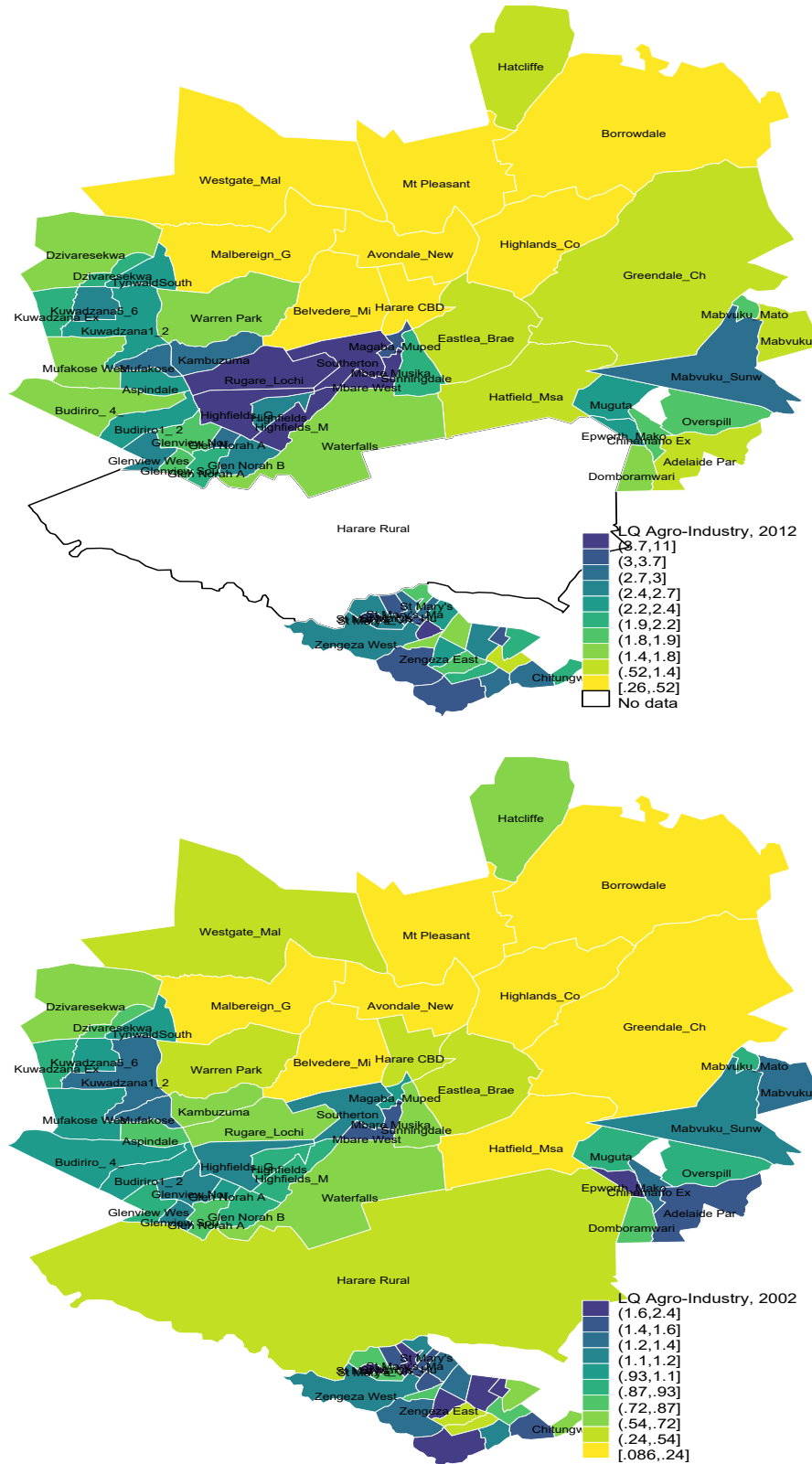


Source: Authors' construct from 2002 and 2012 Population and Housing Census (ZIMSTAT/World Bank).

**Figure 22: Location quotient for manufacturing (2012 and 2002)**
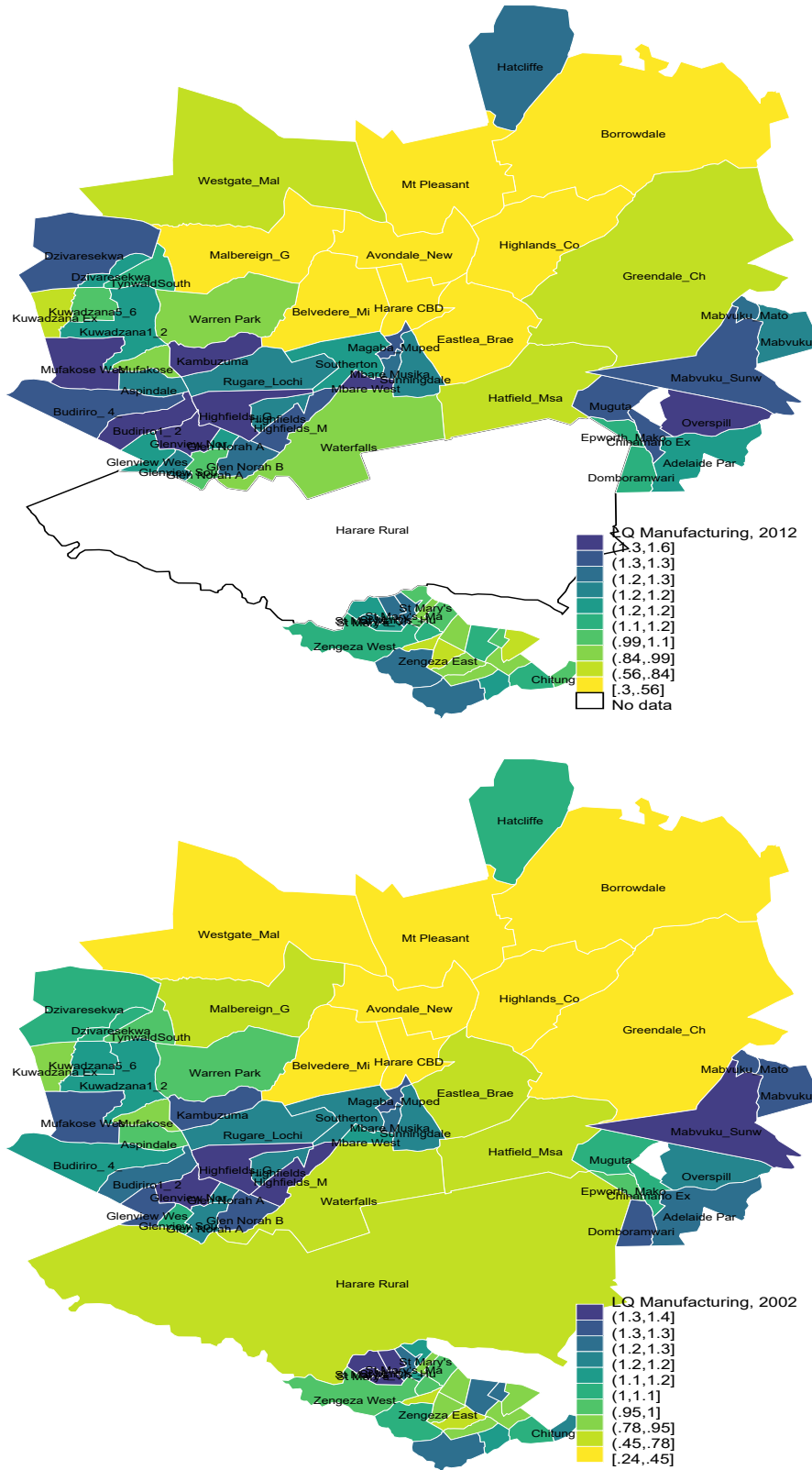


Source: Authors' construct from 2002 and 2012 Population and Housing Census (ZIMSTAT/World Bank).

**Figure 23: Location quotient for services (2012 and 2002)**
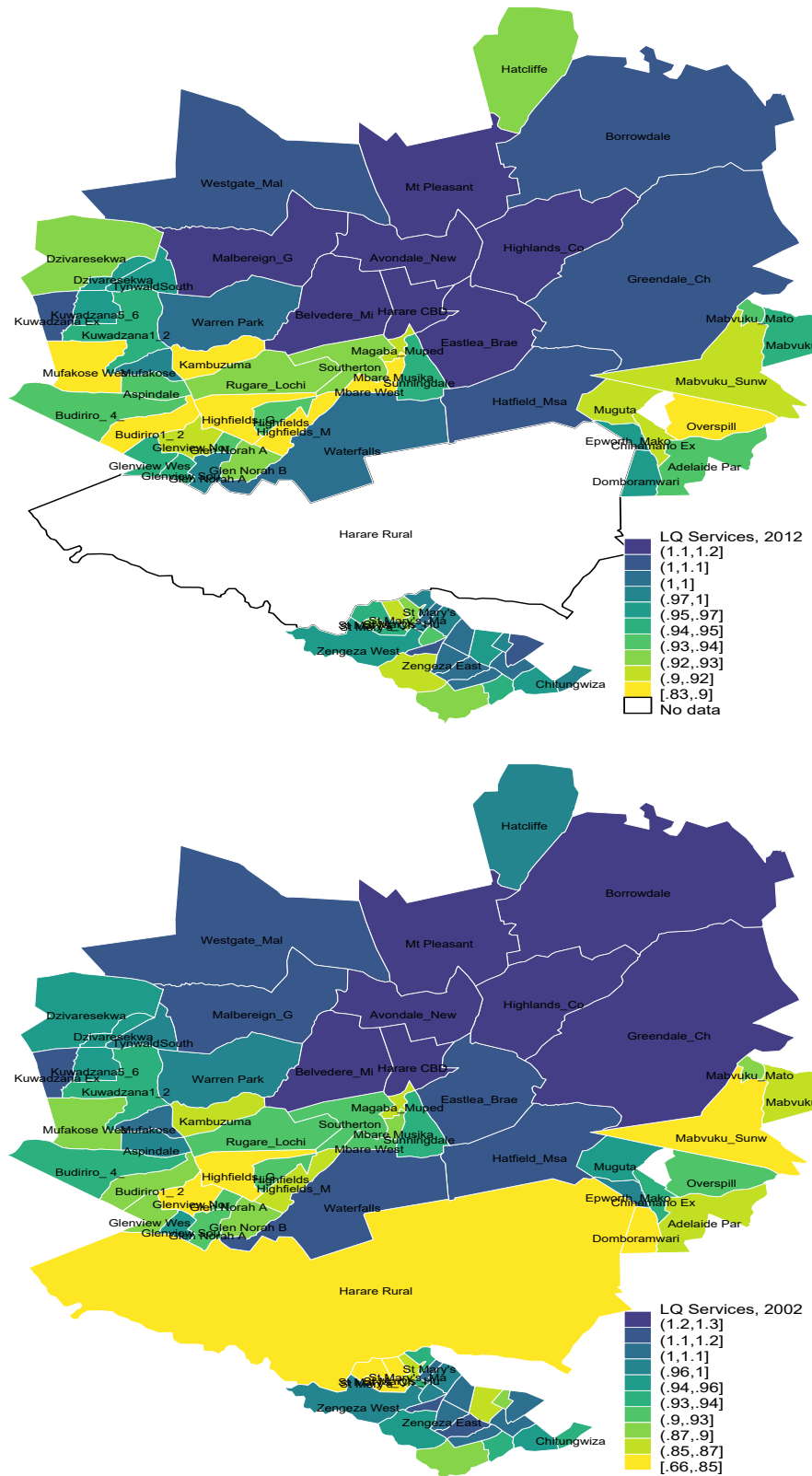


Source: Authors' construct from 2002 and 2012 Population and Housing Census (ZIMSTAT/World Bank).

To further explain the spatial distribution of economic activity, wards were categorised into low-density, medium-density and high-density areas, depending on how they compare to the median population density of all regions. This classification also reflects high income, medium and low income, respectively. Figures 24 and 25 below show that employment in the services sector is far higher than in the agro-industry and manufacturing sectors, across all areas in Harare. Manufacturing employment levels are slightly higher in medium- and high-density areas than low-density areas, but they declined across all areas over the 2002-2012 period.

**Figure 24: Employment by industry, shares by population density categories in 2002**
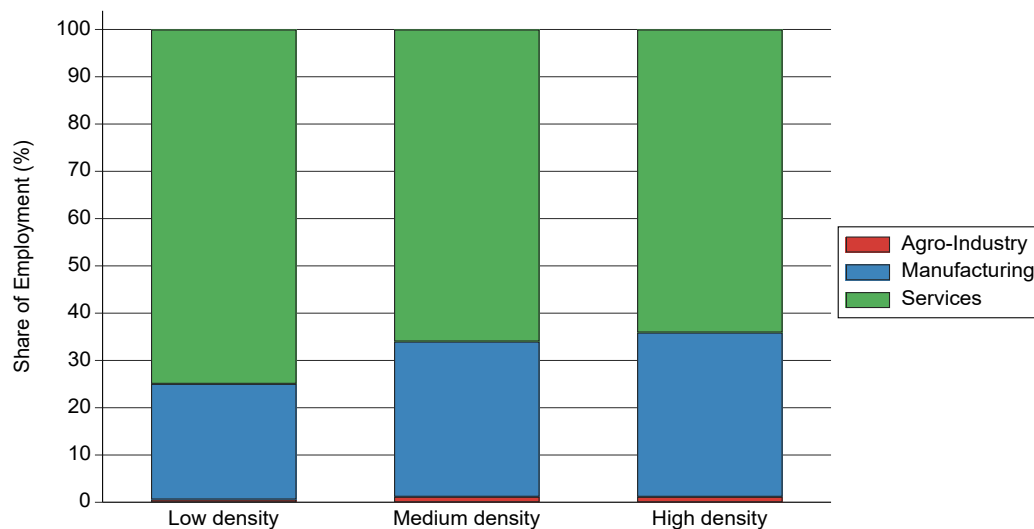


Source: Authors' construct, using employment data from ZIMSTAT/World Bank.

**Figure 25: Employment by industry, shares by population density categories in 2012**
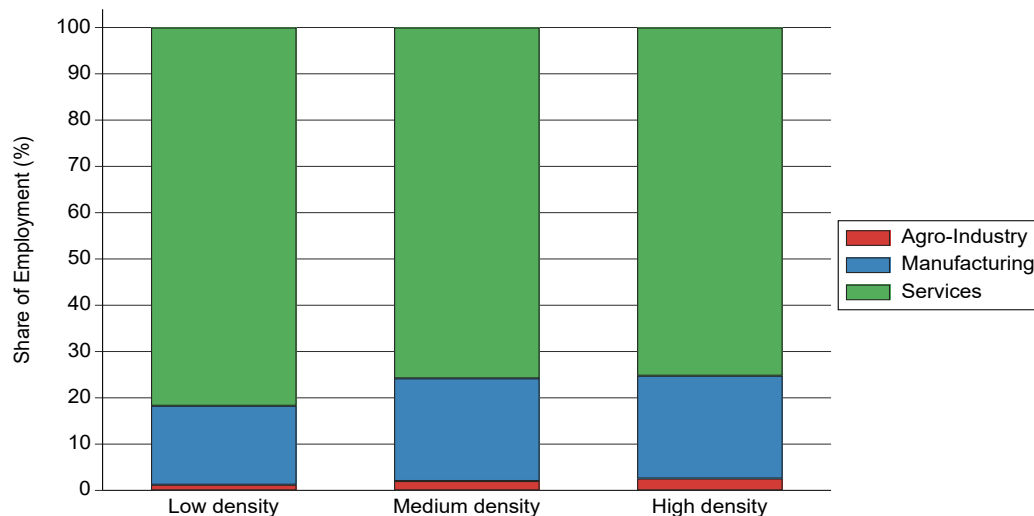


Source: Authors' construct, using employment data from ZIMSTAT/World Bank.

The kernel density estimates of employment across regions by sector in 2002 and 2012 show a high proportion of regions with below-average employment levels, and few regions with above-average employment levels. The distribution of ward-level employment does not appear to have evolved much over the period 2002 to 2012. The regional distribution of employment in manufacturing does not show any changes over the period (see Figure 26).

**Figure 26: City of Harare regional distribution of employment in services, 2002 and 2012**
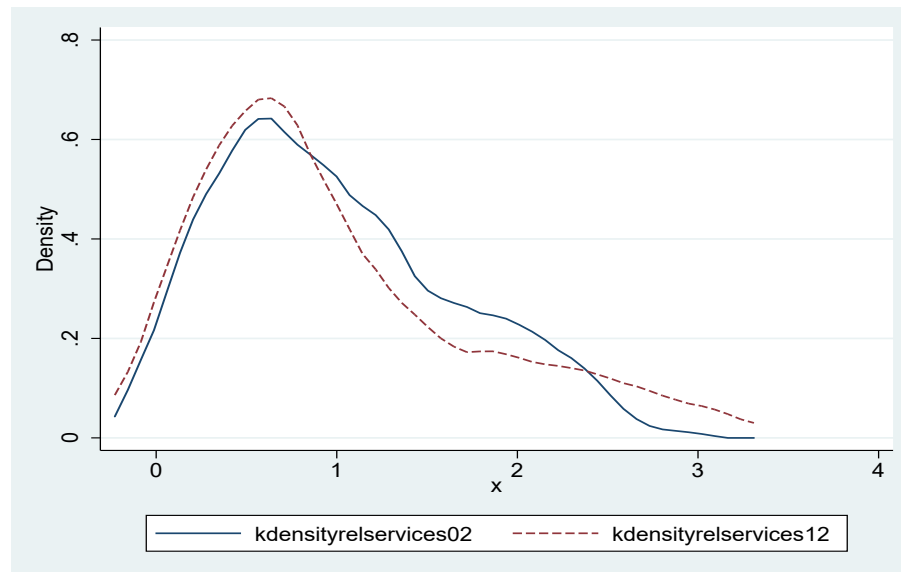


Notes: "x" axis is the distribution of employment. relservices02 and relservices12 refers to employment in services relative to across-region mean employment in services.

Source: Authors' construct from 2002 and 2012 Population and Housing Census (ZIMSTAT/World Bank).

Overall, between 2002 and 2012, formal employment in the agro-industrial and services sectors has increased by 99.7% and 6.3%, respectively, whereas employment in the manufacturing sector has declined by 35.2%, although there is bit of heterogeneity when disaggregated by wards across the city. However, employment in the informal sectors of all regions has increased. Informal employment in the agro-industry and services sector has increased by 198.3% and 67.3%, respectively, whereas informal employment in manufacturing only increased by 7.2%. Growth in shares of employment and in female employment also follows similar patterns. These findings suggest that in terms of economic transformation, Greater Harare region has not been performing well, as the majority of people are employed informally in low-productivity sectors.

In **Lagos**, we do not have enterprise survey data, so we combine data from a membership database of Lagos Chamber of Commerce and Industry (LCCI), National Bureau of Statistics (NBS) General Household Survey (GHS) panel dataset for 2010/2011, 2012/2013, 2015/2016, and the National Living Standards Survey (NLSS)

2018/2019. The LCCI database contains only formal firms; however, we are able to derive formality in employment from the NLSS datasets.

We see a significant variation in spatial distribution of business establishments in Lagos. Using the LCCI directory, which covers 2,707 formal business establishments across the 20 LGAs, we find that Ikeja (a relatively small LGA in its spatial area) has the highest concentration of economic activities, as it hosts 540 (19.9%) of the business enterprises, followed by Eti-Osa with 503 (18.5%) and Lagos Island with 221 (8.2%), whilst Epe takes the rear position, with two (0.1%) (see Figure 27). The concentration of business firms in Ikeja can be attributed to the fact that it is the capital of Lagos State and has several industrial layouts that house the majority of industrial and manufacturing firms. Ikeja also has higher levels of infrastructure compared to the other LGAs. Further, the structure of Lagos is such that each geographical area and district has peculiar and unique characteristics in terms of business activity and economic clusters. For example, while Alaba is known for electronics and automobile parts sales, Ikeja is known for industries, and Ikorodu and Epe are known for agricultural produce and farming.

**Figure 27: Numbers of establishments**
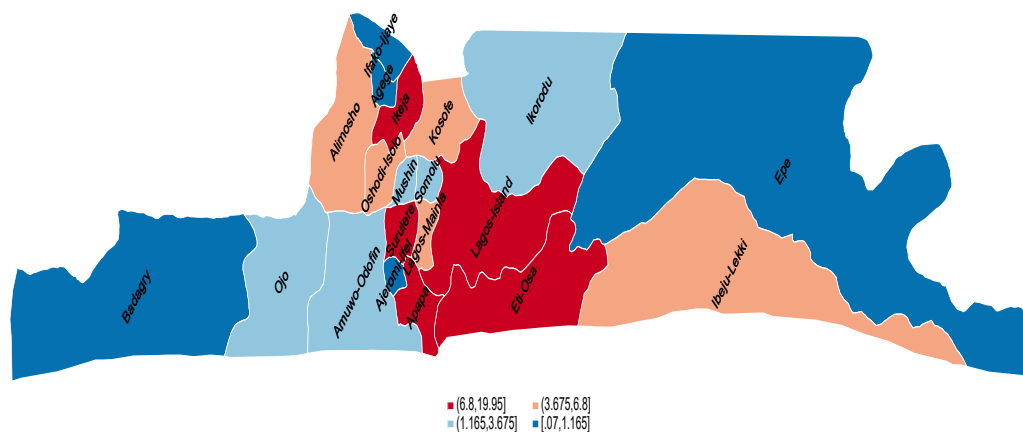


Source: LCCI.

Note: The CBDs are in Ikeja and Lagos-Island.

The distribution of economic activities across a broad category of economic sectors shows that the agricultural sector accounts for a total of 146 (5.4%) of the entire business enterprises, manufacturing for 207 enterprises (7.6%) and the services sector takes the bulk of economic activities, with 2,354 (87.0%) establishments. At sub-city level, Ikeja has the highest share of establishments across the agricultural, manufacturing and services sectors, followed by Eti-Osa and Lagos-Island. Epe has no agricultural and manufacturing-based business establishments and has the lowest share of services-based firms. Generally, agriculture has the lowest number of firms, with only 146 (5.4%) of the entire 2,707.

With respect to the spatial distribution of economic activities at the sub-city level, the LQ for agricultural establishments shows that they are concentrated in Ikeja, Eti-Osa, Lagos-Mainland and Surulere (Figure 28).

**Figure 28: Location quotient for agriculture**
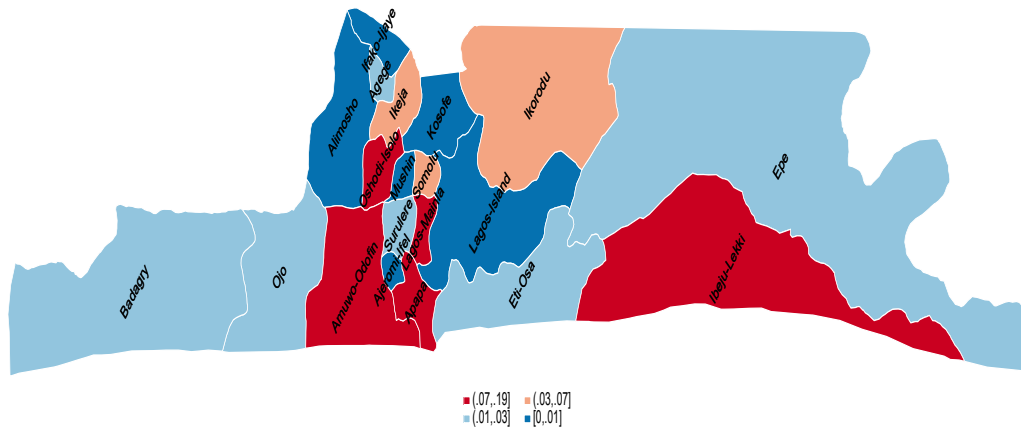


Source: LCCI.

The distribution of manufacturing establishments (Figure 29) indicates a large concentration of firms are in Ikeja, Eti-Osa, Ibeju-Lekki, Lagos-Island, Alimosho, and Apapa, while Agege, Ajeromi-Ifelodun, Badagry, Epe and Ifako-Ijaye are among the least concentrated. A similar pattern is observable for the distribution of services establishments (Figure 30).

**Figure 29: Location quotient for manufacturing**
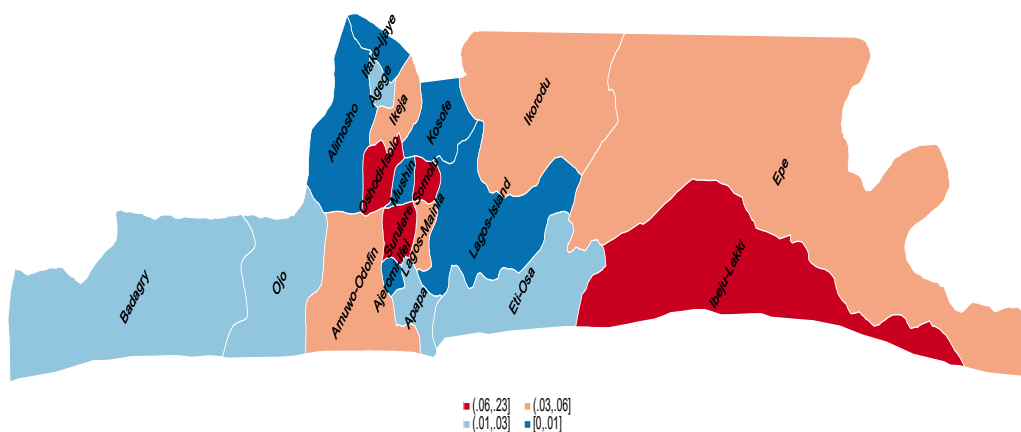


Source: LCCI.

**Figure 30: Location quotient for services**
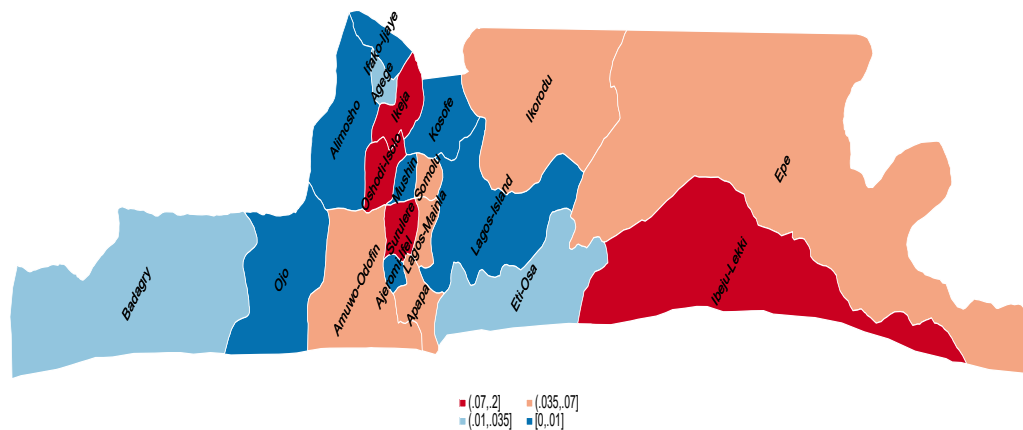


Source: LCCI.

The LCCI shows that the majority of the formal business establishments (386 or 74.2%) are micro, 84 (16.2%) are small, 21 (4%) medium size, and only 29 (5.6%) are large-scale firms. Small and medium-scale business establishments are found more in Agege, Badagry and Ibeju-Lekki, while the few large-scale firms are located around Apapa, Eti-Osa, Ikeja, Ikorodu, Lagos-Island, Lagos-mainland, Ojo and Surulere.

Only 55 (2%) of all business enterprises covered by the study export their goods and services, while the remaining 98% are engaged in domestic economic activities. The nature and distribution of businesses and economic activities in Lagos has implications for structural transformation in the state at large, and particularly Lagos Metropolitan City. First, the dominance of micro and small enterprises suggests that even though Lagos has booming economic activities, they are low income-generating, with low capacity for labour employment. This accounts for the large number of the city's residents that are engaged in informal activities.

The distribution of employment by sectors in Lagos is derived from the NLSS 2018-19. The spatial distribution of sectoral employment shows that agricultural and agro-allied employment could only be found in three LGAs – Ajeromi-Ifelodun, with 4.2% employment share, Alimosho (5.7%) and Ikeja, with 3.7% (Figure 31). Manufacturing employment has the highest concentration in Ikeja (29.6%), Apapa (22.2%), Agege and Ibeju-Lekki (20.0% each) and Somolu (16.7%). On the other hand, all employment in Epe, Eti-Osa, Lagos-Island and Lagos-Mainland is found in the services sector, which is unexpected, as these areas are known to host the headquarters of major financial institutions. On average, the services sector has the highest employment share (88.1%), while agriculture has the lowest share, with 1.1%.

**Figure 31: Spatial sectoral employment share**
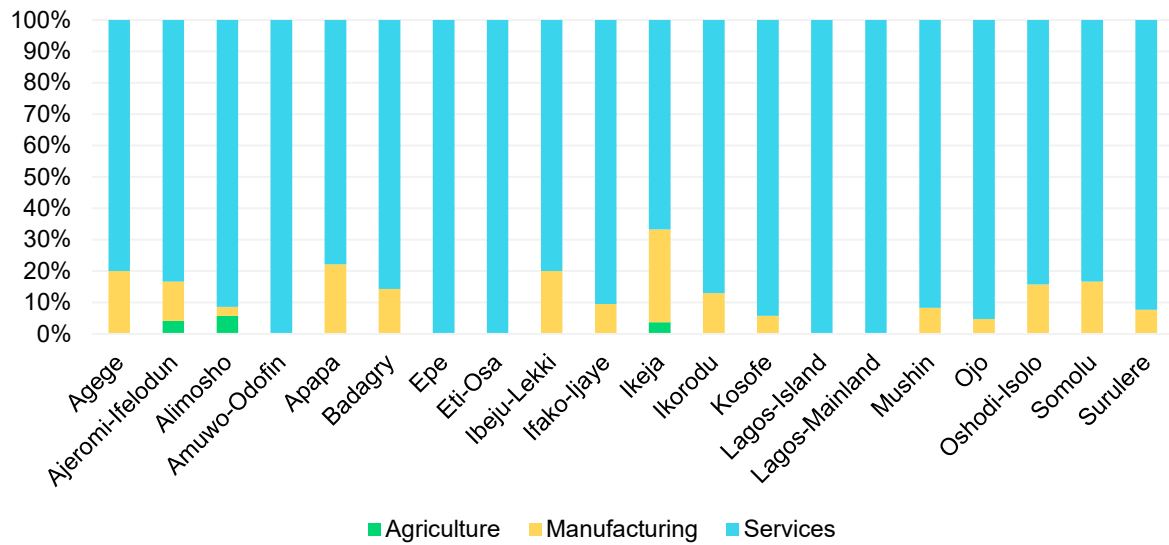


Source: NLSS 2018-19.

Using the NLSS 2018-19 data, across the city, the spatial distribution of employment share between the formal and informal sectors indicates that, apart from Lagos-Island and Epe, with 80% and 62.5% of formal sector employment, respectively, all the LGAs in Lagos have predominantly informal employment (Figure 32). Indeed, 80.6% of available employment in Lagos was in the informal sector, while only 19.4% could be found in the formal sector. This suggests that most jobs in Lagos are precarious and low-wage. This has implications for the livelihoods and standards of living of residents in these areas.

**Figure 32: Spatial formal–informal employment share**
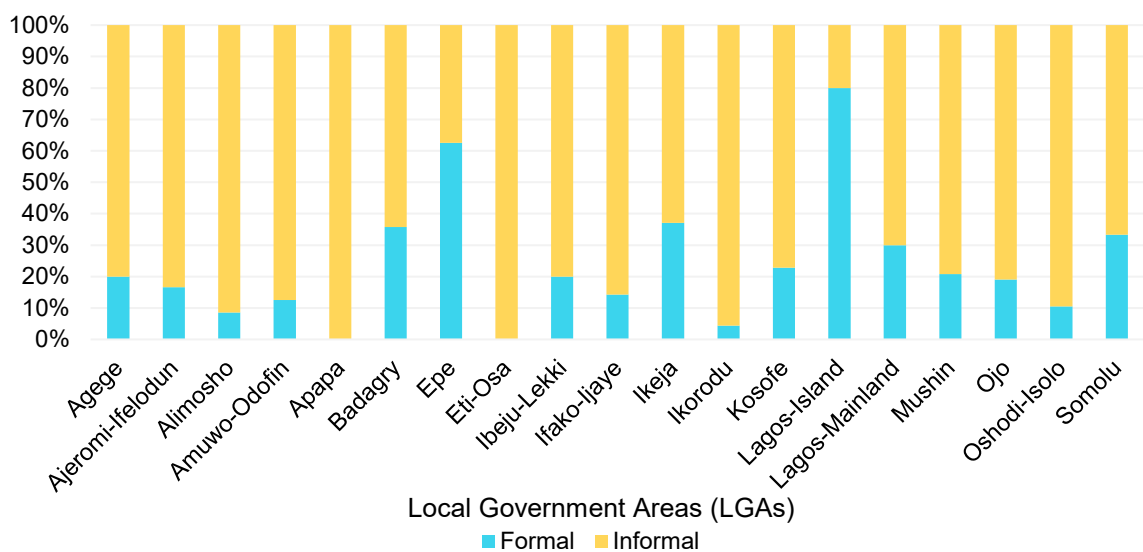


Source: NLSS 2018-19.

In **Nairobi**, we analyse firm-level data collected by the Kenya National Bureau of Statistics (KNBS); the Census of Establishments (2017); and the Micro-Small and Medium Enterprises Survey (2016). Whereas the Census of Establishments (CoE) (2017) contains information on formal establishments only, the MSME (2016) contains both formal and informal establishments.

The findings for Nairobi reveal significant disparities between different areas of the city. We find big differences in turnover, size of establishments, labour productivity, and concentration of establishments.

**Figure 33: Spatial distribution of establishments by constituency**



Number of Establishments by Constituency
Nairobi and Kiambu counties

Census of Establishments, 2018
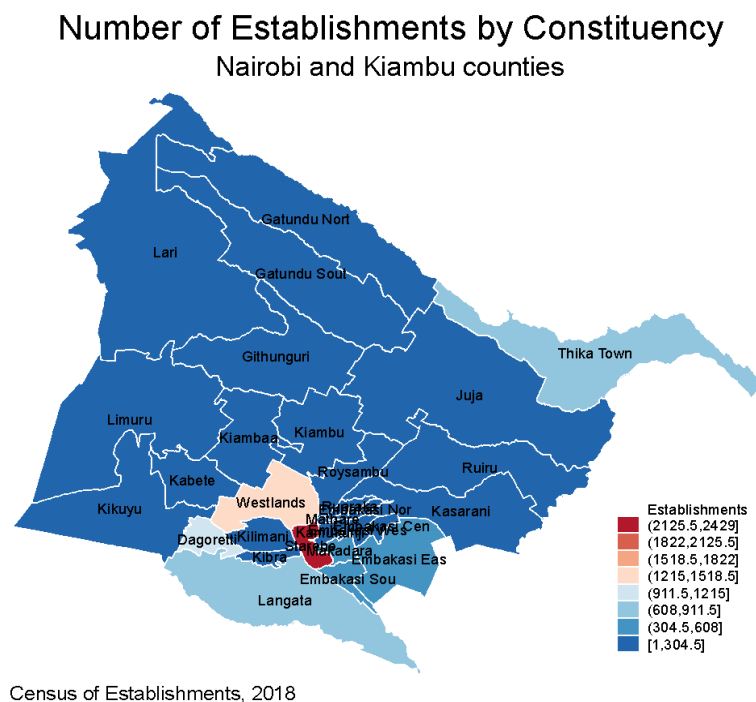
Source: Authors' calculations from CoE, 2017/18.

The employment statistics for agriculture, industry (mining and construction), manufacturing and services in Nairobi shows that the share of employment is highest in the service sector. There is also a higher representation of employees in the manufacturing sector, while the share of employment in agriculture is the least (Figure 34).

**Figure 34: Share of employment by sector**
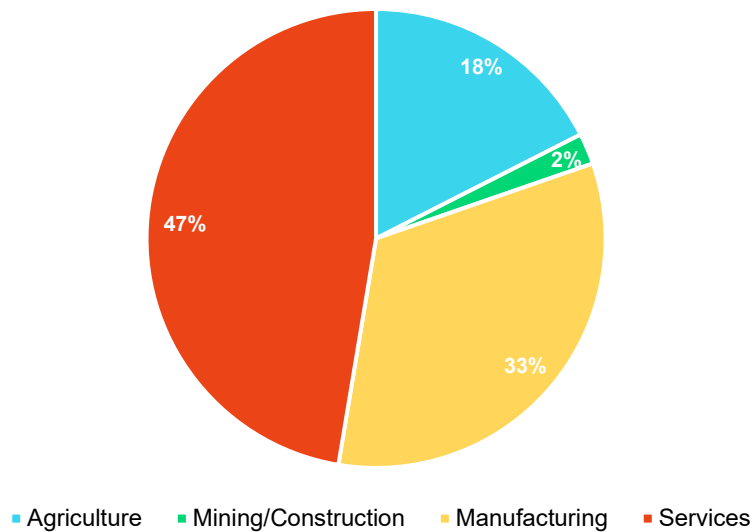


*Source: Authors' calculations from CoE, 2017/18.*

A deeper delve into the service sector indicates that the share of employment is highest for the wholesale and retail services, followed by non-business service activities. Across constituencies, the share of employment is highest in the service sector. This includes the IT and finance subsectors. There is also a higher representation of employees in the manufacturing sector, while the share of employment in agriculture is least for most constituencies (Figure 35).

**Figure 35: Share of formal employment by sector across constituencies**
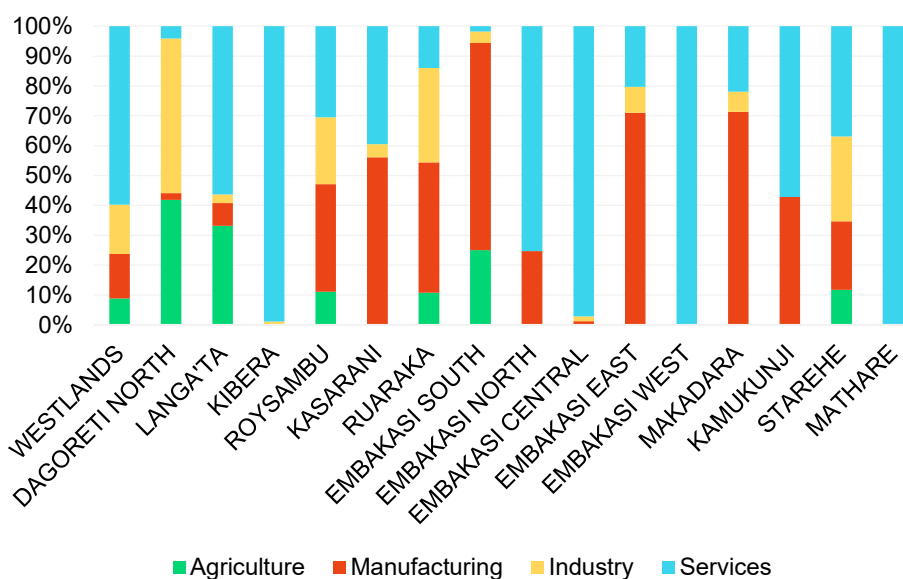


*Source: Authors' calculation from CoE, 2018.*

*Note: CBD is in Starehe and Kamkunji.*

The distribution of establishments by size reveals that the majority of firms (93%) are micro; small enterprises account for 10%; and medium enterprises constitute 2%. A plausible explanation for the high number of microenterprises is the fact that most of them are engaged in small-scale retail commercial activities that require little capital, but with high turnover.

The distribution of labour productivity across the constituencies reveals some variations. Labour productivity seems highest in Roysambu, Ruaraka, Embakasi North and Starehe constituencies. The high productivity levels in Starehe may be due to agglomeration economies resulting from the concentration of economic activities in that enclave. For instance, in the service sub-sector, there are a significant number of businesses in IT, financial and insurance activities and professional services operating in the constituency. Their shares of employment are relatively high compared to other sectors. In Ruaraka, Roysambu and Embakasi North constituencies, the high labour productivity is due to the concentration of industrial production in these constituencies.

**Figure 36: Average productivity levels by constituency**
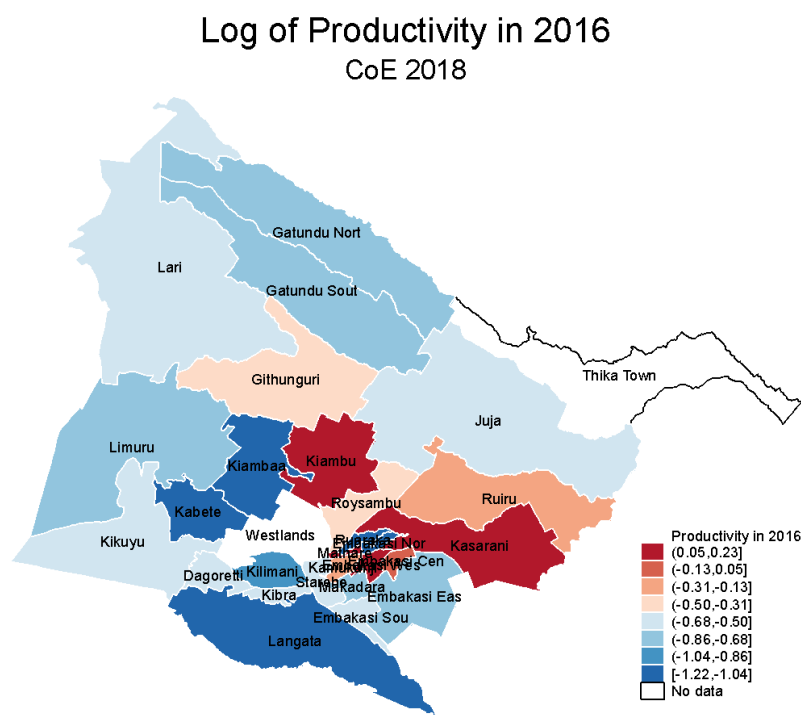


Source: Authors' calculations from CoE, 2017/18.

Using the MSME, 2016, Figure 37 shows that productivity levels are higher for formal enterprises and lower for informal enterprises. Less productive ones are often characterised by lower wages and a low-skilled labour force.

**Figure 37: Difference in productivity levels between formal and informal enterprises**
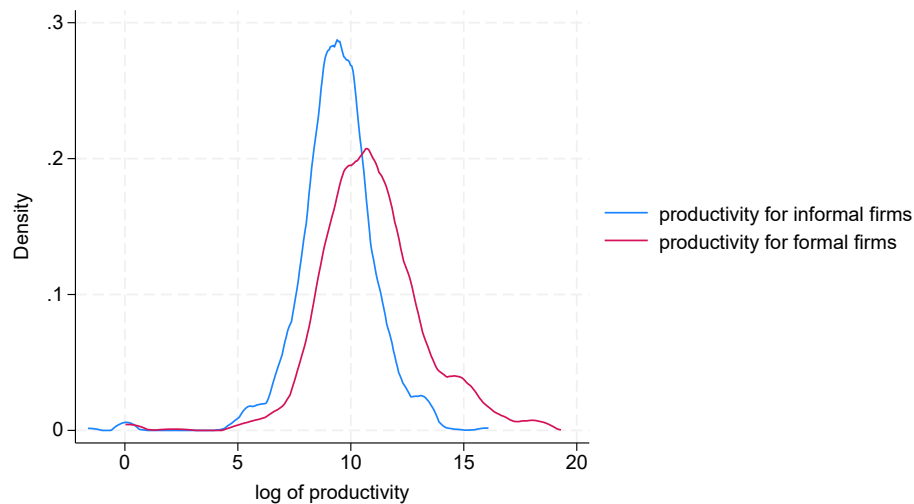


Source: Authors' computations, using MSME, 2016 data.

The findings show that medium enterprises are more productive, whilst the large ones are less productive. Generally, there have not been any significant changes in productivity levels between 2015 and 2016. The productivity of firms has stagnated.

## 4.2. Why is the lack of structural transformation so consistent?

Unlike in previous studies, our analysis of the patterns of economic activities and structural transformation in cities offers a good starting point for examining the constraints to structural transformation, given the increasing rate of urbanisation in African cities. As indicated in Section 3, the lack of adequate time series or panel data on enterprises and employees' characteristics, among others, limits further analysis. A recent paper by Sen (2025) explores the political economy factors influencing the lack of structural transformation in African cities, drawing from the Deals and Development framework. Applying the political settlement theory in a systematic way, Sen (2025) focuses on how the nature of state–business relations can help to explain the limited structural transformation in African cities. In this report, we examine the behaviours of city, political and business elites to explain the lack of structural transformation in African cities. Therefore, the analysis in this report goes beyond state–business relations, and looks at how political machinations to maximise votes and rents in cities inhibit the emergence of productive pathways to high productivity sectors. To build this analysis, we interviewed key stakeholders identified in Section 3. Questions in the interviews focused on the state of structural transformation in cities as well as the political and systemic drivers and constraints.

In **Accra**, the qualitative analysis shows that the current political environment renders politicians as the most powerful actors for structural transformation in the city. These may include local politicians (assembly members, MCEs, MPs, executives of political parties, and so on) and national politicians (president, government appointees/heads of

the various state institutions, ministers, national executives of political parties living in Accra, and so on). These actors control the awarding of government contracts, in spite of a competitive bidding process enshrined in the National Procurement Act. Businesses with political connections can make deals more easily and can expect that officials will deliver. In view of this, politicians have become the most powerful actors.

As a result of the relationship between political power and enterprises, many businesspeople have either become politicians or have adopted some politicians they sponsor. It came out of the interviews that businesses have been positioning themselves strategically to attract favours from the politicians – not just in the form of contracts but also in terms of a more favourable business environment. In return, the businesses also contribute significantly, in cash and kind, to the politicians' campaigns. Indeed, politicians tend to rely on businesses within their jurisdictions to help fund their campaigns. An owner of a construction firm explained:

> Yes, politicians are the most powerful people we deal with in our lines of duty. They award all state contracts and individuals in their good books always have upper hands. The procurement laws are there but, my brother, things are always not as they appear.[4]

Also, a former minister of state shared his experience during an interview:

> Looking at businesses now, the foremost driver is politics as firms with affiliations to the two major political parties in Ghana thrive under specific political regimes.[5]

This relationship could also be a problem if a business is perceived to be affiliated to a political party and the party loses political power to their opponents. This could be the end of the enterprise, whether it is in a productive sector or not.

The political patronage and collusive relationships in Accra tend to benefit non-productive enterprises, and affect the formulation of policies in the domain. The largest contributors to the ruling coalitions engage in rentseeking by lobbying for favourable policies for their businesses, at the expense of businesses in productive sectors. One example we found in the domain was the policy on benchmark values. This government policy provided a discount of 50% on the delivery or benchmark values of imports, with the exception of vehicles for importers. The government indicated its intention to review the policy in respect of all imports, that is, to remove the discount policy. This means that importers will pay more. While the Association of Ghana Industries (AGI) (an association with some members from productive sectors, manufacturing businesses producing for the local and export markets) supported the government's intentions of suspending the policy to discourage imports, the Ghana Union of Traders Association (GUTA) (largely dealing in procurement and imports) thought the local production capacity was not sufficient to replace the imports, and therefore government should keep the benchmark values. Keeping the benchmark values indicates that importers will pay less custom duty on their imports. Ultimately,

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4 Key informant interview, East Airport, July 2022.
5 Key informant interview, July 2022, West Legon – Accra.

the government kowtowed to the demands of the more powerful GUTA. Also, the urgent need to raise tax revenues (through customs duties at the ports) following on from the lack of fiscal space and conditionalities on loans by the IMF hinders the power of business elites in the manufacturing and tradable sectors. In order to gain more taxes from imports, government has to open up more for all kinds of imports and also set up favourable customs duties for imports. Such actions appear unfavourable to local production and investment in productive sectors, which are seen as the main credible means for structural transformation.

The findings from Accra and Harare also suggest that the distribution of public infrastructure is connected to the nature of national and city political settlements. For instance, in Ghana, more politically competitive districts are likely to be effective in providing business-friendly public services, such as roads, electricity, financial institutions and, more recently, internet connectivity. This can be explained by the fact that, in Ghana, politically unsafe seats (that is, highly politically competitive constituencies otherwise known as "swing" constituencies[6]) often experience relatively huge inflows of social and infrastructure investment, mostly by incumbent political parties seeking to retain their grip over such constituencies or to change the outcome of the next election in their favour. An empirical investigation looking at the association between political competitiveness and labour productivity (LP) at the sub-city level in Accra shows that districts with more politically competitive regimes experience somewhat higher levels of LP compared to non-politically competitive districts (see Danquah et al., 2023). This positive relationship may indicate the role of rentseeking and patronage on the distribution of public infrastructure and its impacts on labour productivity of businesses.

In **Addis**, the most dominant actors in the governance of ST are the Prosperity Party / EPRDF, the Addis Ababa City mayor's office and the city administration. The findings show that the types of relations they have fostered with different segments of the private sector over the years have created a business/investment environment that has not spurred structural transformation.

Politicians exercise power in the domain via formal and informal relations with the city's businesses. A developmental state model with regards to state–business relations and economic decisionmaking has been espoused over the last couple of decades, and remains influential, in spite of liberalising discourses introduced by the Prosperity Party. EPRDF's developmental state has been characterised by the state effectively and autonomously implementing its industrial policies and development programmes through coercive means, rather than formalised collaborative relationships with the private sector (Pellerin, 2019). In the "conspicuous absence of an alliance between the private sector and government" (Clapham, 2018: 1159), the EPRDF "implemented its development policies through state-owned enterprises, party endowment funds and party affiliated businesses, and the attraction of foreign direct investment" (Pellerin,

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6 Swing constituencies are often characterised as having majority of their voters being indifferent about the candidates.

2019: 590), effectively establishing state dominance over the economy and the exclusion of the urban business class.

The EPRDF approach has resulted in macroeconomic imbalances, foreign exchange shortages and chronic inflation that have become key constraints to structural transformation at national and city levels. For example, in spite of numerous incentives provided to direct investment in manufacturing, the country's foreign exchange policies have deterred the shift of firms into manufacturing, as foreign exchange shortages have resulted in long waiting queues for importing machinery and the unpredictability of input supply for firms.

As one key informant summarised it:

> The tsunami, ie, the macroeconomic imbalances created by the dominant state, sweep away any gains made by the sticks, ie, various fragmented reforms that the state is implementing to steer the transformation of the structure of the economy.[7]

The political settlement is understood to shape informal state–business relations in the city. Power and resources are distributed through cronyism and ethnic networks. Over half of interviewed enterprise owners stated they had to pay bribes to keep their tax rates low or to ensure their businesses run smoothly. Two interviewees described the bribes as "paracetamol", in that the bribes provided only temporary relief and they were liable to being targeted by different officials at different times and had no guarantees that the bribes they paid would be sufficient. The rise of corruption at lower levels, particularly at the *woreda* level, where most service provision is accessed by firms, has made the deals space less ordered, with different officials approaching firms at different times. These informal economic governance practices create barriers to entry for businesses not affiliated to the EPRDF, as they are built on information asymmetries and corruption; and have therefore resulted in distorted, inequitable growth and stagnated structural transformation.

The developmental state approach adopted by the Ethiopian government led to an open and ordered deals space mainly for FDI exporters in the special economic zones (SEZs) and industrial parks (IPs). Investors have had direct access to the prime minister's office and high-level bureaucrats and politicians to negotiate any special requirements and have enjoyed what bureaucrats refer to as "hand holding" throughout the process. However, the low wages of IP workers have also meant that the parks are not seen as viable employment opportunities for Addis Ababa residents. The parks are also not well integrated into local value chains, as they import most of their inputs.

Domestic exporting firms, and domestic firms more generally, face a very different business and regulatory environment, where public sector inefficiencies, unpredictability of accessing foreign exchange and corruption make the deals space less open and ordered. While foreign firms receive the support of EIC and IPDC, domestic firms and diaspora firms are under the jurisdiction of the city administration.

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7 Key informant interview, June/July 2023.

This has created a range of regulatory constraints in access to finance, land and customs and trade regulations. Amongst these regulatory constraints, the foreign exchange shortage and corresponding foreign exchange policies have made profitmaking from exports alone very challenging. Research participants stressed that the severity of the foreign exchange shortage was forcing a lot of manufacturing exporting firms out of the sector.

> The private sector wants to import machinery, it can't. It wants to import inputs, it can't. They've been in line for foreign exchange for two years. So, they would not… And then they see that people who are importing cars are benefiting here. Why would you keep your money in manufacturing? You will just dissolve your manufacturing, sell out all your assets if you can. Take your money and go into trade. Businesses are reinvesting money in "safe investments" – short-term high return schemes like real estate[8]

> You get out of manufacturing because you realise that instead of manufacturing, trade is where you can actually make profits.[9]

At the same time, preferential access to foreign exchange and credit provided to non-manufacturing exporters, primary commodities firms, is encouraging export/import trade as the country's foreign exchange policy excludes firms from utilising their foreign exchange earnings unless they import a list of goods specified by the government. The credit facility also given to firms with an export licence has increasingly been subject to abuse by firms that take the loans based on exporting status and then reinvest the money in real estate development. While the deals space is largely open, ethnic favouritism in gaining access to credit for exporting firms is observed in the lending practices of various ethnic banks.

As one key informant put it: "Size is a better indicator than firm type because above a certain size, most firms are involved in informal arrangements with those in power".

Party-owned and -affiliated enterprises in manufacturing, transport, finance and trade sectors control the supply of key goods and services in the market. This preferential investment of capital distorts the business environment and shapes the sectoral distribution of non-affiliated firms. Firms shift between sectors to capture rents created by the investment in the construction sector or to fill the demand for imported goods and services created by the low productivity in agriculture and manufacturing. Despite EPRDF's plans to promote manufacturing, these quick return opportunities that are inadvertently created by the volume of investment in infrastructural development and associated leakage of this investment through corruption continues to draw the private sector out of productive enterprise and into import/export trade and construction. In effect, the rents and individual/party profits outweigh the efforts of the EPRDF. The profits generated from these practices are primarily reinvested into non-productive sectors.

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8 Key informant interview, June 2023.
9 Ibid.

One research participant, a lawyer who has practised commercial law for the past 35 years and developed intimate working relationships with various powerbrokers, spoke about a "pattern" in the rise of powerbrokers in Addis Ababa that ties together the anti-competitive practices of party-owned and -affiliated firms and reinvestment in the commodity (primarily coffee) export sector and, ultimately, real estate.

> The first thing I'm going to tell you is there's a pattern to wealth building in the city. I can list their names for you, for example…[10] All of them have the same pattern. If you ask me what their pattern is, they start by importing consumables and selling them. They sell it by monopolising, for example, sugar. What they use is the government's budget and access. A party/government official will tell you to open a licence, and then you will license the business. Then the money needed is given to them by the government and access and guarantee is given to them. Then the sugar will be imported, and they will sell it. Nothing is expected from them. Or they sell cement or metal in bulk [sourced from POE, he elaborates later], and they get money. The people who sell those things are the rich people in this city. And then they will enter into what other people are exporting. The most common thing to export in this country is coffee. When they export the coffee, they do it at a loss to get dollars. With the dollars, they will import and start selling tyres or other things. And then, after some time, they talk to some government officials and buy land with a lease, and then they will start real estate, which is where they will make most of their money.

Another research participant, a senior economist who has extensively researched crony capitalism and structural transformation in Ethiopia, highlighted that for Addis Ababa crony state–business relations were primarily established around land, access to credit and government contracts. Similarly, in terms of government contracts, multiple interviewees stressed the prevalence of illegal procurement practices, where bids were either rigged or contracts were secured without bid processes all together. "It all started with Abiy giving projects to people directly in his Addis Ababa beautification projects," one interviewee stressed: "Now this has taken over procurement practices in the city".[11] Crony relationships through the preferential allocation of government contracts can be most clearly observed in the construction sector, where the largest high-grade construction firms, which are granted the largest government projects and contracts, shifted from ubiquitous Tigrayan ownership to Oromo ownerships along with the regime change.

The nature of the political settlement at national and city levels has resulted in constantly changing formal policies and informal rules. This has led investors to divert their resources to the "safest bets" and quickest turnaround deals which, in Addis Ababa, as in other urban areas, are concentrated in the non-productive sectors of trade and services. The current state of the political settlement therefore has negative implications for the likelihood of structural transformation.

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10 Interview in June 2023. Interviewee listed names of several prominent businessmen in Addis Ababa. Their names have been redacted for anonymity.
11 Interview, June 2023.

In **Dar es Salaam**, the political elites tend to be the major players in the domain. The Regional Commission Office is currently Dar es Salaam's de facto head, being the only entity in the city with a mandate that covers all five of the city's municipalities. All five municipalities report to the President's Office – Regional Administration and Local Government (PO-RALG). Important urban functions, such as the provision of physical infrastructure, as well as urban planning, continue to be under the control of other ministries and agencies of the central government. All Dar es Salaam councils and parliamentary seats have been held by the ruling party (CCM) since the 2020 elections.

Many of the country's state-owned enterprises (SOEs) are located in Dar es Salaam. These SOEs' decisionmaking procedures are overly bureaucratic, which restricts their competitiveness and responsiveness. There is a lack of autonomy in managing SOEs, as most executive selections are made for political reasons rather than on the basis of professional qualifications. As a result, these establishments are performing poorly, which in turn affects economic activities in the city.

State–business relations over the years have varied in terms of motives, interests and power. For instance, the Mwinyi era was a period in which traders (importers and exporters) made large profits. Traders were in a more favourable position compared with industrialists and other long-term investors. Some enterprises abandoned industrial production and turned to traded goods. During the Kikwete era, about 80% of businesses that met the export criterion to operate in export processing zones apparently circumvented the processes, in at least some cases by paying bribes or making political contributions. Though the government supported the zones in theory, it lacked the power to prevent CCM and bureaucratic factionalism from derailing the initiative. The Magufuli regime restored industrialisation as the main development objective for Tanzania. However, there has been a significant move towards more state-led projects, as well as scepticism and confusion about the private sector's intended role.

The state–business relations shaped by the political settlement have resulted in a small handful of Asian and Arab businesses and family conglomerates thriving. They have thrived due to political connections that allowed them to secure bank loans (sometimes not repaid), protection from foreign competition, subsidised inputs and lucrative subcontracts with governmental enterprises and ministries. Only a few black Tanzanian businesses have been able to compete with these enterprises. Both successful indigenous and non-indigenous enterprises are in close contact with CCM, and some of them contribute money to its political campaigns. Government tendering processes are rife with bribery requests and unfair competition as a result of poor procurement practices and financial mismanagement. There is also a cartel-like behaviour in bidding; for instance, access to haulage loads at the Dar es Salaam port is influenced by politics and favours a few lead firms.

Agglomeration economies have not emerged, as the few manufacturing clusters, such as Keko Furniture Cluster (Ilala), Mwenge Handicrafts Cluster (Kinondoni) and Gerezani Metalwork Cluster (Ilalla) are still in survival mode. Firms in these clusters are

generally informal microenterprises and SMEs with a small number of regular employees and obsolete technology and manual equipment. These clusters do not receive the needed attention of political elites to spur growth because they do not contribute to the maintenance of the ruling coalition.

As seen in Accra, we also observe that the uneven development of Dar es Salaam's municipalities is connected to the national political settlement. Ilala municipality seems to be given priority over other municipalities politically as well as in the allocation of infrastructural projects. This is due to Ilala's importance in the political economy of the city and the country as a whole. The municipality has a significant number of voters, an indication that if the government invests in Ilala and improves the lives of its citizens, the government is more likely to win elections.

In **Harare**, the city analysis showed that, through state and regulatory controls, the ruling Zimbabwe African National Union – Patriotic Front (ZANU-PF), which is at the top of the superstructure and controls the economy of Harare, plays a dominant role in the domain of structural transformation. The party formulates, influences and changes policy. It can also determine and distribute rents in land, access to contracts, business and vending spaces within the city. There are several groups of members who also have access to and enjoy patronage of ZANU-PF, including war veterans, retired military, informal sector workers, youth groups and land barons.

The party is clientelist and extractive in nature, which explains the current economic challenges facing the City of Harare. The governance dynamics in Harare are influenced by this relationship in which the central government controls national policy, while the opposition controls the city. The minister can give policy directives or replace policy decisions made by the city. Because of this control, the ministry can also direct who has access to city business, as all major procurement by the city is directed through the centralised national procurement process.

The analysis shows that this sets a stage for political contestation between the government and the City of Harare council, to the detriment of the economy of the city. Given the extractive nature of national politicians, the city plays a critical role as a site and source for rents for the elites. In this regard, control and distribution of economic activities is heavily influenced by party patronage politics and factionalism. This is a major challenge that different actors have identified. The political and governance dynamics in Harare are in themselves a serious "binding constraint" for the structural transformation of the city. As the capital, Harare has the largest population in the country and the municipality generates the largest city budget of all cities and hosts international development organisations, embassies, major manufacturing firms and their headquarters. The structural transformation domain is thus very valuable to political elites across the aisle.

In **Lagos**, the findings show that the city is central in the political calculations of the political elite, because of its population size and economic power. Political elites and parties jostle for control of Lagos, because it is believed that whoever has control of

Lagos has control over the economic engine of the nation. Lagos is expected to deliver a big pay-off in the form of rents and votes. When electioneering, politicians manipulate everything possible to secure the highest number of votes from electorates in Lagos.

This has led to intense political contestation between political actors at both the national level and in the city over the years, which has negatively influenced structural transformation. When Lagos is governed by the opposition party, the federal government does everything possible to stifle the city's economy, because the resultant critical infrastructural failures reflect badly on the opposition party, and the party of the ruling federal government becomes a credible alternative in the next elections. For instance, when Lagos state was governed by a party opposed to the central/national government, from 1999 to 2015, it was victimised by the country's ruling PDP government. Several infrastructural facilities in Lagos under the jurisdiction of the federal government were left unmaintained and allowed to fall into disrepair. The federal secretariat in Ikoyi and the Oshodi-Apapa road are cases in point. Despite the importance of the Oshodi-Apapa road, it was left unrepaired for several years, and when the Lagos state government attempted to repair it, its efforts were blocked by the federal government. Similarly, there was contestation between Lagos and the FGN in the area of electricity/power provision. Until the passage of the Electricity Act, 2022, which replaced the Power Sector Reform Act, 2005, no state was allowed to venture into electricity provision. Such contestations prevent the city from developing the critical infrastructure to facilitate the growth of enterprises.

Nairobi, like Lagos, is also a site of considerable power contestation. Firstly, since it is a hub of national and transnational trade and business networks, it offers lucrative rent and deal-making opportunities. Political elites see it as a priceless ornament and their interests in the city are largely extractive; business elites, particularly in the export trade, IT and tourism, see it as a merchant city, where they can make good deals with politicians. Secondly, Nairobi has enormous political significance, because it has a large population and is seen as an indicator of national politics. For these reasons, both ruling and opposition politicians have sought to control Nairobi over the years. The working relationship between the national and city-county government has often been acrimonious, and the latter lacks autonomy.

The central government has often attempted to usurp power from the local (city-county) government, with the motive of improving service delivery. In spite of the attempts by the national government to have a stake in the governance of the city, delivery of critical public goods remains poor. Some challenges bedevilling Nairobi city therefore stem from the patronage-based national administration, which leads to political interference, instability, complicated bureaucracy and regulation/licensing problems, corruption (informal payments), inadequate government support services and unregulated/unrecognised service producers. One of the respondents indicated that:

> Although the management of the city affairs squarely falls under the ambit of the county government, the constitution provides for coordination between the national government

and the county government. The national government sets the policy framework and allocation of resources through the national treasury."[12]

The national-level political actors (in particular, the president) pose quite a significant threat to the political survival of the governor of the city-county. Often, the leading presidential contenders invest heavily in influencing who gets elected as the governor. These power contestations between the national and city-county government have significant influence on the city's structural transformation.

We observed that unrecognised service providers in Nairobi are an integral part of the business environment, some of them very powerful or working with powerful actors like politicians. These agents inflate the cost of business, mainly because they operate without the security of legal costs. The involvement of cartels in the business arena means that there are leakages due to corruption, associated with every business transaction. The cartels are involved in the provision of infrastructure like water and electricity, providing business spaces (land), getting the necessary regulatory business papers and providing security.

Across all six cities, the detailed analysis of the datasets, complemented by the qualitative analysis, provides a much better understanding of the scope and patterns of structural transformation in African cities and ways in which the city and national political settlements influence it.

Generally, the dominance of non-productive service sectors in many African cities, as indicated in the quantitative analysis, is connected to the city and national political settlements. As observed in the qualitative analysis across cities, trade and service sectors (particularly those in imports and procurement) appear to be favourably treated by political elites, rather than manufacturing, as these sectors generate quick return opportunities and profits. The import and procurement sectors appear to be thriving because they produce the needed rents for election campaigns and maintaining ruling coalitions. This, in turn, boosts the influence of business elites[13] in these sectors, as they are able to appeal to the political elites for their attention and support. In cities like Nairobi, where the business elites in export trade and IT are significant, the positive support from political elites seems to promote some productive growth in the city.

The dominant role of city and political elites in the structural transformation space is linked to the importance of location for business productivity at the sub-city level, as shown in the quantitative analysis. To maximise votes in politically competitive areas, ruling governments may increase the provision of infrastructure and services at the expense of other areas that may critically require such infrastructure. This skewness and uneven distribution of infrastructure at the sub-city level derails the growth pathways of productive sectors.

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12 Key informant interview, July 2022.
13 Business and political elites may not be different, some political elites may also have businesses set up to take advantage of their connections in government.

## 4.3. Systemic constraints

In all six cities, the following constraints on structural transformation were also identified by stakeholders: an unstable macroeconomic environment; inefficient systems of governance; weak city governments; unavailability of markets for goods and services; dysfunctional city systems (particularly electricity); lack of access to affordable and long-term credit; difficulty in acquiring land; and a complicated regulatory environment. The cities' challenging business and regulatory environments impede the growth of potentially high-productivity enterprises and sectors. The city studies showed that these challenges may be connected to the behaviour of city political elites as well as contestation between national and city governments. In the subsequent paragraphs, we present some of the concerns expressed by respondents.

With respect to land, an interviewee from Accra had this to say:

> I think if you take the issue of land security, I will say that about 75% to 80% [of the firms] have problems in one way or the other around land issues, by either having the land and having problems with it or because of the multiple sales of land a firm paying more money than what is necessary...[14]

Enterprises in Addis also indicated that:

> The rent we pay for the workspace the government provided us as support for the SMEs was significantly lower in the previous government [before Abiy]. However, now, the rent is not as low, and it is almost similar/comparable to rent in the marketplace.

> Many used to work in their homes, now that houses are being demolished, it is very destructive for running your work… Some of our members are being relocated or are changing their residences as their homes are demolished. We are trying to re-arrange how we work to support our members [members of a weaver's cooperative that were working from home].[15]

The lack of access to long-term affordable credit to enterprises was also a major constraint. Respondents in Ghana indicated that:

> In Ghana, access to appropriate credit facility to businesses is a major challenge. The clients demand certain products that require huge capital investment but, unfortunately, we don't have the financial muscle to meet such demands and the market is also not ready and prepared to support us.[16]

In Addis, most operational firms in the non-manufacturing sector also find it challenging to secure loans from commercial banks and microfinance institutions. Enterprises also pointed out lack of investment capital as the hurdle to expansion.

> Most shoe manufacturers source their capital from their farmer parents, who often have to sell their livestock to supply the capital, as its impossible to source it otherwise.[17]

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14 Key informant interview, July 2022, University of Ghana.
15 Key informant interview, June 2023.
16 Key informant interview, August 2022, East Legon - Accra.
17 Key informant interview, June 2023.

> We are part of the one to five organisation programmes. We have applied numerous times but were not able to get loans. You have to save 30% down payment and meet insurmountable prerequisites… They keep coming from the Woreda and telling us to apply for loans but they don't give us the loans when we apply… they tell us "there's no money, its finished". [18]

In Dar, enterprises attributed the difficulties in accessing financial resources to high interest rates and depreciation of the currency.

The poor infrastructural service provision systems, such as electricity, transport, water and sanitation, were also major constraints to structural transformation across all cities. Urban and spatial planning is highly fragmented and ineffective because of underlying political and governance challenges.

With respect to energy, respondents from Addis indicated that: "The fact that we haven't found a sustainable solution to our energy needs has exposed us to exorbitant generator costs. It has left us exposed".[19]

In Dar, stakeholders indicated that inconsistent electricity causes delays in production, spoilage of perishable commodities, malfunction of delicate machinery and cancellation of orders.

In Harare, energy among others was identified by stakeholders during focus group discussions and key informant interviews as important and crucial for structural change. The Zimbabwe National Chamber of Commerce noted in an interview that the services sector – particularly hotels as well as manufacturing firms – has been severely affected, due to shortages in energy and water. For example, hotels were spending about 52% of their operating costs on energy and water.

In Lagos, inadequate and irregular supply of electricity has been a major bane of economic activities. For Nairobi City, energy, transport, financial, waste and water, healthcare, planning and enforcement, housing, information and communications technologies and education have been identified by stakeholders during focus group discussions and key informant interviews as important and crucial for structural change.

## 5.   Implications

Despite the slow nature of economic transformation across the cities, our findings point to ways in which African cities can be redirected onto a new path of structural change. Low productivity in services and manufacturing means that African cities cannot currently be positioned as hubs for inclusive and resilient growth and economic transformation. To change this situation, it is important to focus on how best to support city governments and reinvigorate their efforts towards sustainable growth and a new urban agenda.

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18 Key informant interview, June 2023.
19 Key informant interviews, June 2023.

Future growth in African cities can be services-driven, given the high share of establishments and employment in this sector. There is a need for policies to ensure that the high growth in services across the cities is associated with higher productivity, putting in place measures to promote inclusion and improve performance of particularly the many low-productive subsectors in services. The moderate productive establishments can also be supported to achieve their potential. For instance, in Nairobi, one of the key drivers of structural transformation is the growth of the service sector and its tradable activities, particularly the ICT sector, which has been growing rapidly in recent years (KNBS, 2022). Nairobi has emerged as a hub for tech startups and innovation, with several technology hubs and incubators established in the city. The city contributed to the 6.9% increase in value of ICT from 2020 to 2021 (KBNS, 2022). These reforms need to be sustained, in order to realise structural transformation within Nairobi city.

The performance of manufacturing can be improved if efforts are made to support reorganisation (from informal, sole proprietorship to organised establishments) and use of modern tools and equipment. In this sense, policies that will enhance growth of the manufacturing sector, boost formal sector jobs and improve productivity are desirable. Support to all establishments to reorganise largely from unorganised sole proprietorship to organised establishments could support productivity growth. Also, given the vast natural resources (including rare earth elements [REEs]) of many African countries, adding value to these resources via investing in firms and value chains would enhance the transition to productive green jobs.

Critical investments to address the existing inequities in access to public infrastructure at the sub-city level in many African cities are crucial. This would deepen the performance and competitiveness of municipalities to enhance enterprise productivity and sustainability. There is the need for city governments to be equipped with the tools to address productivity bottlenecks for enterprises, especially in mostly non-tradable services, to create more efficient urban economies. Improved connectivity with affordable public transport systems would enable people to get to work and reduce congestion, which would benefit both producers and consumers. Addressing the issues of productivity would also require improvements in institutional strength and coordination of municipalities to adequately support and facilitate the efficient functioning of enterprises, as well as the initiation and implementation of reforms to create liveable and inclusive cities.

There is the urgent need to pay closer attention to political economy factors that constrain structural transformation in African cities, in addition to conventional explanations that highlight the role of economic factors, such as the lack of agglomeration economies and poor infrastructure in urban Africa. From a policy point of view, it is imperative to strongly build up the collective voice of businesses engaged in manufacturing and tradable services (through stronger associations of manufacturing, tradable services and informal enterprises) and strengthening the capacity of city and national governments to conduct effective industrial policy (Sen, 2025).

Addressing these issues requires the development of innovative financing strategies for city governments. This may include efforts towards enhancing donor and international finance readiness. With adequate financing for municipalities, policies can be initiated to directly support private sector growth, particularly through training and support for youth sector enterprise creation.

Given the pervasiveness and persistence of informality across all African cities, there is a need to co-create mechanisms that can address informality in the city. This would include identifying different types of informal enterprises and devising innovative ways to improve their growth potential. Although formalisation may be a long-term objective, in the short to medium term, new ways are needed to boost informal enterprises' productivity.

While it is difficult to insulate the domain from some of the deleterious effects of politics and political economy, digitisation or automation of government service provision to reduce the collusive state–business relationship can help to reduce the rentseeking opportunities for bureaucrats.

## 6.    Conclusions

The report provides highlights of the findings across cities in the structural transformation domain. The city studies in Accra city region, Addis Ababa, Dar es Salaam, Harare, Lagos and Nairobi examine the spatial distribution of economic activities and patterns of structural transformation, as well as the drivers and constraints of structural transformation.

The key finding across cities is that urbanisation has been associated with movements from agriculture into low-productive activities in non-tradable services and largely informal manufacturing. Creating highly productive manufacturing and tradable services appears a daunting task, with some cities, such as Harare, experiencing continuous decline in economic activities in these sectors. In all cities, economic activities are distributed very unevenly across urban space. In cities such as Accra and Nairobi, where enterprise data is available, we find that there is heterogeneity in labour productivity across a number of factors. Location matters for business productivity; only a few municipalities act as effective hubs of transformation for businesses.

The findings with respect to the lack of structural transformation show that politicians tend to be very powerful in urban governance, and therefore in state–business relationships within the domain. In Accra, Addis, Dar es Salaam, Harare and Lagos, the interactions have resulted in collusive state–business relations, which favour non-productive services, hence their continual growth in African cities. The poor and uneven delivery of infrastructure and services at the sub-city level, resulting from machinations by political elites to maximise votes, also derails productive pathways to high productivity sectors. Therefore, many of the firms that would facilitate structural transformation are missing. However, in Nairobi, some efforts are being made to promote transnational businesses and the IT sector, due to their productive potential;

these efforts are partly driven by a large transnational elite that wields significant power in the city.

Other factors, such as an unstable macroeconomic environment; inefficient systems of governance; weak city governments; unavailability of markets for goods and services; dysfunctional city systems (particularly electricity); lack of access to affordable and long-term credit; difficulty in acquiring land; and a complicated regulatory environment, were identified as constraints to structural transformation.

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## Appendix A: List of interviewees from each city per category

### Table A1: Accra

| Sector | | Respondents | |
|---|---|---|---|
| **Private sector** | Workhorses – lower tier informal enterprises, in non-tradable services. | 1. | Collins Aluminium works – Agboba |
| | | 2. | Hairdresser – Adenta |
| | | 3. | N Y Metal Fabrication – Ashalley Botwey |
| | | 4. | Zoway Company |
| | Magicians – formal and upper tier informal enterprises in manufacturing and tradable services. | 1. | JMK Consult |
| | | 2. | Appiah Boateng and Associates |
| | | 3. | Regimanuel Gray |
| | | 4. | Amos Sackitey/civil engineer |
| | Powerbrokers – telecom companies, utilities and other infrastructural companies based in the city. | 1. | GSM Systems |
| | Rentiers – companies in the natural resource sector which have offices based in the city. | 1. | Total Ghana |
| **State actors** | Bureaucracy | 1. | Executive secretary for Lands Commission |
| | Local politician | 1. | Municipal chief executive (Adentan Municipal Assembly) |
| | | 2. | Municipal chief executive (Ashaiman Municipal Assembly) |
| | | 3. | Assembly member for Kumantey Electoral Area, Ashaiman Municipal Assembly |
| | | 4. | Assemblyman for Danfa Electoral Area, La-Nkwantanang Madina Municipal Assembly) |
| | Slumlords in informal settlements with political connections or affiliations. | | |
| | Brokers – individuals close to the top political leadership who play an important role in canvassing votes in local and national elections | 5. | Director of research at the presidency |
| | | 6. | Former deputy minister of communication |
| **Non-state actors** | Civil society | 1. | Traditional overlord/chief of Otinibi |
| | | 2. | President of Ghana Union of Traders Association (GUTA) |
| | | 3. | CEO Ghana Association of Industries (AGI) |
| | | 4. | Country director for Women in Informal Employment: Globalizing and Organizing,(WEIGO) |
| | Media | 5. | Alhaji Dr Abubakar Siddick |
| | Experts | 6. | Former minister of state and businessman |
| | | 7. | Urban geographer and dean of the School of Social Science, University of Ghana, Legon |
| | | 8. | Country economist, International Growth Centre, Accra, Ghana |

### Table A2: Addis Ababa

| Sector | | Respondents | |
|---|---|---|---|
| **Private sector** | Workhorses – lower tier informal enterprises, in non-tradable services. | 1. | Shoe manufacturer |
| | | 2. | Traditional textile weaver |

| | | |
|---|---|---|
| | | 3. Urban agriculture, seedling production |
| | | 4. Printing and stationary |
| | | 5. Tea and coffee stall |
| | Magicians – formal and upper tier informal enterprises in manufacturing and tradable services. | 1. Shoe manufacturer |
| | | 2. Shoe distributor |
| | | 3. Designer wear producer |
| | | 4. Textile and garments |
| | Powerbrokers – telecom companies, utilities and other infrastructural companies based in the city. | |
| | Rentiers – companies in the natural resource sector which have offices based in the city. | 1. Coffee exporting firm |
| **State Actors** | Bureaucracy | 1. Trade and industry |
| | | 2. Expert enterprise development, leadership |
| | | 3. Manufacturing sector development, leadership |
| | | 4. Urban and infrastructural development, leadership |
| | Local politician | 1. Opposition party, leadership |
| | State-affiliated | |
| **Non-state actors** | Civil society | 1. Director and activist of NGO |
| | | 2. Activist, leadership |
| | | 3. NGO activist, leadership |
| | Media | 1. Senior report, political economy |
| | Experts | 1. Senior economist |
| | | 2. Senior expert on urban economy |
| | | 3. Programme officer in urban development |
| | | 4. Economic professor and government advisor |
| | | 5. Senior lawyer, commercial law |

## Table A3: Harare

| Sector | | Respondents |
|---|---|---|
| **Private sector** | Workhorses – lower tier informal enterprises, in non-tradable services | 1. Vendors and SME Association – Harare |
| | Magicians – formal and upper tier informal enterprises in manufacturing and tradable services | 1. Clean City Africa and Vaya Logistics, a company of Econet |
| | | 2. CEO/founder, City Fabricators |
| | | 3. Founder, KingDom Bank Africa, Entrepreneur and investment banker, chairman, Success Motivation Institute |
| | Powerbrokers – telecom companies, utilities and other infrastructural companies based in the city. | 1. Ecocash Zimbabwe CEO |
| | Rentiers – companies in the natural resource sector which have offices based in the city | |
| **State actors** | Bureaucracy | 1. Mayor of Harare |
| | | 2. Town Clerk – City of Harare, city business manager, monitoring and evaluation officer and acting director of works (planning) |
| | | 3. City of Harare – Chair, Finance Committee |
| | | 4. Ministry of Local Government – director, spatial planning |
| | Local politician | 1. Former mayor of Harare – businessman |

| | 2. Former minister of finance – MP, Parliament Public Accounts Committee<br>3. Spokesperson, ZANU PF and businessman |
|---|---|
| | State-affiliated | 1. Economist - Zimbabwe National Chamber of Commerce (ZNCC) |
| **Non-state actors** | Civil society | 1. Residents Associations in the Harare Metro Province<br>2. Confederation of Zimbabwe Industries – chief economist |
| | Media | 1. CEO/ editor – News Hawks |
| | Experts | 1. Labour economic and economics research – senior researcher<br>2. World Bank – urban development specialist<br>3. Dean, Faculty of Social and Behavioural Sciences, University of Zimbabwe |

## Table A4: Lagos

| Sector | | Respondents |
|---|---|---|
| **Private sector** | Workhorses – lower tier informal enterprises, in non-tradable services | 1. Association of Micro Enterprises of Nigeria (AMEN)<br>2. Federation of Informal Workers of Nigeria (FIWON) |
| | Magicians – formal and upper tier informal enterprises in manufacturing and tradable services | 1. Manager, Nigerian Association of Small and Medium Enterprises (NASME)<br>2. Nigerian Association of Small-scale Industrialists (NASSI)<br>3. Johann Adonaiz International<br>4. Petrabel Investment Ltd |
| | Powerbrokers – telecom companies, utilities and other infrastructural companies based in the city. | |
| | Rentiers – companies in the natural resource sector which have offices based in the city. | Nigerian Association of Chambers of Commerce, Industry, Mines and Agriculture (NACCIMA) |
| **State actors** | Bureaucracy | 1. Lagos State Ministry of Economic Planning and Budget. Head, Economic Intelligence Unit<br>2. Permanent secretary, Lagos State Ministry of Civil Engagement |
| | Local politician | |
| | State-affiliated | |
| **Non-state actors** | Civil society | 1. Nigerian Association of Chambers of Commerce, Industry, Mines and Agriculture (NACCIMA) |
| | | 2. Nigeria Employers' Consultative Association (NECA) |
| | Media | 1. Chief editor, Business News Group<br>2. Business editor, ThisDay Newspaper |
| | Experts | 1. Professor, Economics Department, University of Lagos |

## Table A5: Nairobi

| Sector | | Respondents |
|---|---|---|
| **Private sector** | Workhorses – lower tier informal enterprises, in non-tradable services | 1. Micro-own account workers/vendors<br>2. Plastic recyclers at Huruma informal dwellings<br>3. Wood and furniture retailer at Mathare informal settlement |

| | | 4. Steel and aluminium products retailer at Dandora informal settlements |
|---|---|---|
| | Magicians – formal and upper tier informal enterprises in manufacturing and tradable services. | 1. BIDCO Company<br>2. British America Tobacco<br>3. Chandaria Industries |
| | Powerbrokers – telecom companies, utilities and other infrastructural companies based in the city. | Safaricom |
| | Rentiers – companies in the natural resource sector which have offices based in the city. | 1. Shell Oil company<br>2. Total Energies<br>3. Petro Oil Company |
| **State actors** | Bureaucracy | 1. Officials in the Ministry of Trade, Industrialisation and Enterprise Development<br>2. Officials in the Ministry of EAC and Northern Corridor Development<br>3. Nairobi Metropolitan Service |
| | Local politician | |
| | State-affiliated | 1. Kenya Investment Authority (KenInvest) – cross-border licensing<br>2. Export Processing Zones Authority (EPZA)-CEO |
| **Non-state actors** | Civil society | |
| | Media | 1. Media Houses Editors' Guild |
| | Experts | 1. Academic/experts on urban planning |

**Appendix B**

Appendix B1: Key informant interview guide for cities

Research project title:
Name of interviewee:
Contact information:

**Topic 1: Information on the state of structural transformation in Addis Ababa**

What are the drivers of city-level structural transformation, and what are the constraints to structural transformation in the city?

Leading questions:

1. Who are the key actors involved in city-level structural transformation (state, non-state, international)? Please include any relevant policy actors, networks and reform initiatives and identify the relative power of the actors identified here.

2. How is structural transformation governed at the city level? Which state and non-state organisations are involved? What are the most influential rules that shape this domain (both formal, such as laws, and informal, such as clientelism)?

3. What are the core city systems[20] involved? What is the state of those systems? What are the problems with system failure, fragmentation and externalities? What, if any, are major system reforms that have recently taken place or are taking place?

4. What are the key development challenges faced in the structural transformation domain?

5. **For whom** are these challenges a problem (by income group, class, ethnic group, age, and so on); **what** is the significance of the problem (for example, how it affects people's expenditure, likely life expectancy), both for individuals and numbers of people; **who** benefits from the problem; **what is unknown** about the problem?

6. How and why does this matter for urban (and national) development?

**Topic 2: Political and systemic drivers and constraints**

How does the configuration of power within the ST domain and its interactions with national/city political settlements, and institutions, shape the possibilities of enhancing ST in cities and the sustainable development of cities?

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20 The ACRC conceptualises cities as a series of material and social systems that are drawn together and interrelated in certain domains, like structural transformation. Key material and social systems include water, energy, waste management, sanitation, education, healthcare, food distribution, transportation, finance, law and order systems.

Probing questions

1. How significant does the structural transformation domain appear to be to city and national political elites? What does it offer to them in terms of rents, legitimacy and/or votes?

2. In what ways and to what extent do political factors (including the political settlement at the city and national level) shape the outcomes in the structural transformation domain, as identified above? Please draw on a historical analysis relevant to the domain. Please explain the ways in which ideas, interests and potentially territorial control to win elections influences politics within the domain.

3. What are the reasons for any system failures, fragmentations and externalities identified above? Please refer to individual systems and issues of system integration and coordination, as appropriate. Please draw on a historical analysis to explain your system related findings.

4. Which other factors (if any) shape the main challenges identified here? For example, external shocks, the international context, and so on.

## Appendix B2: Structured enterprise interview guide

1. What is the nature of your business?

2. How is your business registered and regulated? How easy was it to register your business?

3. To what extent do you think firms/companies comply with these regulations?

4. Are there informal protocols/relationships that yours or other businesses use to survive in this sector?

5. What markets does your business trade with (local, regional and international)?

6. How has it been over the years in terms of progress (expansion, productivity)?

7. What do you think of the business environment in your city? How does that impact the operations and viability of your business?

8. What are the major challenges facing your business? How have you dealt with these challenges? What is the level contestation in terms of defining and understanding these problems?

9. What business reforms are needed to address the business environmental issues as well as other challenges identified above?

10. Do you think the private sector has a role to play in urban development? What big ideas drive urban development in the city?

11. Who are the main actors in this domain and what are their main roles? This should include political, bureaucratic, professional and popular actors. Actors may be located at multiple levels (including international), depending on how the domain is configured.

12. How has this configuration of actors changed over the last ten years?

13. What are their main interests or stakes in this domain? How powerful are they and what are the sources of their power?

14. Does the city have any programmes to support enterprise creation and growth?

15.  Are there spaces for sustained dialogue between the private sector and city/government?

16. Which institution within the city or national level is dealing with these challenges? How else do you relate with these institutions?

17. Which are the most important services that the city government provides for your business? How do these services impact your business?

18. Do you have access to financial support from the government, city, bank or other institution?

19. Has there been any foreign investment into your company?

20. Does your company/organisation have any links with a research institution or educational institution? What kind of support do you receive from these partnerships (for example, in terms of skilled labour, technological innovation)?

21. Are you a member of any business association? If yes, what services do you receive from this association? How effective are these services to your business?

22. What is your comment on the role and impact of public infrastructure like transport and how this supports your business?

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