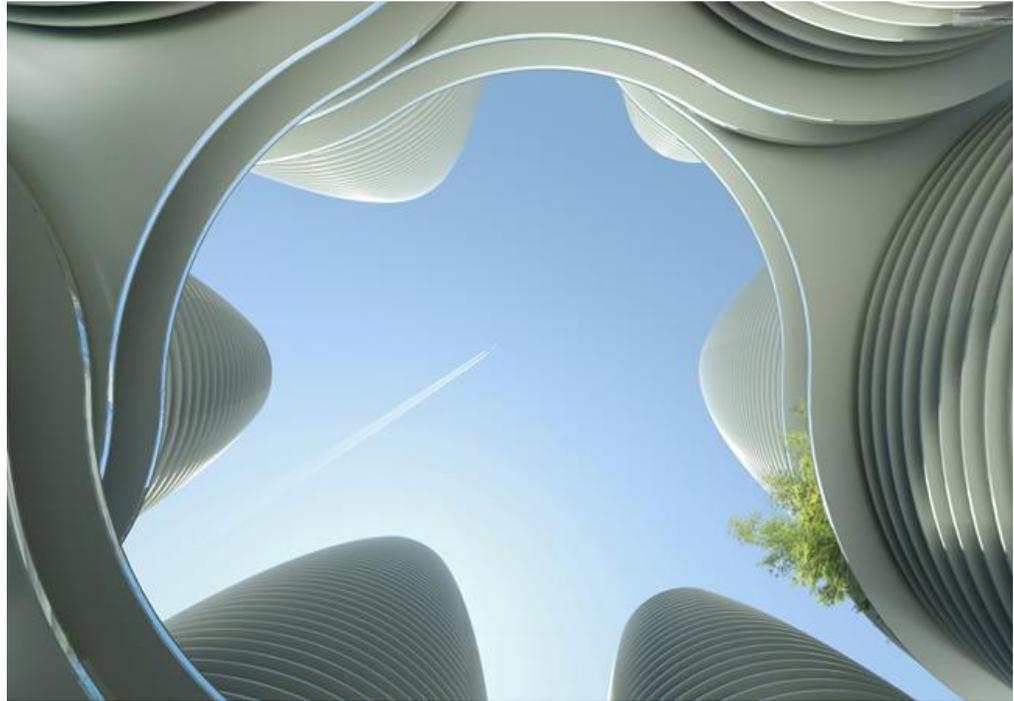


African Cities as Emerging Hubs and Drivers of Innovation and Growth

By Hannah Edinger and Garikai Matambo (March 2014)



This thought leadership piece was compiled to complement content discussed at the *Africa Frontiers Forum* hosted by Frontier Advisory on 19th February 2014. Panel speakers included *Mr Chris Whelan* (CEO, Accelerate Cape Town), *Mr Taffy Adler* (CEO, Housing Development Agency), *Ms Denise Lee* (Associate Director - Risk Advisory, Deloitte), *Mr John Thorby* (Senior Manager IDM, Eskom). The panel was chaired by *Ms Hannah Edinger* (Director, Frontier Advisory).

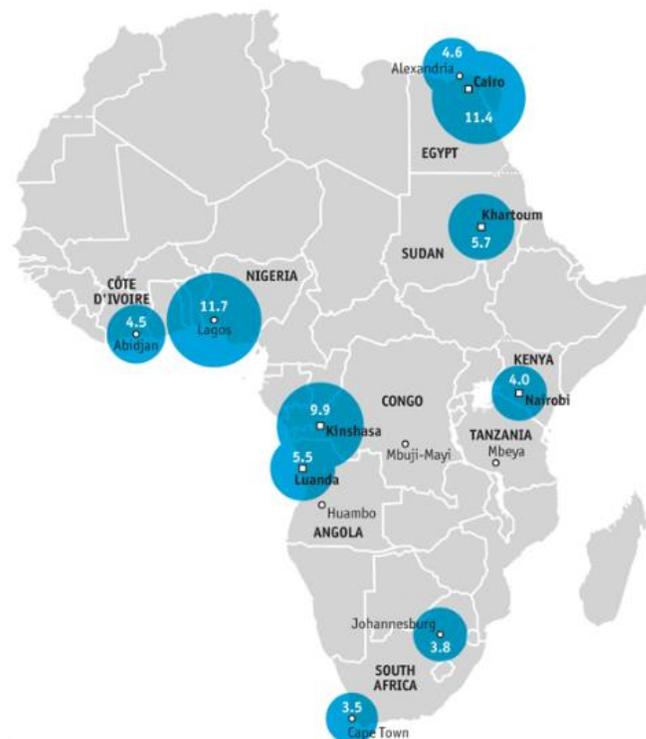
Cities account for 70% of global GDP

An additional 350m people will move to Africa's rapidly expanding cities by 2030

The world is experiencing an unprecedented urban shift: less than a century ago, a mere 10% of the world's population lived in cities. Today the figure is almost 60%. By 2050, three in four people will reside in a city, with the majority of new cities stemming from the Global South. This trend comes as no surprise as economic activity, innovation and opportunities are concentrated in urban agglomerations. Cities across the world currently account for an estimated 70% of global GDP.

This trend is also playing out in Africa - still one of the least urbanised regions. Across the continent, cities are rapidly expanding, resulting in a mix of opportunities and challenges for both governments and businesses. With the fastest urbanisation rate by region, at about 4.87% (according to UN-Habitat) and relatively high population growth rates, it is expected that more than 50% of Africa's population will be urbanised within the next decade. About 350 million people are expected to flock from rural areas into African cities by 2030. It thus becomes inevitable that cities will further consolidate their role of being the economic drivers of growth within respective countries by being hubs for innovation, competitiveness, specialisation, diversification and ultimately economic growth.

Africa's Top 10 Cities by Population (2013 estimates)



Source: Taken from the Economist, 2012; based on UN-Habitat data

As a result, existing urban centres are increasingly under pressure to accommodate migrant populations, with pull factors such as employment, education and improved living conditions, as well as rapid population growth rates contributing to this. African cities are faced with the

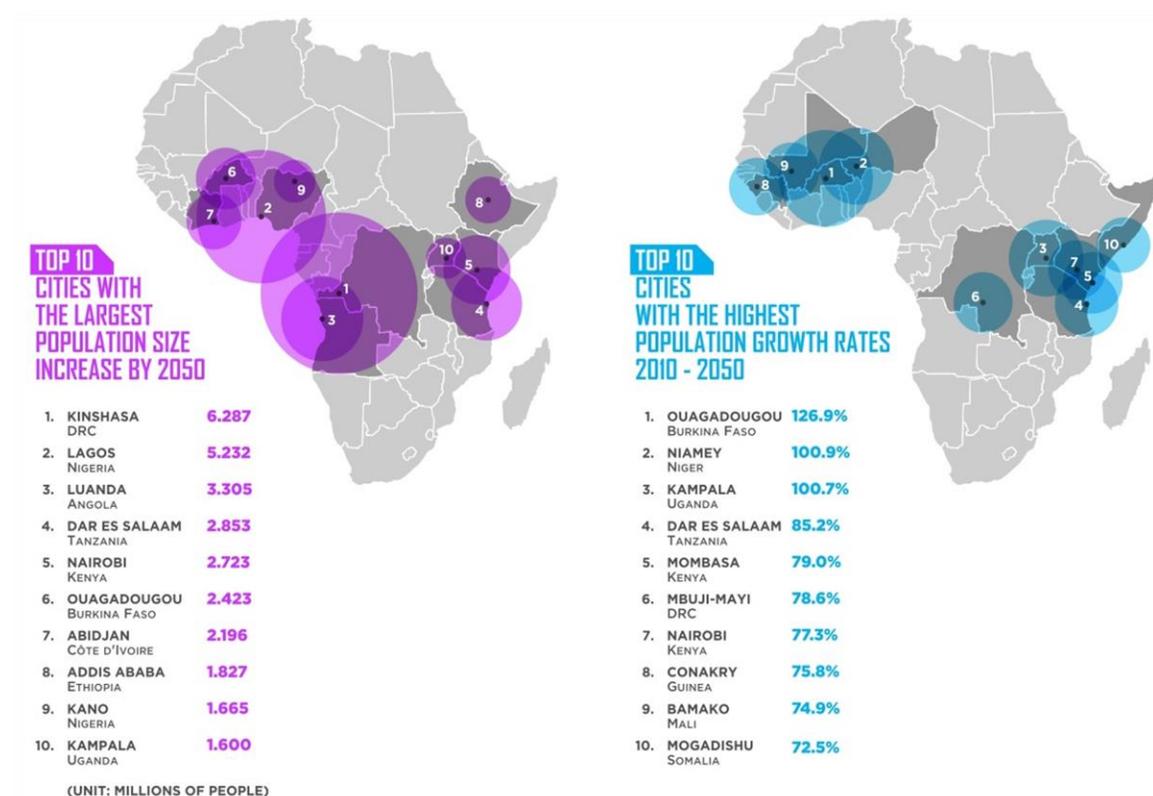
Expanding populations strain existing infrastructure and resources

Kinshasa and Lagos will boast the largest population sizes by 2050

challenge of accommodating ever increasing population numbers into a relatively small number of expanding geographic areas. For example, while definitions of cities vary from country to country, it is estimated that only about 50 cities have a population of more than 1 million people. This means that, on average, there is less than one city per African country with a population of 1 million people. This makes expected population increases for existing cities quite daunting. This is in contrast to a country such as China, where creating and developing new cities and actively managing some of the urbanisation challenges through the restricted movement of labour and people have been common policies.

Cities such as Kinshasa and Lagos, already boasting populations of about 10 and 12 million people respectively, will need to look at accommodating a further 5.2 million and 6.3 million more persons respectively between now and 2050. Some would see these as conservative estimates, expecting Lagos to increase to more than 25 million residents many years before 2050. In other cases, such as Niamey and Kampala, the city population is expected to double or even more than double, as is predicted to be the case in Ouagadougou. This trend is particularly evident in Western and Eastern African cities.

Change in Population Size by Key African Cities (until 2050)



Source: Taken from the Urban Intelligence Unit, based on UN-Habitat data

As urban agglomerations expand, they encounter mounting challenges. One key limitation to the rapid required growth of cities which is coupled to the need of creating labour-intensive

Growing cities face many challenges; one is the swelling 'energy poverty' gap

(industrial) activity is the short supply of energy across Africa. Nigeria is and will be a case in point here, with a current 80% gap in the electricity market. Additionally, the transmission network is overloaded, with a poor voltage profile in most parts of the network. There are frequent system collapses and exceedingly high transmission losses. Generation capacity to support productive activity and urban populations lacks across the continent. 'Energy poverty' looms.

Addressing constraints requires forward-looking leadership

Other constraining issues associated with the expansion and development of cities, include urban employment and housing; economic and social infrastructure provision particularly around transport, water and sanitation, education and health; urban sprawls; gentrification and homelessness; food security; resource utilisation; pollution; and crime. Addressing these and challenges of socio-economic development – which cities arguably are closer to than national governments – requires accountable and forward-looking leadership, consensus building, sound macroeconomic management, business-enabling policies and the attraction and retaining of talent and nurturing of human capital development, together with functioning municipal support institutions. This certainly still is a work in progress in many environments.

African cities are preparing to become smarter cities

As African cities grow despite of the challenges they are faced with, the old adage, 'necessity is the mother of invention', applies. Cities have grown to innovate to address these and other constraints. One such move is the positioning of African cities in developing ICT hubs in the run to create 'Smart Cities'. The concept of Smart Cities is not just that of high-tech cities, but of cities that are ultimately better functioning, and that have found ways to integrate ICT/technology in managing systems and processes. This includes information collection, data storage and more efficient and effective analysis tools. These tools assist with aspects such as service delivery and enhancing the planning capacity of governments and local municipalities.

ICT will aid cities to better prepare for future needs of citizens

Technology is now also used to help understand the hustle and bustle of city outskirts better. Mapping geo-trails, for example, can assist governments to better understand the densities and needs of specific areas, particularly given fast-expanding slums. The Ground Truth Initiative in Tanzania has been one case, where community members and urban planning students teamed up, armed with tablets to map the area as well as to build reporting resources. This has generated a better record of urbanisation, providing government a visual of the size and needs of the people in these areas with regards to services and development.

Innovation hubs are integral to developing 'techpreneurs' and attracting investment

ICTs are also forming an increasingly integral part in the socio-economic development and competitiveness of cities. In Nairobi, more than a dozen innovation hubs have been set up, expected to serve as catalysts for developing 'techpreneurs' – technology-led entrepreneurs. Just southeast of Nairobi, in Konza City, ICT infrastructure serves a critical part of the region's value proposition, with, what has been termed Africa's 'Silicon Savannah', currently under construction. In building the competitive edge of Nairobi, an environment filled with some of the brightest minds in the country is being established, focusing on innovative solutions for Nairobi and beyond. Konza City will be the hub for investors, corporates, start-ups and academia to meet and collaborate. The technology and financial mega city, which is

expected to be completed in early 2018, will include a business district, a science park, residential apartments, hotels and malls, and a university.

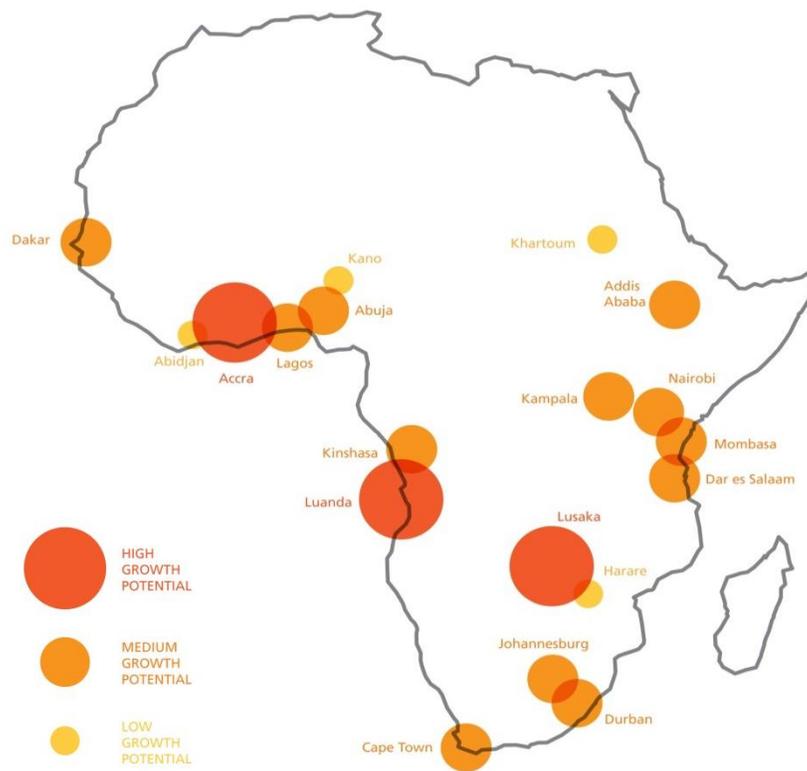
With the ability of serving as nexus points for growth and entrepreneurship development, similar projects include Ethio ICT Park in Addis Ababa, Ethiopia; ActivSpaces in Cameroon, TechHub in Lagos, Nigeria; the Botswana innovation hub in Gaborone and Hope City in Accra, Ghana. The latter is particularly of note, being a US\$10bn IT hub planned for construction in Dunkonaa, a suburb of Accra to rival Konza City. The Hope City scheme is designed to include a 270 metre high tower, which would be Africa's tallest building (article image). Generally, African cities are advantageously positioned to adopt new ICT infrastructure and smart city concepts due to limited legacy infrastructure which affords cities the opportunity to establish new technological systems with minimal infrastructure upgrades.

Looking ahead, cities will need to increasingly identify their comparative advantages differentiate themselves. Johannesburg and Lagos are positioning themselves towards strengthening their current status of being major economic and financial hubs; Cape Town, Casablanca and Tunis are promoting the concept of being 'green cities'. Yet other cities, including Addis Ababa, are seeking the spillovers of economic clustering through the creation of Special Economic Zones, in order to boost employment-absorbing industrial and export-focused sectors.

Konza City (Kenya), Hope City (Ghana) and Ethio ICT Park (Ethiopia) are some examples

Cities will need to differentiate themselves going forward

African Cities by Economic Growth Potential (2012 to 2017)



Source: Taken from MasterCard African Cities Growth Index, 2012

Cities will also need to attract, nurture and deploy talent

Crucial to the success of cities, and the businesses and industries they seek to grow, will be attracting and nurturing talent to match relevant industry requirements. The 'Africa Rising' narrative has seen the emergence of a younger, better educated, brand orientated and digitally-savvy African consumer and workforce, although an estimated 62% of Africa's population is still under the age of 25 years. This demographic can be a possible window of opportunity for cities, providing both the demand and supply essential for the growth and sustainability of these regions.

Large city populations do not guarantee high growth potential over the medium term

Cities need to, however, be aware that simply boasting large current or future population (and potential consumer) numbers does not guarantee high growth and innovation potential. In an index prepared by MasterCard in 2012, sub-Saharan African cities with the highest economic growth potential to 2017, based on economic indices, governance levels, ease of doing business, infrastructure and human development factors, and population growth, included Accra, as well as Lusaka and interestingly also Luanda. Although Khartoum and Abidjan are two of the more populous cities, their economic growth potential over the period under investigation was deemed to be lower. Similarly, the influx of people into cities including Lagos and Kinshasa, according to this index, is not translating to high growth potential of these cities in the medium term.

Creating business-enabling environments will be one aspect to the future success of African cities

In order to be drivers of growth and innovation, African cities will have to actively work at creating conducive environments which allow for greater investments, both local and foreign, into key sectors. Lagos has, for example, over the past few years initiated city clean-ups, upgraded key transport infrastructure (which includes the upgrade of bridges and the establishment of bus and light rail systems), and appointed qualified individuals in key positions in the city municipality. While these are steps in the right direction, cities, such as Lagos, still have a long way to go.

Disclaimer

This thought-leadership piece was prepared by Hannah Edinger and Garikai Matambo. The views expressed are those of the authors, and not necessarily the participants of the discussion, those of Frontier Advisory (Pty) Ltd. or Frontier Advisory's partners.

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