The political economy of structural transformation in African cities:
Insights from the Deals and Development framework

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Abstract

An important stylised fact about African economic development is the phenomenon of urbanisation without structural transformation. This paper provides a political economy analysis of the lack of structural transformation in African cities, drawing on the Deals and Development framework. It argues that limited structural transformation in African cities is due to the nature of state–business relations in the cities, where manufacturing and tradeable services firms in the formal sector face semi-ordered deals while "workhorses", which constitute the large proportion of the economic structure of cities, face disordered deals. Such deals, whether semi-ordered or disordered, are not conducive to long-term growth and structural transformation. In contrast, political and economic elites share rents through closed ordered deals in construction, real estate and utilities, which disincentivises investment in productive sectors as well as leading to high costs of inputs for downstream firms in manufacturing and services. Our analysis points to the 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.

Keywords: Structural transformation, deals, cities, political economy, Africa

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1. Introduction

Structural transformation involves the movement of workers from low-productivity and labour-intensive sectors to high-productivity sectors. It has historically been associated with a shift from agrarian economies to more industrial economies based around urban areas, as seen in many Western nations as well as the South East Asian giants. It is thought to have been crucial to economic growth and poverty reduction, by creating jobs and improving labour productivity.

In many African countries, however, the prospect of a thriving manufacturing industry seems difficult to realise. Urbanisation has taken place without structural transformation (Danquah et al., 2024). Further, African cities' economic sectors are dominated by low-productivity, informal enterprises (Fields et al., 2023). Many of these informal enterprises are found in the services sector, mainly wholesale and retail trade, while a few enterprises are engaged in informal manufacturing. Large segments of the urban population work in the low-paid, informal economy, often self-employed (Schotte et al., 2021). Disentangling the connections between urbanisation and structural change is essential for creating growth and reducing poverty.

An emerging literature has attempted to understand the factors that may explain the lack of structural transformation in African cities (see Collier, 2016; Gollin, 2018; Lall et al., 2017; OECD, 2022). Much of the literature has focused on economic factors such as lack of agglomeration benefits, weak connectivity and transportation links, weak land rights in cities and inadequate public infrastructure. Relatively little attention has been given to institutional and political economy factors that may constrain urban development.[1] In this paper, we present a political economy framework – the Deals and Development (D&D) framework – that has been influential in understanding the factors that underpin economic growth in Africa and other developing regions (see Pritchett et al., 2017). We see this framework as a supplement to the existing explanations put forward by economists on the puzzle of urbanisation without structural transformation, not as an alternative to the conventional explanations. We apply the framework to the case of urban development in Africa, using the framework to generate new insights about the constraints to structural transformation in African cities.

In the next section, we describe the D&D framework and discuss how it may be applied to the case of urban development. We then apply the framework to five cities in Africa – Accra, Addis Ababa, Dar es Salaam, Harare and Nairobi. We end with a set of insights that the D&D framework can provide on constraints to African urban development, drawn from our five city case studies.

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[1] See Collord et al. (2022) for a review of the literature. In the political science literature, there is limited analysis of political factors that may shape structural transformation in urban Africa (see Post, 2018).

2.   The Deals and Development framework in an urban context

In this section, we provide a political economy framework of growth and structural transformation in African cities, drawing on the D&D approach set out in Pritchett et al. (2017). The D&D approach was originally proposed to explain episodic growth at the national level for developing countries. While the original framework can be applied to subnational contexts too, one key limitation of the framework is that it does not take into account the spatial nature of urban development. We first provide an exposition of the framework, then show how it can be applied to African cities.

The D&D framework has two core variables, the political settlement and the rent space (market matrix), and one intermediary variable, the deals space. The outcome variables are growth episodes (accelerations, stagnation or decelerations) and structural transformation.

2.1.   Core variables

The first core variable is the *type and nature of the political settlement*, which refers to "the balance or distribution of power between contending social groups and social classes, on which any state is based" (di John and Putzel, 2009: 4). In recent years, there has been a large body of scholarship which uses political settlements analysis. Different scholars conceptualise political settlements in different ways and there is limited unanimity on the core elements of political settlements. In this paper, we follow the definition of political settlements proposed by Effective States and Inclusive Development (ESID),[2] in which the political settlement is defined as:

> an agreement or common understanding among a society's powerful groups about the basic rules (or institutions) of the political and economic game, which by providing opportunities for these groups to acquire a minimally acceptable level of benefits, prevents a descent into all-out warfare (Kelsall et al., 2021).

The ESID typology classifies political settlements along two dimensions: (1) the social foundation – that is, the breadth, depth and social identity of the powerful groups that make up the settlement's "insiders"; and (2) the power configuration – that is, the degree of concentration of power in the country's top leadership. These two dimensions are hypothesised to affect the degree of elite commitment to, and state capacity to implement, inclusive development policy.

With respect to the first dimension, the *social foundation* is formed by powerful groups "that have the organisational, institutional, ideological or financial capability to make serious trouble for high-level political leaders, by fighting, demonstrating, criticising, voting, withdrawing funds, and so on" (Kelsall et al., 2021: 10). Where the social foundation is broad (covering a range of social identities, such as racial, ethnic, gendered) and deep (covering a range of income or class groups), high-level leaders will be incentivised to try to deliver broad-based, inclusive benefits to the population
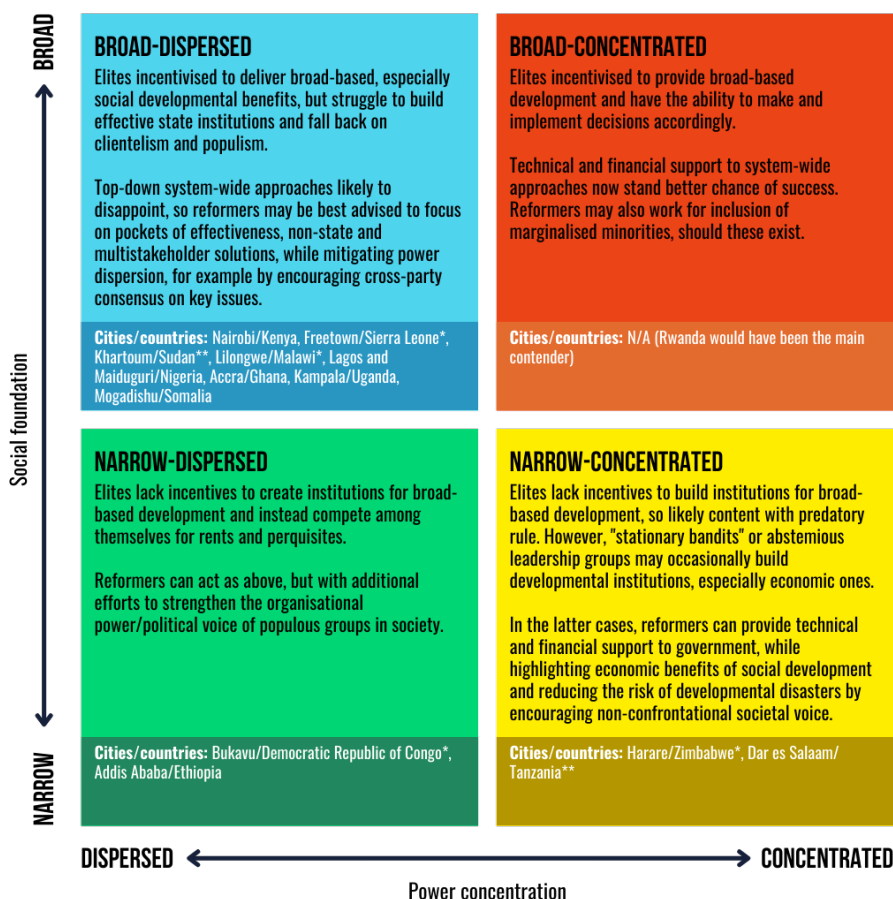
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[2] See the ESID website.

(though a few groups may still be excluded). Where it is narrow or shallow, they are likely to demonstrate less commitment to this.

The second dimension is the *power configuration* – that is, how much *de facto* power is wielded by the country's top leader or leaders.[3] Power concentration is calculated by measuring the relative strength of three analytical blocs: (a) groups that are loyal to the leader, at least in the short term; (b) groups that are only contingently loyal; and (c) groups that oppose the leader, or else are disengaged from politics (Kelsall et al., 2021).

Where (a) is strong relative to (b) and (c), power is said to be concentrated, and when (a) is weak relative to (b) and (c), power is said to be dispersed. We provide the ESID typology on political settlements in Figure 1.

Figure 1: The ESID political settlements typology

BROAD-DISPERSED

Elites incentivised to deliver broad-based, especially social developmental benefits, but struggle to build effective state institutions and fall back on clientelism and populism.

Top-down system-wide approaches likely to disappoint, so reformers may be best advised to focus on pockets of effectiveness, non-state and multistakeholder solutions, while mitigating power dispersion, for example by encouraging cross-party consensus on key issues.

Cities/countries: Nairobi/Kenya, Freetown/Sierra Leone*, Khartoum/Sudan**, Lilongwe/Malawi*, Lagos and Maiduguri/Nigeria, Accra/Ghana, Kampala/Uganda, Mogadishu/Somalia

BROAD-CONCENTRATED

Elites incentivised to provide broad-based development and have the ability to make and implement decisions accordingly.

Technical and financial support to system-wide approaches now stand better chance of success. Reformers may also work for inclusion of marginalised minorities, should these exist.

Cities/countries: N/A (Rwanda would have been the main contender)

NARROW-DISPERSED

Elites lack incentives to create institutions for broad-based development and instead compete among themselves for rents and perquisites.

Reformers can act as above, but with additional efforts to strengthen the organisational power/political voice of populous groups in society.

Cities/countries: Bukavu/Democratic Republic of Congo*, Addis Ababa/Ethiopia

NARROW-CONCENTRATED

Elites lack incentives to build institutions for broad-based development, so likely content with predatory rule. However, "stationary bandits" or abstemious leadership groups may occasionally build developmental institutions, especially economic ones.

In the latter cases, reformers can provide technical and financial support to government, while highlighting economic benefits of social development and reducing the risk of developmental disasters by encouraging non-confrontational societal voice.

Cities/countries: Harare/Zimbabwe*, Dar es Salaam/Tanzania**

*Not included in the ESID survey
**Included but in need of updating

Source: Reproduced with permission from Kelsall et al. (2021).

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[3] Leaders are a subset of powerful groups and yield the highest executive authority in the country.

Our second core variable is the structure of economic opportunities in the economy, which we call the *rents space*. We divide the private sector along two dimensions, which capture the target market and whether the profits are acquired through regulatory rents or market competition. With respect to the target market, firms can produce either for the domestic market or for export. They can generate profits through discretionary rents under the control of politicians or bureaucrats, or through normal market competition (Pritchett et al., 2017). Dividing the private sector along these two dimensions generates a rent space, with four distinct groups of firms, as shown in Figure 2.

Figure 2: The rents space

	Regulatory rents	Market competition
Export-oriented	RENTIERS	MAGICIANS
Domestic market	POWERBROKERS	WORKHORSES

Source: Figure 1.11 in Pritchett et al. (2017: 21), reused under the terms of the CC BY-NC-ND 4.0 licence.

The **rentiers** are the natural-resource firms exporting to world commodity markets. In our case, it is unlikely that we will see a presence of rentiers in cities.

The **magicians** are the exporters that operate in competitive industries. In a typical developing country, competitive-industry exports might include garments, manufactured goods, agricultural products (horticulture, agri-processed food) and tourism.[4]

The **powerbrokers** are the firms catering to the domestic sector that operate in industries subject to regulatory rents. Most powerbrokers are in regulated industries that limit competition, such as power provision and port operation, or survive off government contracts, such as heavy construction companies. Powerbrokers may also exist in construction or real estate development, where the market is monopolistic or oligopolistic.[5]

The **workhorses** are those firms operating in competitive markets that serve the domestic economy. Among the workhorses in the urban areas of developing countries are restaurant owners and their employees, street vendors and household enterprises

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[4] In principle, domestic firms that operate in import-competing industries may face world prices if there are no tariff and non-tariff barriers. In practice, even in country contexts where there are no tariff barriers, several non-tariff barriers create a wedge between domestic and international prices, especially on the African continent (UNCTAD, 2018). Therefore, it is unlikely for domestic firms to face the intensity of competition that exporting firms face in sub-Saharan Africa and other developing regions, and to classify these firms as magicians would be inaccurate. On the other hand, exporting firms that cater to the domestic market can be classified as magicians if their primary source of revenue is from world markets.

[5] In contrast, the rental or home-buying markets may be competitive, with many brokers or real estate agents operating in these markets.

in manufacturing and services. Many of the workhorses operate in the informal sector. They tend to be in domestically oriented manufacturing and non-tradeable services.[6]

Firms in each of these quadrants have different demands of the state, at both national and city levels, even (in fact, especially) in those states that do not enforce all of the rules. Understanding these divergent interests is important to understanding how the elites may or may not have an interest in growth.

2.2.   Intermediary variable

Our intermediary variable is the *deals space*, where deals are defined as a *specific* action between two (or more) entities (or individuals) that is the result not of the impersonal application of a rule but rather of *characteristics* or *actions* of specific entities which do not spill over with any precedential value to any other future transaction between other entities. In our framework, the deals space captures the range of informal and personalised relationships that are observed between economic actors and political elites in developing countries. As argued by Goodfellow (2020: 281), "the relationship between the formal rules (even if they are largely ignored) and the character of 'deals' comprises the "political bargaining environment' in a given context, because deals usually involve some negotiation over how to use or abuse the formal rules".

Figure 3 divides these environments along two dimensions: whether deals, once negotiated, are honoured (ordered vs disordered); and whether deals are widely available or limited to an elite (open vs closed). Ordered deals are deals that, once negotiated between investors and state officials, are honoured. In this case, investors can be assured that the political elite can deliver on the deals they make with the latter. Disordered deals are deals that investors make with the political elite, where there is no certainty that the deal will be delivered. Open deals are deals that are widely available to all investors, large or small, and not confined to an elite or a small group of favoured investors. Closed deals are offered by the political elite only to a small group of investors (see Pritchett et al., 2017 for more details).

Figure 3: Typology of "deals" environments

	Closed (deals available only to specific individuals/organisations).	**Open** (deals depending on actions of agents but not identities).
Ordered (once negotiated, deals will be honoured)	Only those with political connections get to make deals, but they can be confident that officials will deliver.	Anyone can make a deal, and they can be certain that officials will deliver.
Disordered (deals will be honoured so long as they are in the short-term interests of political elite)	Only those with political connections get to make deals, and even they cannot be certain that officials will deliver.	Anyone can make a deal, but no one is certain that officials will deliver.

Source: Figure 1.14 in Pritchett et al. (2017: 28), reused under the terms of the CC BY-NC-ND 4.0 licence.

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[6] It should be noted that the classification of firms or sectors as rentiers, powerbrokers, magicians and workhorses depends on market structure and the nature of regulation, which will differ from country to country. For example, the telecommunications sector may be relatively free entry in one country but highly regulated in another.

2.3.   Towards a theory of structural transformation in cities

We now propose a framework for analysing structural transformation in cities, using our core and intermediary variables. In our framework, economic growth and the degree to which that growth is characterised by structural transformation is an outcome of the nature of deals (the intermediary variable) offered to economic actors. This in turn is a function of the political settlement and the rents space (the core variables).

According to our framework, structural transformation is likely to occur when there is movement in the deals space from disordered to ordered deals. Ordered deals mean that an investor's time horizon for realising returns is lengthened, which means that firms are more likely to invest in fixed capital. This commitment to ordered deals needs to be seen as credible by investors: they need to believe that the state will not renege on its implicit or explicit promise not to expropriate future rents, especially after investment decisions involving sunk costs in fixed capital have been taken (Pritchett et al., 2017). Investors also need to commit to sharing a part of their rents with the state (or its constituents, such as politicians) and, when states raise revenues from taxes, to pay the state the necessary taxes (Sen, 2013).

The type of deals being offered is a function of the rents space and the political settlement. The rents space, which delineates the economic activities and sectors in which rents are generated, influences the type of deals that economic actors in the different components of the rents space obtain from political and bureaucratic elites. The political settlement – the concentration of power and the social foundation – can explain who gets the deals and whether deals are stable or not. It determines the nature of deals – ordered/disordered and closed/open – with different enterprises, which in turn explains growth and structural transformation.

2.4.   Introducing a spatial element to the D&D framework

Space matters in the application of the D&D framework to urban development. All three core and intermediary variables in our framework – the political settlement, the rents space and the deals space – can take spatial dimensions, and how space interacts with each of these variables may explain why some enterprises and workers are located in one part of the city and not in other parts, and why more-productive firms are clustered around specific geographical areas of the city landscape.

Let us consider the political settlement first. The clientelist nature of the political settlement may explain why some economic actors are able to access certain types of deals and not others. Clientelist exchanges between political parties, brokers and voters are more likely in urban slums in Africa than in rural areas (Meagher, 2010; Mitlin, 2014; Nathan, 2016a, b, 2019; Paller, 2014, 2019). In these exchanges, political parties or their intermediaries promise selected favours or particularistic goods in exchange for political support during elections, which are repeated over time (Stokes, 2005). Nathan (2019) argues that there are three characteristics of cities in Africa which make it likely for clientelism to prevail, relative to programmatic politics.

First, weak local bureaucratic capacity in African cities does not allow for city governments to meet any nascent demand among urban voters for programmatic policies. Instead, rent-seeking and corruption in city governments provide a conducive environment for the provision of particularistic goods and services by local political elites. Second, local governments cannot respond adequately to the many service delivery challenges created by rapid urbanisation. As argued by Nathan, this leads to a demand on politicians for particularistic goods, even among middle-class voters who would normally prefer programmatic policies. The scarcity in the quantity available of local public goods, such as sanitation, drinking water, schools, and so on, gives politicians great leverage in the allocation of these goods, allowing them to target particular neighbourhoods and communities in exchange for political support. Finally, cities in Africa are characterised by significant ethnic diversity, and by large urban slums where a large part of the city population resides. These factors combine to create conditions for politicians to bind poor voters living in slums in sustained clientelist relationships. As Nathan (2019: 21) notes, "in the absence of strong traditional leaders in urban areas, new forms of brokers and political intermediaries can also emerge in slums, building patron–client ties with residents". The clientelist nature of the political settlement implies that deals (informal and personalised relationships) and not rules (formal institutions and programmatic policies) are more likely to occur in urban Africa and that the deals on offer from politicians are likely to be spatially targeted and more likely to be observed in slum neighbourhoods than the more prosperous areas of the city.

Now consider the rents space. A feature of cities in Africa and other developing regions is that space and territory will shape the rents space. In other words, different segments of the rents space – in particular, workhorses and magicians – will be located in different parts of the city. Magicians (exporting firms and tradeable services) are more likely to be located in parts of the city with high levels of public infrastructure and connectivity to sales outlets (both domestic and export markets) and where large numbers of skilled workers live or are within easy commuting distance (Lall et al., 2017). Agglomeration benefits will be likely to accrue to firms in areas with high density of physical and human capital, which, as we have noted, are not very common in African cities. Among workhorses (informal manufacturing and non-tradeable services), there are two types of economic actors – household enterprises, whose production units are mostly located in the residence of the household in urban slum neighbourhoods, and own-account workers such as street vendors, who travel to other parts of the city for their livelihoods.

Therefore, workhorses which are household enterprises are more likely to be concentrated in slum neighbourhoods, characterised by poor infrastructure and weak connectivity, while own-account workers who travel for work often live in the more remote areas of the city, given their low-income status. Powerbrokers, which are utility firms and real estate companies, for example, tend to be found in the more high-value parts of the city, and in the case of real estate companies, in the middle- and upper-class residential areas (often restricted to low-income households through zoning

restrictions). Rentiers (companies trading in oil and other natural resources) are less likely to be found in urban areas. Therefore, the rents space in African cities may have a significant spatial dimension, with magicians in one part of the city, powerbrokers in a second part, and workhorses which are household enterprises in a third part.

The deals space may also show significant variation in terms of the nature of deals across different parts of the city. For example, especially in urban slum neighbourhoods, where clientelistic exchanges are mediated by political brokers, individuals may shift their loyalties from one political party or patron to another, from election to election, depending on the rewards they receive for their services from individual candidates and the likelihood of victory of the candidate or party they were working for (Stokes et al., 2013). This implies that in these neighbourhoods, deals are very likely to be disordered or semi-ordered, as political brokers may renege on deals that they have offered to particular groups of voters (Auerbach et al., 2018).[7] However, these deals are likely to be open, as any voter who professes support for a particular candidate may obtain access to the deal (though ethnic favouritism may constrain the extent to which the deal is truly open). For parts of the city where powerbrokers are located, the high value of economic rents in these areas (such as in real estate speculation) and the collusive nature of the relationship between political elites and powerbrokers may lead to closed and ordered deals between political and economic actors.

3. Applying the D&D framework to African cities

We now apply our framework to five African cities – Accra, Addis Ababa, Dar es Salaam, Harare and Nairobi. These cities differ by region: Accra in West Africa; Addis Ababa, Dar es Salaam, Harare and Nairobi in East Africa. Two of the cities are countries classified as "fragile and conflict affected" by the World Bank – Addis Ababa in Ethiopia and Harare in Zimbabwe (see World Bank, 2024). The cities differ greatly by population (see Table 1), with Dar es Salaam being the largest and Harare the smallest. In terms of economic activity, where we have city GDP data, we do not find much variation in share of city GDP in national GDP: Accra's is the lowest at 34.6% of Ghana's GDP, Harare's the highest at 39.5% of Zimbabwe's GDP.[8]

Our application of the D&D framework draws on notes on national-/city-level political settlements, analysis of city-level secondary economic data, notes of key informant interviews undertaken by city researchers in the structural transformation domain. We begin by outlining the political settlement in the countries within which the five cities are

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[7] An example is the frequent practice of tax inspectors asking workhorses for a bribe or licence to allow them to operate in a particular location. This practice is highly person-specific and localised, and the payment of the bribe to one inspector does not imply that the deal will be respected by another inspector.

[8] Unlike the cities in high- and middle-income countries, where fairly reliable city-level GDP data are available, we do not have such data for African cities. Recently, the UN Economic Commission for Africa (UNECA) started a pilot project on estimating city GDP for a few African cities, through which data for Accra and Harare are available. However, as UNECA (2021) notes, these estimates are very preliminary and should be taken with a pinch of salt.

located, then we chart the rents space and draw spatial maps of economic activity. We follow this with a discussion of the deals space in the five cities. We end with a discussion of how our application of the D&D framework to Accra, Addis Ababa, Dar es Salaam, Harare and Nairobi provides insights into the political economy factors that may explain the nature of structural transformation in the five cities.

Table 1: City characteristics

	Population (millions)	City GDP per capita (US$, current prices)**	Share in national GDP (%)
Accra	2.43	6,164	34.6
Addis Ababa	4.40	--	--
Dar es Salaam*	6.04	--	
Harare	1.52	3,614	39.5
Nairobi	4.39	--	

Note: * estimate from World Population Review; ** pilot estimates from UNECA (Accra: 2019; Harare: 2018). The definitions of "urban" population are taken from UNDESA Population Division (2018), which are generally those used by national statistical offices in carrying out the latest available census; GDP per capita is in purchasing power parity (PPP) US dollars, for 2022.

Source: Author's construction based on Pindiriri (2021); UNECA (2021); United Nations (2018).

3.1. The political settlement in Ghana, Ethiopia, Tanzania, Zimbabwe and Kenya

Our two core variables in the D&D framework are political settlements and the rents space. Here we briefly discuss the political settlement in the countries where our five cities are located. More detailed discussion of the national- and city-level political settlements are provided in political settlement mapping notes compiled by the African Cities Research Consortium (ACRC) for Ghana (Abdulai, 2023), Ethiopia (Pellerin and Esayiyas, 2022), Tanzania (Nyamsenda and Collord, 2022), Zimbabwe (Lewanika, 2022), and Kenya (Kanyinga and Michuki, 2023).

Accra (Ghana)

The political settlement in Ghana is characterised by broad-based power configurations, with elections closely fought between two political parties with equal strength (Abdulai, 2023). Both parties, however, follow the rules of the game, with frequent changes in the ruling party, and the two-term limit on the presidency has been increasingly institutionalised. The intense competition between the two parties, the New Patriotic Party (NPP) and the National Democratic Congress (NDC), implies that any ruling coalition in Ghana faces powerful excluded coalitions that are always mobilising popular support. The two leading parties are quasi-ethnic in nature, but while both parties rely on ethnic coalitions to mobilise voters, neither can win by relying exclusively on its ethno-regional stronghold. The competitive nature of elections and the need to persuade swing voters leads to large-scale patronage politics, with kickbacks on state contracts and the awarding of state contracts to party members (Abdulai, 2023).

Addis Ababa (Ethiopia)

From 1991 to 2012, Ethiopia's national political settlement was characterised by a high degree of concentration of power but a narrow social foundation (Pellerin and Esayiyas, 2022). In this period, Ethiopia was ruled by the Ethiopian People's Revolutionary Democratic Front (EPRDF), a coalition of four ethnic-based parties, representing the country's central regions but dominated by the Tigrayan People's Liberation Front (TPLF), representing an ethnic minority in the country. The high degree of concentration of power was achieved through significant repression of civil society and others who might have challenged the political settlement (Pellerin and Esayiyas, 2022). However, the dominant political settlement began to unravel with internal competition for power and rents within the EPRDF, leading to a downward spiral of corruption in the first decade of the 2000s. Finally, protest movements in 2018 led to the end of the TPLF-led hegemony and the election of the first ever prime minister from the Omoro ethnic group, Abiy Ahmed. In 2019, Abiy merged the EPRDF into the Prosperity Party (PP), as an attempt to weaken the EPRDF and other dominant leaders in the regional parties.

Beginning 11 months after the formation of the PP, Ethiopia witnessed a deadly civil war between those who wanted to maintain the hegemony of TPLF and those who did not. Two years after the start of the civil war, there was a peace agreement between the federal government of Ethiopia and TPLF. However, the political situation is currently semi-settled, bordering on unsettled (Sarkar and de Waal, 2023), as there have been rifts between the Amhara and Omoro parts of the PP and intense guerilla war in the countryside, alongside the resurfacing of tensions with the Eritrean government.

The city of Addis Ababa has a complex governance structure. While in principle it is governed by a council comprising elected officials who elect the mayor from among the council members, in effect the federal government appoints the mayor and deputy mayors. This implies that the federal government and ruling party have direct control over the city's governance, and the political settlement at the city level in large part mirrors the national political settlement. The governance structure of the city is further complicated by the fact that Addis Ababa is the capital of the regional state of Oromia, which is carrying out increasing autonomous infrastructural and industrial projects that have direct implications for structural transformation in Addis Ababa (Robi, 2023). This also poses a challenge for the coordination of development plans for the city itself and lends itself to a somewhat fragmented city-level political settlement.

Dar es Salaam (Tanzania)

Tanzania has a dominant party political settlement with the ruling party, the Chama Cha Mapinduzi (CCM, "Party of the Revolution"), having been in power for over three decades (Nyamsenda and Collord, 2022). With President John Magufuli's unexpected death in 2021 and the ascendancy of his vice-president, Samia Suluhu Hassan, to power, the political settlement is currently semi-settled. The current president has

restored to power political elites aligned with former president Jakaya Kikwete and has followed a pro-business stance. She has also allowed more space for opposition parties to function. Therefore, the elite power configuration has become more dispersed.

With respect to the relationship between Dar es Salaam and the national political settlement, the city remains an important source of rents for small business and real estate, as well as regime-linked conglomerates. Being the commercial capital, its importance for the national economy has grown over time. However, the city-level political settlement remains fragmented, with the mayors of the five municipalities of Dar es Salaam having limited political power relative to elites at the national level. The transition from Magufuli to Suluhu Hassan has led to a weakening of centralised authority and the emergence of low-level (petty) corruption in the city. State–business relations are in flux, with the current regime assiduously courting large businesses over the lower-income self-employed (street vendors). This may have implications for the nature of deals in the current political settlement, which we will discuss later in the paper.

Harare (Zimbabwe)

The political situation in Harare is semi-settled and is "anchored on a military-nationalist-business alliance consisting of the military command element, senior political leaders in ZANU-PF, and business elites allied to the President" (Lewanika 2022: 2). The national political settlement is for the most part narrowly concentrated and characterised by rent extraction in natural resources via party-linked companies. The semi-settled nature of the political settlement is due to relatively short periods of agreement between powerful political groups around the rules of the political game or the composition of the governing coalition, with open contestation in other periods. However, for the most part, the contestation around the rules of the game has not spilled over into warfare or large-scale violence.

The political settlement in Harare mirrors the national settlement, with contestations of power between city and national elites. Furthermore, the city is a site of large-scale rent extraction for city and national elites, with "massive opportunities for rents in terms of gainful employment, access to city million USD contracts, access to land both residential and industrial, access to business space for small to medium enterprises (SME/Vending) and large commercial conglomerates" Lewanika, 2022: 32).

Nairobi (Kenya)

Kenya's political settlement is broadly dispersed and marked by ethno-politics (Kanyinga and Michuki, 2023). While the recent national election was relatively peaceful, the then deputy president William Ruto defeated opposition candidate Raila Odinga to be elected president with the narrowest of margins (50.49% of the vote). Following this, the election results were contested by the opposition, which filed a petition with the Supreme Court to overturn the results, citing alleged problems with the

digital voting system. The Supreme Court upheld the results of the election in September 2023. The contested nature of the 2023 elections and the razor-thin margin of victory suggest an intensely competitive political settlement, with voting divided along ethnic lines. Kenya's first-past-the-post political system incentivises ethnic elites to mobilise their own kinship groups or form alliances with other groups. This results in large-scale patronage as alliances are kept together by rent-sharing among elites.

Political power in Kenya is devolved to the county level (47 counties in total), and Nairobi has an elected governor and county government with significant powers in providing services to the residents of the city. Given the highly competitive electoral process, controlling Nairobi is of critical importance to any incoming government. The city is an important hub for transnational trade and business networks, which are a source of rents to political elites. However, the relative autonomy of the city government from the national political settlement provides room to manoeuvre for local economic elites. Moreover, in contrast to several other capital cities in sub-Saharan Africa, there is a large transnational elite, some members of which are involved in export-oriented sectors such as horticulture, which has significant power in the city-level political settlement, with an ability to push more synergistic (and less cronyistic) state–business relations.

3.2.   A summary of the national political settlements in the five cities

Table 2 summarises the current national political settlements in the five case study cities. Kenya and Ghana have a broad social foundation and dispersed power concentration. Ethiopia has a narrow social foundation and dispersed power concentration, and the political settlement can be regarded as semi-settled or unsettled. Tanzania has a narrow social foundation and concentrated power concentration, in transition to a dispersed power concentration. Zimbabwe has the same configuration as Tanzania; however, the political settlement is semi-settled or unsettled. There are no cities which have a national political settlement with a broad social foundation *and* a concentrated power concentration. As argued by Kelsall et al. (2021), such a political settlement is most conducive to structural transformation, as elites are likely to have long-term horizons that allow for policies to be made and implemented. Political settlements which have a dispersed power concentration may lead to short-termism in decisionmaking and clientelist policies. Political settlements with narrow social foundations are likely to lead to collusive behaviour on the part of political and economic elites. We will assess the implications of the national political settlements for structural transformation possibilities in our five case study cities later in this paper.

Table 2: National political settlements

Social foundation	Power concentration	
	Dispersed	**Concentrated**
Broad	Kenya, Ghana	-
Narrow	Ethiopia (semi-settled)	Tanzania, Zimbabwe (semi-settled)

Source: Author's construction.

We now turn to the delineation of the rents space in the five case study cities.

3.3. The rents space

A significant challenge in operationalising the rents space concept to African cities is the lack of enterprise data at a sufficient level of granularity to allow us to reliably classify enterprises as magicians, workhorses, rentiers and powerbrokers. To operationalise the rents space at the city level, we need unit-level data for enterprises which provide information on their value added/output, their employment and, where necessary, their export/domestic market orientation. We do not have such enterprise-level data for Dar es Salaam or Harare. We have enterprise-level data for Accra and Nairobi, but not by export/domestic market orientation. For Addis Ababa, we also have enterprise-level data but only for micro and small enterprises. We also have enterprise data for micro and small firms in Nairobi. Therefore, for Dar es Salaam and Harare we use the population census, disaggregated to the city level, which provides information on employment but not on production (Government of Tanzania, 2018; Government of Zimbabwe, 2019). For Accra, we use the Ghana Living Standard Survey (GLSS 7) dataset, which provides enterprise-level data for the Greater Accra region (GSS, 2017). For Nairobi, we use the Population and Housing Census, along with the Micro, Small and Medium Enterprises (MSME) Survey and the Census of Establishments (CoE) (Government of Kenya, 2019; Kenya National Bureau of Statistics, 2016a, b). For Addis Ababa, we use the 2010 and 2018 Urban Employment Unemployment Survey (UEUS) conducted by the national Central Statistical Agency and the inventory of micro, small and medium enterprises collected in 2019/20 by the Addis Ababa city administration (Government of Ethiopia, 2010, 2018, 2020).

A further limitation is that while the population censuses are a rich source of individual worker-level employment in manufacturing and services and provide a reasonably accurate estimate of employment in the magician and workhorses sectors, they are not very good at capturing the contribution of the powerbroker sector, especially in real estate and telecommunications, as such data are not readily available at the city level. Therefore, our attempt to describe the rents space in Accra and other African cities comes with strong caveats, as it is very likely that we are underestimating the contribution of the powerbroker sector to the rents of the cities.

To the extent possible, we have followed the same classification of sectors mapped to magicians, workhorses, rentiers and powerbrokers across cities, so the rents space figures are comparable to a large degree. The classification is as follows:

- **magicians** includes employment in manufacturing and tradeable services;
- **workhorses** includes food sellers, informal traders, domestic services and other informal services;
- **powerbrokers** includes utilities, telecommunications, real estate and finance; and
- **rentiers** includes mining sector, fishing, and forestry activities (however, rentiers are hardly present in cities).

Accra

In Figure 4, we provide a characterisation of the rents space in the Greater Accra Metropolitan Authority (GAMA) area, by shares of the rentier, magician, powerbroker and workhorse sectors by total employment (in Appendix Figure A1, we present the rents space by total enterprises).[9] We see that workhorses dominate the rents space, with a share of around 70%. There is some presence of magicians in terms of employment, and the powerbroker sector contributes relatively little employment.[10]

Figure 4: Rents space, Accra

% share in employment
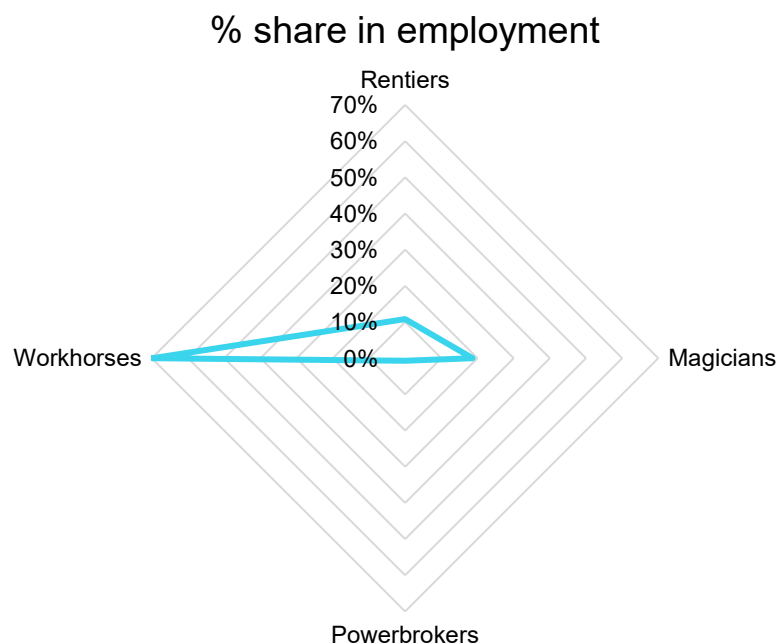
Source: Prepared by Idrissu and Ohemeng (2023) based on data from GSS (2017).

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[9] See Iddrisu and Ohemeng (2023) for detailed calculations.
[10] There is a strong possibility that the rents space for Accra is undercounting the powerbroker sector, as it is based on enterprise-level data and not the Population Census.

Addis Ababa

For Addis Ababa, we use the 2020 UEUS, which provides the employment structure at the Addis Ababa level and is expected to be city-wide representative.[11] Figure 5 provides the rents space for 2018, in terms of employment shares (Appendix Figures A2, A3, and A4 present total employment and establishments shares using the Micro, Small and Medium Enterprises Survey). We find that workhorses are the major employers, followed by powerbrokers. Magicians are a distant third, while rentiers have the smallest share of employment. In 2018, workhorses employed 52% of the workforce, powerbrokers 28%, magicians 13% and rentiers about 1%.

Figure 5: Rents space, Addis Ababa
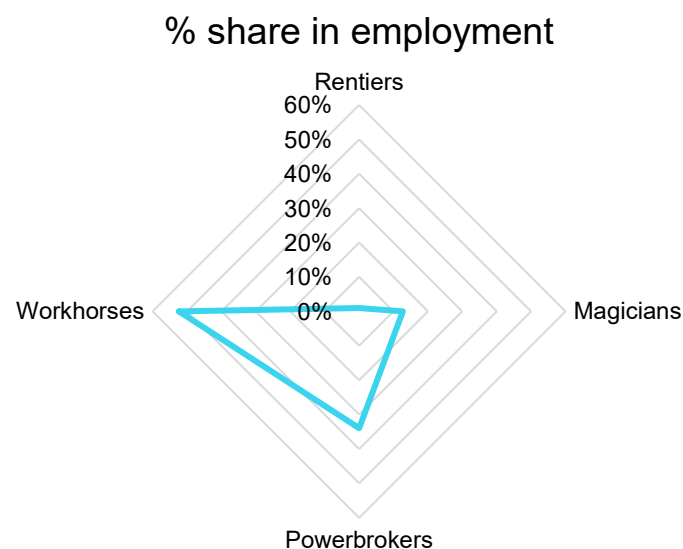
Source: Prepared by Tekleselassie (2023) based on data from Government of Ethiopia (2018), Addis Ababa sample.

Dar es Salaam

In Dar es Salaam, we have the Population Census for 2012.[12] The rents space is mostly dominated by workhorses, accounting for approximately 46.9% of the workforce (Figure 6). This is followed by powerbrokers, which constitute around 29.5% of employed individuals. Magicians constitute less than 10% of the rents space.

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[11] See Tekleselassie (2023) for detailed calculations.
[12] See Mutalemwa (2023) for detailed calculations. Figure A5 provides the rents space for Dar Es Salaam for 2002. As this figure makes clear, the rents space for the city has not changed over the period 2002-12, with workhorses and powerbrokers dominating the economic landscape of Dar Es Salaam.

Figure 6: Rents space, Dar es Salaam

% share in employment
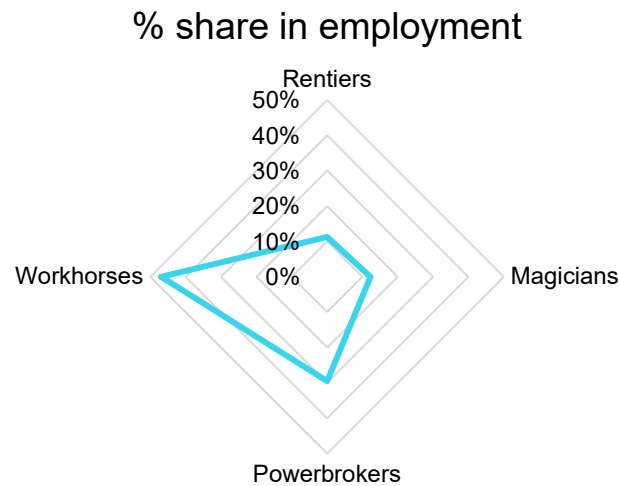
Source: Prepared by Mutalemwa (2023) based on data from Government of Tanzania (2012).

Harare

In the case of Harare, as with Accra and Dar es Salaam, workhorses dominate the city's economy, at least with respect to employment, with around 60% share of total employment (Figure 7).[13] Powerbrokers are the next largest, with around 30% of total employment. Magicians have limited economic significance in Harare, with around 10% of total employment. Therefore, the rents space is almost completely dominated by workhorses and powerbrokers.

**Figure 7: Rents space, Harare**

% share in employment
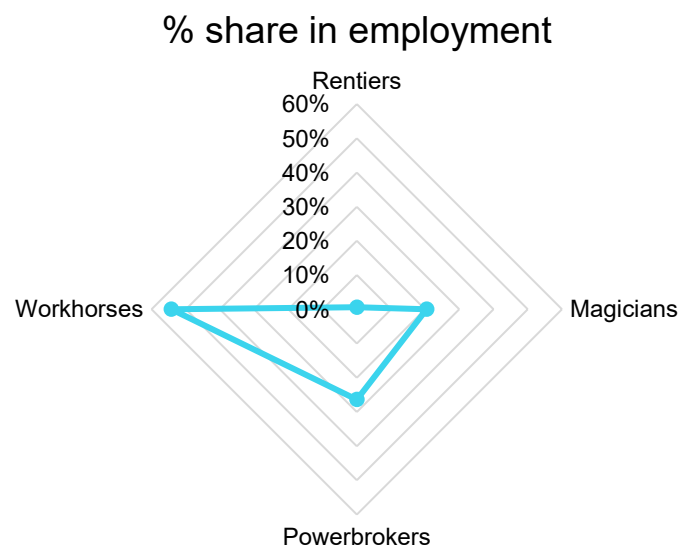
Source: Prepared by Mahofa (2023b) based on data from Government of Zimbabwe (2012).

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[13] See Mahofa (2023a) for detailed calculations.

Nairobi

In the case of Nairobi,[14] we have the Population and Housing Census 2019. Figures using the MSME Survey 2016 and the CoE 2017 are presented in Appendix Figures A6 and A7.[15] Workhorses dominate the rents space in Nairobi, with their share in employment/output at around 40-60% (Figure 8). Powerbrokers are next in importance, at around 20%, followed by magicians at 5-10%. Not surprisingly, rentiers hardly exist in the rents space of Nairobi.

Figure 8: Rents space, Nairobi

% share in employment
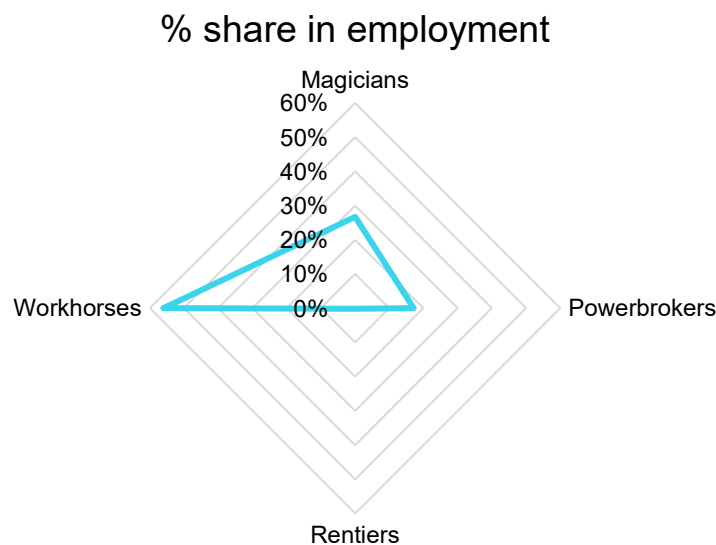
Source: Prepared by Magero (2023a) based on data from Government of Kenya (2019).

The rents space: Summary

Overall, the rents space figures for the five cities show the dominance of workhorses in economic activity: their share in the rents space varies from around 47% in Dar es Salaam to 70% in Accra. This reflects in great part the lack of structural transformation in African cities. The powerbroker sector is important as well (at around 20-30% in most cities), though the datasets that we have available may be seriously undercounting their importance in the rents space. Since rentiers are mostly in the natural resource sectors and are therefore unlikely to be found in cities, they do not matter much in the rents space of African cities, though they are important at the national level.[16]

Magicians constitute no more than 13% of the rents space in any of the five cities, when measured by the share of employment. Generally, our finding here is the relative lack of magicians in African cities and especially those that can generate large

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[14] See Magero (2023a) for detailed comments.
[15] The MSME survey does not include large firms, so is probably undercounting magicians and powerbrokers. The CoE is only for registered firms, so is undercounting magicians.
[16] See Pritchett et al. (2017) for case studies of Liberia and Rwanda.

employment at productive scale. In the next section, we analyse the deals space in the five cities and assess what it is about the nature of deals that may explain the lack of magicians in our case study cities.

3.4. The deals space

In this section, we provide a characterisation of the nature of deals faced by workhorses, powerbrokers and magicians in Accra, Addis Ababa, Dar es Salaam, Harare and Nairobi.[17] This section is based on key informant interviews with enterprise owners in the workhorse, powerbroker and magician sectors (and rentiers, where they exist). In addition, interviews were conducted in most cities with local city officials and chambers of commerce. In each city, around 20-30 interviews were conducted.

Workhorses

As we observed in Section 1, most workhorses are what may be termed lower-tier self-employed, comprising mainly own-account enterprises. Such enterprises have very low productivity compared with informal enterprises that employ outside workers (termed "employers" in the classification used by the International Labour Organization). African cities are populated by a large mass of workhorses, many of whom reside in shanty towns and slums. We find that across the five cities, the deals that workhorses face are largely open and semi-ordered or disordered. These deals can come in various types – such as the commitment by the inspector or city official to not harassing sellers of goods (such as fruit and vegetables) by the roadside in exchange for an informal tax or bribe, or the promise by the political broker of a licence to operate the enterprise if the enterprise owner and their family commits to supporting the local candidate in city/national elections.[18] These deals are often temporary and contingent on the individual offering the deal. They tend to be dishonoured, as the time horizons of the agents offering the deal are likely to be short. For example, the identity of the tax inspector harassing the street vendor for a bribe may change from time to time, or the amount of bribe requested may be higher than originally communicated to the household enterprise. In the case of political brokers, the switching of political parties (which can happen often in the run-up to the election) or the broker not having the authority to carry through the deal may lead to the deal not being honoured (Domfe, 2023; Magero, 2023b).

At the same time, the deals tend to be open, as any informal enterprise which wants the deal is likely to get it – in other words, the requirements for obtaining a deal is the willingness to pay an informal tax or a commitment to support a particular candidate.[19]

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[17] We do not discuss the rentier sector, as it is virtually non-existent in cities.

[18] Over half of the workhorses interviewed in Addis Ababa stated that they had had to pay a bribe to keep their tax rates low or to keep their business running smoothly (Robi, 2023). In fieldwork undertaken in the Mathare informal settlement in Nairobi, key informants outlined the role of political brokers in the informal settlement in mediating deals to household enterprises.

[19] However, where party politics takes place along ethnic lines (as in Accra and Nairobi), this may limit the ability of enterprise owners from a particular ethnic group to obtain a deal if the candidate is from a different ethnic background.

The intense competition between household enterprises producing for local markets, due to the large number of household enterprises, precludes deals being closed and offered to only a few informal enterprises, to the exclusion of others.

However, not all of the deals offered to workhorses are open. In the case of Harare, one needs a membership card for ZANU-PF to operate a business, remit working fees to land barons linked to ZANU-PF, and attend ZANU-PF cell meetings. The opposition party has also established its own spaces within the city centre that it controls. Access to land in Harare to operate one's enterprise depends on whether one is politically connected to ZANU-PF or the opposition leadership, making the deals space closed in certain areas (Mfundo, 2023). A similar phenomenon is observed in Addis Ababa, where the city provides support to workhorses via the Medium and Small Enterprise (MSE) programme. Here, political support for the ruling party is an informal criterion that may come in the form of a membership request or public support for the party's activities. This implies that workhorses who benefit from the MSE programme do not want to graduate, as they stand to gain from the low rent of working spaces and other support services (Robi, 2023), and remain dependent on the state.

The ability of workhorses to ask for ordered deals depends on whether they can exercise collective action to demand more predictability in the business environment they face. Organisations representing workhorses can advocate for changes to stifling laws and regulations, improve their members' access to training and education opportunities, and accredit their members' abilities to sell their products on domestic markets. An example of such an organisation in Dar es Salaam is SHIUMA (Shirika la Umoja wa Machinga; Umbrella Association for Street Vendors), which is campaigning for changes to national policy and laws concerning street vending. It is more likely that deals offered to workhorses will be ordered in the locations where such organisations exist and have a strong collective voice. However, in most of the case study cities, there are few examples of such organisations for workhorses and they are dispersed widely across the city, with limited ability to ask for open ordered deals.

Powerbrokers

Powerbrokers in African cities are of two types. The first type are business conglomerates in finance, utilities, telecommunications and construction. The second type are state-owned companies or party-linked enterprises. The first type are present in Accra, Dar es Salaam and Nairobi, the second type largely in Addis Ababa and Harare. In Dar es Salaam, powerbrokers also include large wholesale traders with licences to import and export goods, as well as to buy and sell in bulk in the domestic market (Mutalemwa, 2023). For both types of powerbrokers, the deals are closed and ordered. These powerbrokers strike closed deals with politicians and city officials and act to block new entry by other firms in their respective sectors (Magero, 2023b). They operate in monopolistic or oligopolistic markets and generally earn super-normal profits. The deals they are offered are ordered, as the relationships they have with the political elites are longstanding and repeated over time (independently of who is in power at the current moment). The terms of the deals are sometimes illegal (where

bribes are paid to obtain it) or extra-legal (where the price the powerbroker firms pay for licences to operate are below market price).

In the case of Dar es Salaam, family-based conglomerates of Arab and Asian descent that dominate the mining, telecommunications and real estate sectors have had longstanding relationships with the party in power, the CCM, for several decades (Mutalemwa, 2023). Members of these conglomerates hold leadership roles in the local chambers of commerce, further cementing their power among business elites. A similar phenomenon is observed in Nairobi. In the case of Addis Ababa, the fact that powerbrokers are party-owned or -affiliated or state/military-owned enterprises blurs the distinctions among party, state and business. They are part of a complex mechanism through which the former EPRDF (and now PP) party state has captured the economy (Robi, 2023). In addition, the government being the largest purchaser of goods and services in the country implies that patronage is conferred through the lucrative contracts that the powerbrokers obtain from the state. This also implies that the quick returns that can be obtained from these procurement contracts in the powerbroker sector disincentivise investments in more-productive sectors, such as manufacturing. In Harare, the centralisation of power at the city level with the national government along with the hegemony of ZANU-PF has meant that city governments are powerless to make decisions and operate at the mercy of the Minister of Local Government (Mfundo, 2023). This means that only those connected to ZANU-PF can make deals and be confident that these deals will be delivered.

Land is an important source of powerbroker rents, as the high value of land in African cities has led to intense real estate speculation, to the detriment of long-term investment in manufacturing. The speculation in land has been exacerbated by large-scale infrastructural projects undertaken by national and city governments, which has further raised the high rents observed in construction, an important powerbroker sector (Gillespie and Schindler, 2023). This has led to a land-based accumulation strategy rather than a fixed asset accumulation strategy, where scarce urban land is used for housing for the middle class and not for manufacturing or tradeable service activities.

In summary, the high rents that are possible for powerbrokers, mainly due to anti-competitive practices and collusive behaviour, imply that these sectors provide mechanisms of rent-sharing between business and political elites through closed and ordered deals. The lack of competition in turn implies that the inputs that powerbrokers provide to magicians and workhorses are high cost and often unreliable in quality, constraining the growth of the magician and workhorse sectors.[20]

Magicians

As was clear from the discussion on the rents space, there are a limited number of magicians in most of our case study cities. Magicians are mostly in the manufacturing and tradeable services sectors, reflecting the relatively low importance of these sectors

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[20] As Danquah et al. (2023) show, the most severe constraints that firms in the five cities report are around inputs provided by the powerbroker sector, such as electricity.

in Africa's urban economy (see Jedwab et al., 2022). In large part, wherever magician firms exist in the city landscape in our five case studies, they face semi-open and semi-ordered deals. For example, in Addis Ababa, the government, along with Chinese investors, have created several Special Economic Zones (SEZs) and Industrial Parks (IPs) in the city, to increase exports of manufacturing goods. These SEZs and IPs account for around 41% of total exports from SEZs and IPs in Addis (Cepheus, 2021). Foreign firms in these SEZs/IPs face open and ordered deals, with the government providing a range of incentives to these firms. They have direct access to the Prime Minister's Office, and any hurdles that they face are taken care of with speed from the city and national governments (Robi, 2023). Domestic magician firms face a different deals environment, where they have to deal with public sector inefficiencies, foreign exchange shortfalls and corruption. In other words, the deals that domestic magician firms face in Addis Ababa are significantly less ordered than those faced by foreign magician firms. A similar phenomenon is observed in Dar es Salaam and Nairobi, with foreign-owned magician firms more likely to face ordered deals than domestically owned magician firms. In contrast, in Accra, domestically owned firms in the manufacturing and services sectors are dependent for their survival on government contracts, which leads to a semi-closed deals space for these firms, inhibiting their ability to compete in external markets. The frequent change of the ruling party at the centre in Ghana also leads to disordered deals for magician firms, constraining their growth (Domfe, 2023).

The semi-ordered deals environment explains in large part why there are a relatively low number of magicians in African cities. In addition, firms in manufacturing and tradeable services mostly occupy the lower rungs of the value added ladder in world markets, and there is intense competition from firms in Asia for the goods and services that African firms produce. This also implies that there are limited possibilities for these firms for rent-sharing with political elites (in comparison with the high rent extraction possible among powerbroker firms).

The relatively low proportion of enterprises in African cities which are magicians may also be explained by economic factors such as the lack of agglomeration economies and the presence of trade and non-trade barriers (Mumuni, 2023). The limited presence of magicians creates a negative feedback loop, in which the lack of a sufficient number of magicians has meant that political elites have not shown a strong interest in providing a more open and ordered deals environment for magician firms, further exacerbating the phenomenon of "missing magicians" in African cities.

3.5. The political economy of spatial economic development in African cities

African cities show significant variation in terms of level of structural transformation. Manufacturing tends to be more highly concentrated in some parts of the city more in others. The same applies to services, and the areas that show a high presence of services are not necessarily the same areas that show a high presence of manufacturing (see chapters on Dar es Salaam and Harare in Danquah et al., (2024)). The highly uneven levels of structural transformation observed in African cities can be

explained in part by historical factors, where some parts of the city evolved to become major hubs of industrial activity over time. However, as we argued in Section 2 of our paper, the three core variables of the D&D framework – the political settlement, the rents space and the deals space – can in part also explain why some parts of a city see more concentration of economic activity than others. In competitive clientelist political settlements such as we observe in Ghana (where power is dispersed), political competition plays an important role in explaining why political elites favour investments in one part of the city over another. For example, Danquah et al. (2024) show that all politically competitive districts in Accra show higher productivity of firms, and this is due to the larger presence of public infrastructure in these districts (examples of such districts are La Nkwantanang and Ledzokuku). For dominant party political settlements (where power is concentrated, as was the case in Addis Ababa until recently), elites have the ability to implement long-term development projects, such as the construction of SEZs for foreign manufacturing firms to be located in, leading to higher concentration of manufacturing in these areas (see chapter on Addis Ababa in Danquah et al. (2024)).

As already noted, there has been a construction boom in African cities, as elite-driven infrastructure-led projects contribute to "new frontiers for real estate investments" (Gillespie and Schindler, 2020). This had led to pockets of "high rent" powerbroker activity in areas of cities where there has been major construction of residential dwellings for the middle class. In the case of Addis Ababa, the outer and larger sub-cities of Yeka, Akaki-Kality, Bole and Lemi Kura display a higher concentration of the construction sector, with these sub-cities serving as outlets for construction growth (see chapter on Addis Ababa in Danquah et al. (2024)). Other parts of the city which are relatively "low rent", such as those where workhorses reside (as in informal settlements), are less likely to see investments in infrastructure and are generally starved of public goods such as electricity and sanitation.

In addition to the political settlement and the rents space, the deals space can play an important role in shaping the spatial distribution of economic activity in our case study cities. We have already observed that workhorses face disordered deals for the most part, which is not conducive to their growth and expansion. In the case of Nairobi, the constituency of Mathare has the oldest and second-largest slum in Kenya, containing a large proportion of workhorses in the city. We see a striking difference in manufacturing activity across electoral constituencies in Nairobi, with almost no manufacturing activity in Mathare compared with other constituencies (see chapter on Nairobi in Danquah et al. (2024)). This may reflect the fact that the disordered deals environment faced by enterprises in Mathare is not conducive to the growth of manufacturing activity (or magician firms) in the constituency.

Therefore, the political settlement, the rents space and the deals space can be highly spatialised in cities, and this may explain the uneven nature of economic development within cities. The D&D framework allows us to go past conventional explanations of

spatial urban development such as connectivity and agglomeration economies and emphasise the varieties of state–business relations that occur in city landscapes.

3.6. How can the D&D framework help to explain the lack of structural transformation in African cities?

The D&D framework makes the argument that the lack of structural transformation is an outcome of a disordered or semi-ordered deals space, which in turn can be causally linked to the type of political settlement and the rents space in a city. Our city case studies suggest that the lack of structural transformation in urban Africa can be seen as an outcome of the nature of the deals space in African cities. We find that magician and workhorse firms face either disordered or semi-ordered deals, while powerbroker firms are usually the recipients of closed, ordered deals. The lack of credible commitment to deals that will be honoured for magicians and workhorses can be linked to both the political settlements and the nature of the rents space.

Starting with the rents space, we find that cities are seen more as sources of rent extraction, given the value of urban land, and less as sites for productive economic activity. Real estate speculation trumps productive investment in manufacturing and services, as the returns to the former are higher, at least in the short term. We find that in all of our case study cities, rent-sharing takes place between powerbrokers and political elites through closed, ordered deals. Given the political and economic power of powerbrokers in construction and utilities, there is no real constituency for reforms in these sectors or any effective mechanism for disciplining these economic agents. This leads to two outcomes: (1) there is no real interest in building state capacity to implement effective industrial policy for magicians, and (2) inputs supplied by powerbroker firms to magicians and workhorses are either costly or unreliable, leading to binding constraints on the growth of these sectors.

Moving on to the national and city political settlements, the short time horizon for political elites in cities such as Accra, Harare and Nairobi (where political power is dispersed), combined with the presence of electoral clientelism, where provision of particularistic goods and services to certain neighbourhoods is favoured over programmatic policies, leads to disordered or semi-ordered deals for magicians and workhorses. In particular, the hyper-disordered deals environment in the informal settlements where workhorses reside explains the preponderance of lower-tier informal workers and the lack of productive urban jobs in Africa. Further, the disordered nature of deals does not provide a conducive environment for long-term investment decisions to be made by business elites, leading to a low density of physical capital in urban Africa.

Addis Ababa and Dar es Salaam have concentrated power configurations, which may be conducive to credible commitment on the part of elites (and this is reflected in the presence of several foreign magician firms in Addis Ababa). However, in both cities, the social foundation of the political settlement remains relatively narrow, not allowing for an opening up of the deals space. In addition, the political settlement in Addis

Ababa has been increasingly challenged under the leadership of Abiy Ahmed, creating further uncertainty for foreign investors.

In summary, drawing on our five city case studies, the lack of structural transformation in urban Africa can be attributed to the nature of national and city political settlements (where power remains dispersed and/or the social foundation is narrow); a rents space dominated by low-productivity workhorses and high-rent, uncompetitive powerbroker firms; and a deals environment that does not favour the growth of magicians.

4.   Conclusions

Africa has witnessed the phenomenon of urbanisation without structural transformation, where productive jobs are scarce in cities, most enterprises are lower-tier informal self-employed, and there is density of people rather than capital. This paper provides a political economy analysis of the "urban development trap" observed in sub-Saharan Africa, drawing on the Deals and Development framework. The framework proposes two core variables – the political settlement (the balance of power between elites) and the rents space (the economic structure of a region or subregion) – and an intermediary variable – the deals space (the nature of personalised relationships between political/bureaucratic elites and enterprises). It postulates that the deals space is an outcome of the political settlement and the rents space, and that this in turns determines growth and structural transformation. We apply the framework to five cities in sub-Saharan Africa – Accra, Addis Ababa, Dar es Salaam, Harare and Nairobi. These cities differ by population size, but they all are economically important. We combine quantitative and qualitative methods, using secondary data from population censuses and firm surveys for the former and key informant interviews for the latter.

Drawing on previous research by ACRC, we note that the national political settlements differ across the five cities, with dispersed political power in Accra, Addis Ababa and Nairobi and concentrated political power in Dar es Salaam and Harare. However, the political settlement in Harare remains largely unsettled, while that in Dar es Salaam it is increasingly dispersed. In terms of the rents space, we find that workhorses dominate the economic structure of all five cities, followed by powerbrokers. There is very little presence of magicians.

With respect to the deals space, we find that there is clear variation in the nature of state–business relations across enterprises in the cities, where manufacturing and tradeable services firms in the formal sector face semi-ordered deals, while workhorses face disordered deals. In contrast, political and economic elites share rents through closed, ordered deals in construction, real estate and utilities, which disincentivises investment in productive sectors as well as leading to high costs of inputs for downstream firms in manufacturing and services. Political elites prioritise speculative investments in real estate and construction (the powerbroker sectors) over commitment to long-term deals in the magician sectors of manufacturing and tradeable services, due to the high rents in the former (underpinned by closed deals) compared with the latter sectors. This leads to the semi-ordered or disordered deals faced by magicians

and workhorses that are not conducive to long-term growth and structural transformation. We argue that the nature of the deals that are offered to powerbrokers, workhorses and magicians can be related in part to the prevailing national political settlements in the five cities, where dispersed political power along with competitive electoral systems leads to short-termism in deal-making, as is the case of Accra, Harare and Nairobi. In cities such as Addis Ababa and Dar es Salaam, where political power is concentrated, the political settlement is unsettled and deals remain disordered or semi-ordered for magicians and workhorses. We also find that the highly uneven nature of economic activity in our case study cities may be related in part to the spatialised nature of the rents space and deals space in these cities.

Our analysis points to the need to pay closer attention to political economy factors that constrain structural transformation in African cities, over and above conventional explanations that highlight the role of economic factors, such as the lack of agglomeration economies and poor infrastructure. From a policy point of view, our paper points to the importance of building up the collective voice of magicians and workhorses (through stronger associations of manufacturing, tradeable services and informal enterprises) and strengthening the capacity of city and national governments to conduct effective industrial policy. In addition, stronger disciplining mechanisms for powerbrokers need to be put into place, along with constraints on land speculation.

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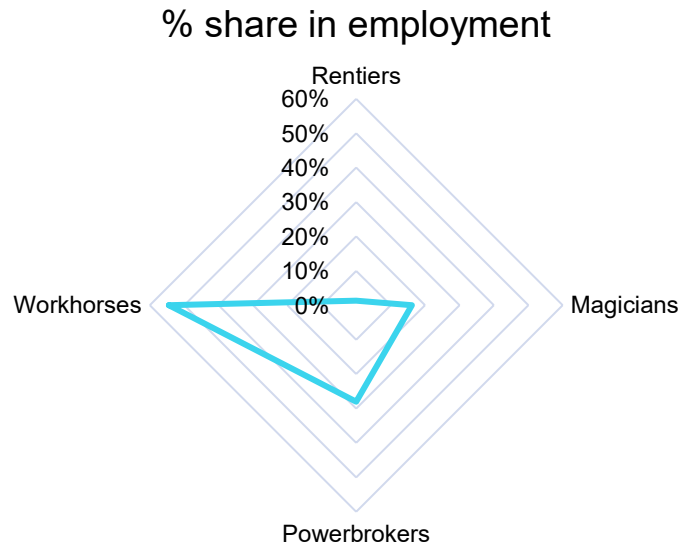**Appendix**

Figure A1: Rents space, Accra, using shares in total establishments

## % share in total establishments in GAMA
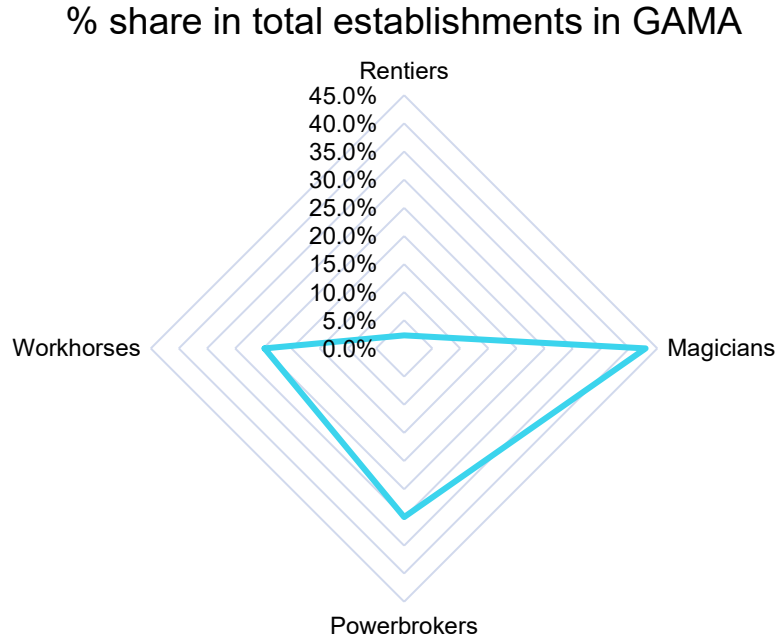
Source: Prepared by Idrissu and Ohemeng (2023), based on data from GSS (2017).

Figure A2: Rents space, Addis Ababa, using shares in total employment (2010)
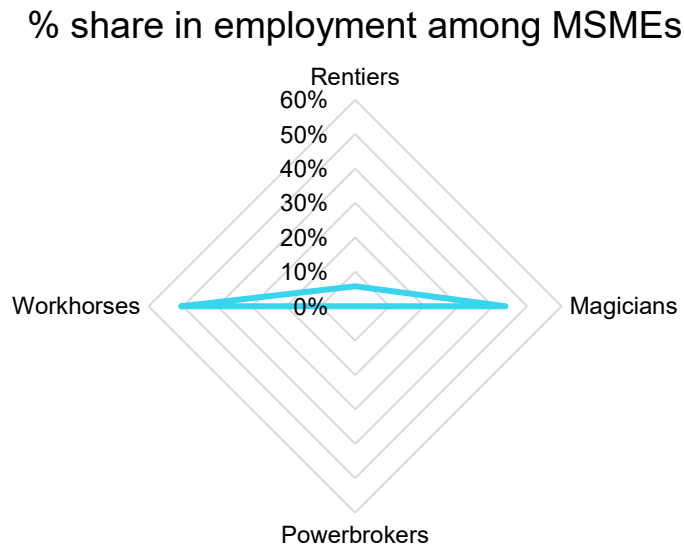
% share in employment

Source: Prepared by Tekleselassie (2023), based on data from Government of Ethiopia (2018).

Figure A3: Rents space for MSMEs, Addis Ababa, 2020 (establishment)

% share in total establishment among MSMEs
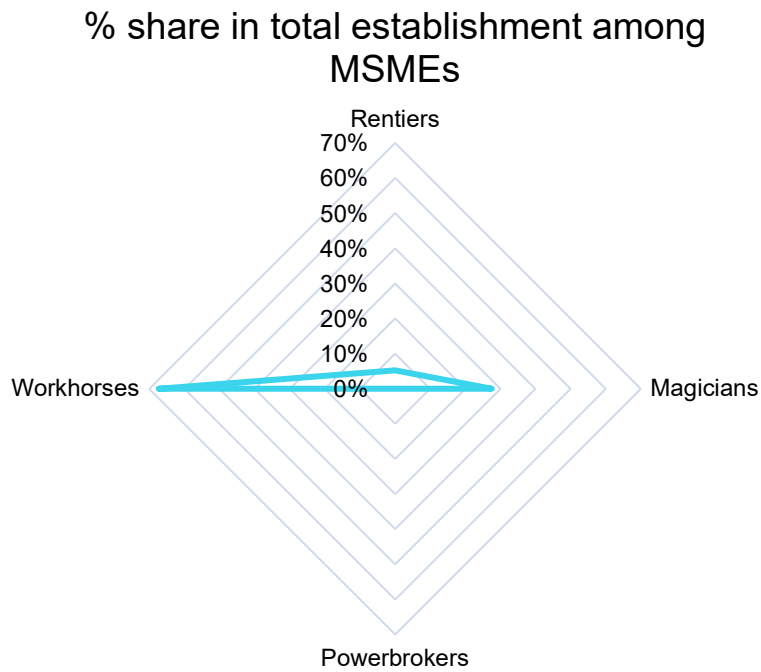
Source: Prepared by Tekleselassie (2023), based on data from Addis Ababa Labour, Enterprise, and Industry Development Bureau (AALEIDB).

Figure A4: Rents space for MSMEs, Addis Ababa, 2020 (employment)
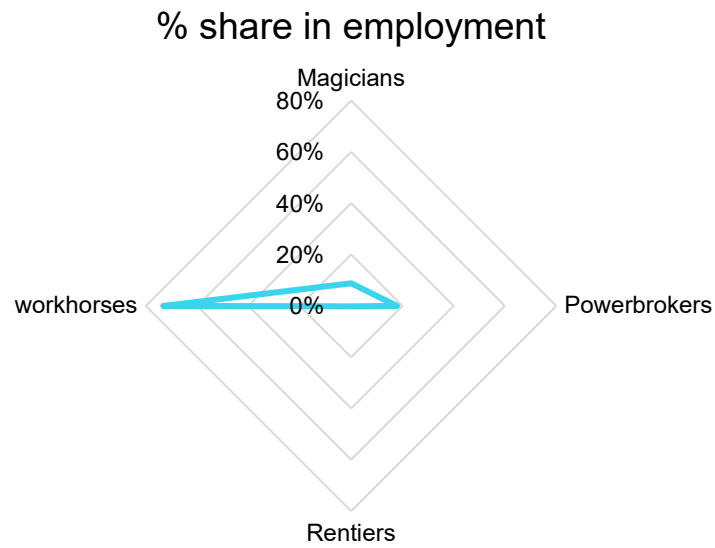
% share in employment among MSMEs

Source: Prepared by Tekleselassie (2023), based on data from Government of Ethiopia (2020).

Figure A5: Rents space, Dar es Salaam, 2002
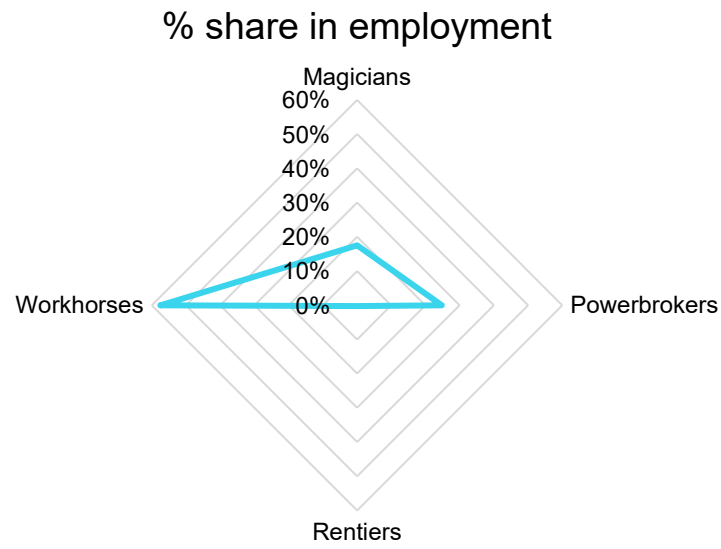
Rent space (%) for Dar in 2002
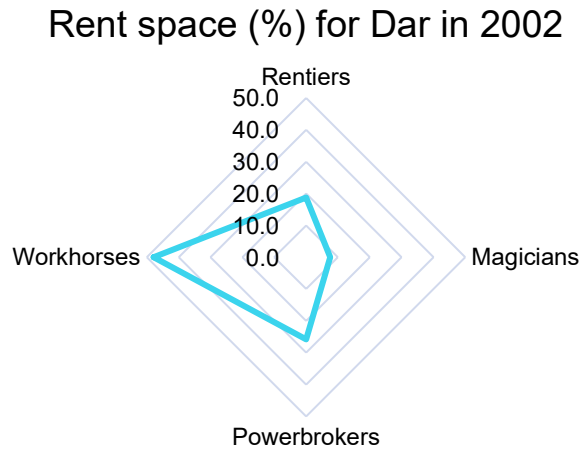
Source: Prepared by Mutalemwa (2023), based on data from Government of Tanzania (2002).

Figure A6: Rents space, Nairobi, using the MSME survey

% share in employment

Source: Prepared by Magero (2023a), based on data from Kenya National Bureau of Statistics (2016b).

Figure A7: Rents space, Nairobi, using the Census of Establishments

% share in employment

Source: Prepared by Magero (2023a), based on data from Kenya National Bureau of Statistics (2016a).

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