

Structural transformation:

Research summary

AFRICAN CITIES
RESEARCH CONSORTIUM

January 2025



Context

Structural transformation involves the movement of workers from low-productivity sectors to high-productivity sectors. 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.

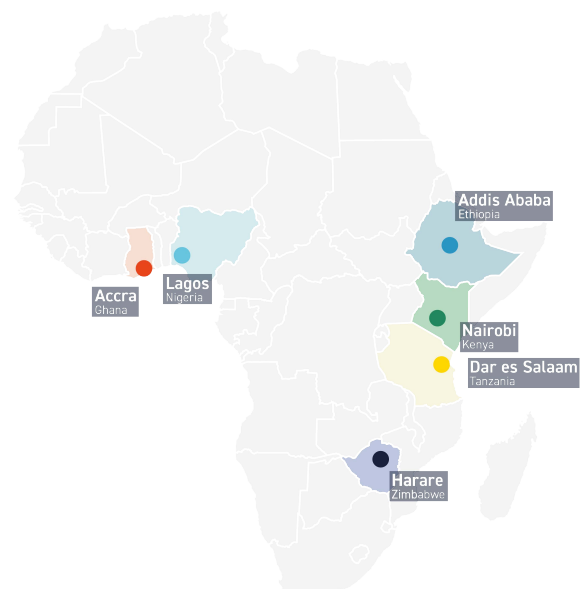
This structural transformation seems to have been achieved in many countries of the West, as well as in the Southeast Asian “Tigers”. In Africa, however, increasing rates of urbanisation and urban population growth appear not to be leading to structural transformation; thus, the prospect of thriving 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 or 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.

Figure 1: Cities covered by the structural transformation domain research



Methods

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 our domain report, we present cross-city analysis of **Accra, 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.

Key findings

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 (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.

Implications for urban reform

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
- > 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 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.

About this summary

This is a summary of a Research Report, written by the African Cities Research Consortium (ACRC) structural transformation domain team: Michael Danquah, Kunal Sen and Rachel Gisselquist.

[Read the full report](#)

Additional resources:

- > [Working Paper | 'The political economy of structural transformation in African cities: Insights from the Deals and Development framework' by Kunal Sen](#)
- > [Video | Structural transformation in African cities](#)

Photo information (by order of appearance):

1. Workers at a coffee exporter in Addis Ababa - Pete Lewis / DFID via Flickr (CC BY 2.0 DEED);
2. Food vendor in Nairobi - Kunal Sen;
3. Face mask manufacturing in Zimbabwe - KB Mpofu / ILO via Flickr (CC BY-NC-ND 2.0 DEED);
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AfricanCities@manchester.ac.uk