African Cities Thought Leadership Programme

Round Table 1: Reflections and Insights
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Introduction

This report is a summary of findings from the first round table session organised by Pinsent Masons LLP and the African Centre for Cities (ACC). This session was part one of a five part series of thought leadership discussions to explore with a dedicated group of clients with experience on the African continent, the many facets that influence the development (or non-development) of infrastructure in Africa’s cities. These include the social, political, financial, economic and technological factors that simultaneously present infrastructure challenges and opportunity. We chose this topic as increasingly, the greatest pressure points for infrastructure development occur within Africa cities which are growing exponentially and where governments generally lack the resources required to address the need.

Many developers and investors view infrastructure on the continent, and more so in urban areas as being fraught with risk and uncertainty. The factors that support this perception is that despite rapid growth in urban centres, there has been a failure by governments to plan properly resulting in massive infrastructure backlogs; a lack of access to financing to address these backlogs at a sub-national level coupled with weak and politically influenced governance structures. Infrastructure interventions in an African urban context are daunting for investors, developers, and the like.

The purpose of this series of round table events is with our partners the ACC, to explore with the participants what are perceived and what are real risks. With new subject-matter experts in each round-table, we aim to debunk many of the myths that prevent more outside investment and interventions in urban infrastructure, and to start a dialogue, with the facts at hand, on how best to approach infrastructure development in African cities.

Through this series of events, we will consider various themes within the context of African cities, including the rise of new cities in Africa, the impacts of technology on infrastructure solutions for the continent, and innovative responses to infrastructure brought on by climate change.

Round Table 1 focussed on the trends in Africa’s urban development, with a keynote from Gareth Haysom, a senior researcher at the ACC. We’ve summarised below the key take away points from the first round table below.

African cities are dynamic and exciting frontiers for urban infrastructure investment. However, African cities are often poorly understood and many myths exist about their development. In this session we focussed on unpacking key myths about Africa’s urbanization processes and discussed the implications for private sector partakers.
These realities present challenges and opportunities for private sector entities interested in expanding their businesses and investment in Africa. A summary of the key challenges and opportunities developed during Round Table 1 are outlined in the below table.

<table>
<thead>
<tr>
<th>Challenges</th>
<th>Opportunities</th>
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<tbody>
<tr>
<td>• Infrastructure is not purely technical and requires a mix of skills to implement</td>
<td>• Governments can make effective partners</td>
</tr>
<tr>
<td>• High risks of the African urban context</td>
<td>• Wider political buy-in is both necessary and effective</td>
</tr>
<tr>
<td>• Public sector is a challenge to work with in many African countries and cities</td>
<td>• Focus on partakers which appreciate the market opportunities can aid the process of securing funding</td>
</tr>
<tr>
<td>• Conventional business models (i.e. conventional risk and return calculations) do not work well in the African urban context</td>
<td>• Adaptive and responsive solutions are possible</td>
</tr>
<tr>
<td>• Negative perceptions prevail about African cities</td>
<td>• Youth are an asset to the future of the continent</td>
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In reality:

- Africa’s secondary cities are growing. These areas are important sites for future investment.
- African urban growth is largely from natural growth, leading to youthful populations with particular long-term investment needs and demands.
- Many are poor, but Africa does have a middle class, even though it is often precarious. Supporting middle class growth is important, but must be done in a sensitive way.
- African cities have many governance partakers who compete over control of urban areas and development processes. With proper analysis and investment, these partakers can be identified and engaged in development processes.
- African cities are not opaque, they require data collection and better analysis. Big data presents some interesting opportunities, as does a move away from Western development paradigms.
Africa’s Urban Development

The Thought Leadership Programme is contextualized within Africa’s urban transition. Africa is undergoing major transformations. Key to this is the growing importance of cities. While cities have, for decades, been ignored by African nations and multi-lateral organizations investing in the continent, their growing importance is now undeniable. Now that urban Africa’s urbanization is on global and national agendas, the question is: what do African cities need most? And how can private sector contribute to this agenda?

It is within this context that urban infrastructure is emerging as a priority on the African research, policy, and investment agenda. Investment in urban infrastructure, and the necessary capacity at the local level to manage and maintain it, is increasingly recognized to be vital to the survival of African counties. Core to this is the recognition that the state cannot act alone. Africa’s urban infrastructure will require investment by both public and private bodies. It will also require new forms of investment which are responsive to the unique context of urbanization evident on the continent. As a point of departure, it will require wider consensus and a deeper understanding of what is actually happening and likely to happen in the future in African cities.
Myths

In this section, we unpack key 'myths' about African cities and their development. By unpacking these myths, we can develop a more in-depth understanding of African cities, with tandem implications for urban infrastructure investment.

Myth #1: Africa’s primary cities get all the growth

There is a widespread belief that Africa’s urban growth is exclusively concentrated in large cities. Many of these cities are capital cities and have between one million and ten million people. While Africa’s largest cities are undeniably significant contributors to urbanization, secondary cities are increasingly important. In Sub-Saharan Africa, the number of cities in the range 500,000 - 1 million was estimated to increase from 139 cities (in 1995) to 424 cities (in 2025).

Figure 1: Africa’s current and projected urbanization trajectory
Figure 1 represents the growth trajectory in net numbers of different size urban settlements. Those residing in primary cities (of more than 1 million) is 175 million, compared to the 320 million residing in cities of less than a million. The overwhelming majority of urban Africans reside in so-called secondary or second-tier cities.

In Africa, there are several important types of secondary cities. Each typology has its own infrastructure imperatives and constrains. Key types of secondary cities include:

• Sub-national regional centres for manufacturing or administration
• Transport nodes along highways or rail systems
• Satellites of metros/city-regions

Secondary cities in Africa face several important challenges. Understanding these challenges is imperative. These include challenges related to: fiscal and administrative decentralization; being low priority for national states and the private sector, and lacking data for making informed decisions. Notably, smaller urban centres are not always at a disadvantage. For example, as Goodfellow points out, smaller African cities tend to have weaker vested interests related to land and land speculation, making development easier than in large cities.

Overall, the importance of secondary cities suggests that the private sector may want to focus attention on these urban centres.

Myth #2: The growth of African cities is due to rural migration

Within popular discourses, Africa’s urban growth is seen to be driven by migration from rural areas to urban areas. The outcome of this discourse has been a universal fixation on rural development as the antidote to the problems of urban growth. In reality much of Africa’s urban growth is coming from natural growth. In other words, people who are already living in cities are having children, growing the urban population without drawing from the rural areas.

This type of growth leads to youthful cities and a heavily weighted population pyramid. Data on three secondary cities (Kisumu, Epworth and Kitwe) is indicative of this youth bulge evident in smaller centres in Africa (Figure 2).

The youth bulge in African cities has many implications for urban development. It means that urban inhabitants are increasingly unlikely to see rural areas as home. They will require long term investment in urban areas to support their lifestyles and ambitions. It requires investors to take the needs, preferences, and habits of young people - the future users of long term investments - seriously.
**Myth #3: African cities are largely poor**

African cities are widely believed to be inhabited by poor people. This discourse is not entirely untrue. There are high levels of poverty which affect the ability and willingness of households to pay for services, the types of services which are needed, and the types of development which are possible in African cities. However, there is also a growing middle class in Africa. This middle class is largely urban and has particular needs and preferences.

Overall, Africa’s middle class requires the attention of investors if it is to grow and develop. Ignoring or romanticizing this important market segment will be to the detriment of investors.

**Myth #4: African cities are ungovernable and informal**

African cities are often seen as unmanageable. They are frequently characterized as stateless, informal, and illegal. In African cities, many practices – for example how people settle in cities, work, or socialize – are not strictly regulated. However, research suggests that there is a blurry line between the formal and informal parts of cities. Most informal activities are linked to formal activities through long supply chains with forward and backward linkages. These forward and backward linkages between formal and informal activities are essential for the functioning of cities.

In the food system, these overlaps between formal and informal are clear. When reviewing food supply chains in Kenya, it was found that fish sold in Kisumu by informal traders included fish imported from China. Oranges sold by street vendors in Nairobi were imported from South Africa, by airfreight.

Unfortunately, Africa’s emergent middle class is not homogenous nor is it well understood. Most surveys find that income data is one of the areas where least responses are collected (and where collected data is most biased to a particular political narrative). The limited research which does exist suggests that Africa’s urban middle class is precarious and diverse. An example of this is Kitwe, a city on the Zambian Copperbelt. Despite having a relatively high average income while copper prices were high, following copper price declines – many clerical and even middle management employees fell directly into poverty.
Beyond the question of informality in African cities, deeper interrogation of questions of urban governance point to interesting trends in African cities including that:

- There are overlapping governance claims, some of which are documented and some which are not. While all cities are different, common governance partakers include local government, national states, SOEs, lenders, traditional authorities, faith based organizations, and cultural groups.

- African cities are sites of political opposition. A good example is South Africa where several of the major metropolitan governments are run by the Democratic Alliance, while the governing party, the African National Congress, continues to hold the smaller towns and rural areas.

- Post-conflict states, for example, Angola and Ethiopia, also present different governance typologies where clientelism and networks dominate politics. Here leadership often centres around key individuals (often with a history linked to the past conflict).
Myth #5: African cities are unknowable

Data on African cities is limited. However, African cities can be better understood if the right data is collected and if this data is processed in sensitive and context-specific ways. This requires both qualitative and quantitative data to be collected and a mix of methods to be applied. Data from cell phones, GPS, and other digital systems are increasingly being collected and may contribute to better knowledge on African cities.

The data which does exist also requires significant levels of interpretation. As Table 1 demonstrates (using the UN regional definitions – South Africa is the region and not the country only), the picture in Africa looks very different when percentages vs. absolute numbers are used.

<table>
<thead>
<tr>
<th>Region</th>
<th>% Urban 2018</th>
<th>Net urban population</th>
<th>Per cent of African Urban</th>
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<tbody>
<tr>
<td>Africa</td>
<td>43%</td>
<td>547 602 000</td>
<td>43%</td>
</tr>
<tr>
<td>East Africa</td>
<td>28%</td>
<td>121 316 000</td>
<td>22%</td>
</tr>
<tr>
<td>Middle Africa</td>
<td>50%</td>
<td>83 484 000</td>
<td>15%</td>
</tr>
<tr>
<td>North Africa</td>
<td>52%</td>
<td>123 644 000</td>
<td>23%</td>
</tr>
<tr>
<td>South Africa</td>
<td>64%</td>
<td>41 970 000</td>
<td>8%</td>
</tr>
<tr>
<td>West Africa</td>
<td>46%</td>
<td>177 189 000</td>
<td>32%</td>
</tr>
</tbody>
</table>

Table 1: Net Urban Population by region (2018)
This suggests that not only is better data needed, but deeper interrogation of the data which does exist and the narratives which have been formed using this data is also needed. Implications for urban infrastructure: reflections from the round table event.

The realities of African cities have wide ranging implications for the development of infrastructure on the continent. There are both challenges and opportunities posed by these trends and patterns. This section describes some of the challenges and opportunities for infrastructure investment and development in African cities identified by participants as part of the discussions at this round table.

Challenges to infrastructure development

If providing infrastructure to African cities was easy, urban areas would not be sitting with the sorts of backlogs and mounting challenges which today characterise their infrastructure and service delivery landscape. From these trends and based on the discussions among round table participants, several important constraints/challenges were identified.

Infrastructure is not purely technical- development of infrastructure requires cultural sensitivity and stakeholder inclusivity

A key challenge is that infrastructure provision in Africa, and elsewhere in the world, is not purely a technical endeavor. As infrastructure lands in particular places, it has direct interfaces with local governments, communities, and other private sector players. Importantly, the local culture of government agencies, communities, and the private sector must be understood.

A number of delegates remarked that a failure to appropriately respond to cultural specificity can pose significant obstacles to infrastructure development. Large scale investments are often highly contested, and thus may lead to tensions, protest, or even destruction of infrastructure by disgruntled stakeholders who feel left out. Getting buy-in from communities and local governments is critical. This, as noted by many delegates, requires identifying and speaking to the right stakeholders and engaging in ways which bring them into processes in genuine and balanced ways. It may require understanding the perceptions held by communities or the state regarding the (social) value of certain services which compromise the financial viability of projects. In many African countries, water for example, is seen to be a human right and companies face resistance when asking people to pay for this service. As one round table participant noted:

The value attached to [water and sanitation] is not reflective of the economic cost of its production. As an investment case it becomes a challenging conversation as it is difficult for investors to recover the costs of their investments fully.

Ensuring ongoing understanding is incredibly difficult and requires skill sets which go beyond that of a typical engineer or planner. It also requires being savvy of local politics in the places where projects are located, and having the skills to maneuver these politics.

Political and regulatory risks

In many African cities, risks are high or difficult to quantify. As one round table participant noted:

The limited data makes it hard to know how high the risk is and thus how much we should charge for it. We need more information, but also new financial tools, like insurance products which help manage these risks.

The most important risks identified by round table participants were political risk and regulatory risk. For large scale projects, there are compounded risks which often lead to projects never getting off the ground in the first place. Many of the key risks in African cities are linked to the trends and patterns evident in these cities. For example, the youth bulge may lead to high levels of unemployed and young people who are disgruntled. The precarious nature of the middle class means that projects which serve this class may flop with the economic climate shifts slightly. In many cities, for example, Maputo and Luanda, projects which aimed to provide residential housing stock to this market remained empty for many years following construction.
Bureaucratic and unskilled Public sector
Infrastructure development almost always requires some level of engagement with the public sector. There are many challenges to working with the public sector in African cities.

One of the major challenges identified by the round table participants relates to the nature of bureaucracies. Things often take a long time due to highly complex and cumbersome processes. In particular, procurement processes are difficult. As one round table participant noted:

Corruption is a major issue. While procurement processes are meant to improve this, it only makes it worse. The private sector needs to engage bureaucracies in ways that are open and transparent, and that respect democratic processes.

Another major challenge is the skills shortage within the public sector, in particular when it comes to implementing high-tech infrastructure solutions. The skills to manage and run these infrastructure projects often cannot be found locally. A good example of this is in Addis Ababa where the Water and Sewerage Authority wanted to implement Membrane Bioreactor systems for their off-grid condominium housing projects but required the management and operations to be outsourced to foreign companies (and paid in euros). Another example identified by participants is the Addis Ababa New Light Rail project which also outsourced management and maintenance.

Public finance/ government support
The importance of public sector finance cannot be overlooked when working with city governments. Local governments in Africa struggle to collect revenue – for example property taxes. The result is that there is often little available funding for locally driven projects. The heavy dependence on national grants means that the investment agenda of towns and cities is driven by national governments or parastatals, rather than local governments. When companies are trying to provide services, which are local government functions, but require funding from high levels of government, this complicates stakeholder management. As one round table participant noted:

Aligning national and local priorities is exacerbated if the local government and national government are not politically aligned.

Conservative investor risk appetite
The priorities and models of lending institutions, development agencies and other “interested parties” are often not geared to respond to the needs of African cities. This leads to highly conservative approaches to infrastructure project approval and financing, curtailing opportunities and frustrating processes. As one round table participant noted:

The conventional financing and funding models often do not work in African cities. We need financial institutions to come to the table with new ideas.

The risk and return ratios make most projects unattractive. Funding for urban infrastructure is difficult to acquire. Banks are highly risk-averse. There is a clear need for diversification and innovation in building and financing infrastructure on the continent. However, the challenge lies in changing how business is done to adapt to the current climate and context. Finding localized, low-risk solutions that are profitable is a challenge and requires out of the box thinking both in terms of provision model and funding structures.

Negative perceptions
Negative perceptions of the continent are a challenge. Common perceptions include that of corruption, unstable economies, conflicts and the like. There are widespread negative perceptions of doing business in Africa. The poor visibility of successful African infrastructure projects limits opportunities. There is a clear need for better ‘marketing’ of the successes and opportunities on the continent.
Opportunities/Proposed Solutions

The trends and patterns in urban Africa do not only present challenges. They also present opportunities. Based on the discussions among round table participants, there is significant potential to shift the ways in which infrastructure partakers see urban African.

Government as a strong partner
There is a clear opportunity to see the government as a partner. The growth and challenges of urban Africa are unprecedented. Governments are looking for creative ways to move forward and think beyond the models which have been implemented elsewhere. As one round table participant noted:

By approaching governments with ideas and engaging them in finding shared solutions there is the potential to find new opportunities.

In many African countries and cities, accessing high level decision-makers is easier than in more developed regions. Infrastructure partakers can build strong relationships with top government leaders to influence infrastructure planning and frameworks. They can work more closely with national and local governments to advise on approaches and projects. This presents a clear opportunity.

Wider political buy-in to support long term projects
While politicians and politics change – and these changes can derail projects – the wide range of governance stakeholders involved in African urban infrastructure provides an opportunity to get wider buy-in from a range of partakers which can support projects at moments of political turmoil. A good example of this is the Corridors of Freedom project in Johannesburg. When the mayor who was leading this project lost the local government elections, the wider support for the programme among businesses, academics, and civil society allowed large parts of the programme to continue.

Key to this is understanding the local communities and their needs. Local communities can be a valuable asset in projects and can provide much needed information about the viability of particular solutions, giving projects life beyond political terms. Community leaders can also be instrumental in ensuring that communities do not block projects.
Focus on partakers who appreciate the market opportunities
African markets, while risky and under researched, are attractive to particular types of investors. The high barriers to entry are attractive to certain investors. As one round table participant noted:

It is important to identify investors that focus on funding emerging markets, understand local dynamics and risks, and are willing to look beyond conventional actuarial approaches to costing risk.

As participants pointed out, impact investors are specifically looking to invest in impact bonds. They are willing to invest in high-risk infrastructure projects that offer reasonable returns but more importantly that promise to generate high social and environmental returns. Another group to consider are angel investors, groups of private investors willing to invest in high-risk businesses and projects for higher long-term returns. These type of investors are particularly interested in investing in emerging countries on the African continent with rapidly growing economies, such as Ethiopia, Ghana, Ivory Coast, SA, etc. Finally, the multilaterals are willing to play in this market in a way that other players may not be. These institutions have funding goals and quotas that they have to reach yearly and thus are always looking to support innovative and sustainable infrastructure projects in emerging countries. They are key investors in the urban infrastructure sector on the continent.

Innovative, Adaptive and responsive solutions
The changing nature of African cities, and the limited network infrastructure which underpins their rapid expansion, provides an exciting context for adaptive solutions to urban infrastructure.

It is possible and important to capture value where people are by investing in smaller scale infrastructure. A key scale to consider is the neighborhood scale. Rather than focusing attention on city-wide or regional networked systems, considering more localized systems is a clear opportunity. As participants noted, these solutions may also have the potential to be greener and more adaptive to the changing needs of communities and neighborhoods. As one round table participant noted:

Concepts such as the ‘circular economy’ and ‘zero waste’ are emerging in Africa, not as a nice to have, but as a necessity.

A good example shared by the group is the recent case of the South African water system. While once linear, it is increasingly circular as a result of resource constraints.

New modes of infrastructure provision (i.e. smaller scale etc.) also allow for new and diversified funding models to emerge. There are some innovative ways the private sector can finance their projects. One example is through the adoption of hybrid financial models. Some countries are surprisingly far ahead. For example, payment/transactional systems in Somalia (a country with no recognized currency) are quite advanced. Kenya is also a well-known case. Identifying these sorts of opportunities in the markets provides opportunities for successful infrastructure investments.

Youth as an asset
A number of participants commented on the commercial value of youth and that youth are a huge asset to African cities as they are the future users of urban infrastructure. In addition, the youthful populations of African cities opens up opportunities to consider new modes of technology which reflect contemporary social and cultural practices and preferences (for example, using cell phone payments).

The development, operations, and maintenance of urban infrastructure could provide an important source of jobs and skill development for young people. These young people are tech-savvy and learn quickly. They are also looking for meaningful ways to build lives and careers in urban areas. By harnessing this energy, projects can innovate more rapidly and effectively. One suggestion made my participants is that infrastructure partakers could partner with educational institutions to build educational programmes/short courses/workshops that capacitate young people in their respective industries and increase sector-specific skills among the growing African youth.
Conclusion

No development policy cycle will impact Africa more directly than the current one. The clock is ticking and the next two to three decades will define the urban transition on the continent. The investments made in infrastructure in the next two to three decades will determine both the infrastructure footprint of Africa and the type of infrastructure used in cities for the following century. The people and companies involved in this Thought Leadership Programme thus have an important responsibility to help shape this future.

As the first round table event demonstrated, there was a sense amongst participants that there are clear opportunities to embrace the diversity of African cities and the trends evident on the continent. This means working with heterogeneous and complex infrastructure and governance systems. Rather than seeing the lack of networked systems and overlapping claims to governing African urban spaces as a fault, there are exciting opportunities for testing new modes of delivery and technology, widening engagement and buy-in through multi stakeholder and intergenerational engagement, investing in greener and more labour intensive systems, and exploring new modes for finance and funding. A more responsive and reflective approach is required for tapping Africa’s urban infrastructure opportunities.


ii In Africa, there has been a focus on rural development, extractive industries, and regional infrastructure.


v Figure 1 Africa’s current and projected urbanization trajectory. Source (UN DESA (2018) World Urbanization Prospects. The 2018 Revision. New York: The UN Department of Economic and Social Affairs)

vi United Nations Department of Economic and Social Affairs (UN DESA) (2014). World Urbanization Prospects. The 2014 Revision. New York: The UN Department of Economic and Social Affairs. It is appreciated that the population estimates generated by the likes of UN DESA should be read as indicative rather than absolute. Politics, estimation challenges and reliability of data limit the quality of such figures. However, what is not disputed in the predominance of secondary-type cities as the dominant urban typology.


viii Figure 2 Source: Consuming Urban Poverty (CUP) (2016-2-17) Consuming Urban Poverty research project in secondary African cities. Research led by the Urban Food Research Group at the African Centre for Cities, University of Cape Town

ix Figure 3 Source: African Development Bank (AfDB). (2011). Africa in 50 years time: The road towards inclusive growth. Tunis, AfDB


xi Table 1 Source: United Nations (2014) World Urbanization Prospects. The 2018 Revision

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