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Reimagining economic growth in Africa

Turning diversity into opportunity

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At a glance

- **Despite a promising start to the millennium, Africa's long-term economic growth has been slow.** The continent is home to the world's youngest and fastest-growing population, but its economic performance has lagged behind. Since 1990, its GDP per capita has grown just 1 percent annually, compared with 5 percent in India and 8 percent in China. The 2000–10 decade saw an acceleration across much of the continent, but growth retreated in 2010–19.
- **Productivity across all sectors of the African economy is lower than in comparable regions of the world.** Despite a fundamental shift to services, Africa could add $1.4 trillion to its economy, almost doubling the value added by services today, were it to match the productivity growth of Asia's strongest services. Rekindling industrialization and increasing intracontinental trade will be crucial complements, together with boosting agricultural productivity to ensure the livelihoods of hundreds of millions of African farmers.
- **Yet there is no "one Africa"—nearly half of its people live in countries where economies have grown consistently over the past 20 years.** Annual GDP growth in these primarily midsize economies in East and West Africa has averaged more than 4 percent. The rest of the population lives in countries with slower growth, including the continent's three largest economies, Egypt, Nigeria, and South Africa.
- **Africa is the fastest-urbanizing place on earth, with more than 500 million people likely to leave the countryside between now and 2040.** Most will move to the continent's largest cities, increasing the need for better infrastructure and more productive jobs to enable these migrants to thrive. Similar investment in smaller second cities could take the pressure off their larger cousins, spreading rising productivity and incomes more broadly.
- **In Africa today, at least 345 companies have annual revenues of more than $1 billion.** Their growth and performance are mixed, with some fast-growing stars and some shrinking laggards. By 2030, more than half of these companies could increase their collective annual revenues of $1 trillion by more than $550 billion by accessing new markets and increasing productivity.
- **Africa can reignite growth through improved productivity, drawing on insights from existing successes across its diverse countries, cities, and companies.** Accelerating digitization, developing the continent's talent, collaborating more regionally, investing in urban infrastructure, and growing more business champions are some of the ways Africa can increase productivity to support strong and sustainable growth.

Introduction

Africa is home to the world's youngest and fastest-growing population, burgeoning cities, and bold innovations in everything from fintech to clean energy. With its population expected to nearly double to 2.5 billion by 2050, the continent has myriad opportunities to harness its rich natural resources and abundant human potential to increase economic growth and prosperity not only in Africa but around the globe. As the fastest-urbanizing region on the planet, it is an exciting new market for many companies. In an aging world, the continent's young and fast-growing workforce represents a rich source of talent: some 796 million people will join the working population by 2050, and Africa's workforce will soon be larger than China's or India's.

These strengths and assets present an opportunity for the continent to vastly improve its productivity and reverse the marked economic deceleration that it endured between 2010 and 2019. GDP growth fell 35 percent over that period—and then the COVID-19 pandemic took hold. Today, 60 percent of Africa's population lives in poverty, the result of per capita income growth that has averaged just 1.1 percent a year since 1960.

Yet the continent-wide statistics obscure successes in many of its constituent countries that, while uneven, can serve as models to establish productivity as the foundation of Africa's economic growth, rather than the volatile commodities that have historically played that role. Over the past decade, certain countries, cities, and companies have been beacons of innovation, productivity, and growth. Their successes offer models and innovations that can reinvigorate economies in other African countries that have lacked sufficient growth to propel the 400 million Africans living in extreme poverty, as well as others who are less impoverished but remain vulnerable, across the empowerment line.[1]

Geographically, Africa is as large as China, Europe, India, and the United States combined, and its 54 countries vary dramatically in population, income level, and governance. Africa is also the most economically fragmented region in the world, and the divergent paths of development in each of its countries reflect this.[2] Understanding and attending to that diversity of qualities and outcomes among its constituent countries are critical to any effort to rekindle productivity and growth across the continent—there is no "one Africa."

Mindful of the diversity of Africa's economic challenges, this report takes a granular approach in its analysis of Africa's countries, cities, and companies from 2000 to 2019. Each African nation can deploy its particular strengths and capabilities in ways that promote productivity-led growth and improve lives across the continent at large. Reimagining Africa's growth is achievable and, more than ever, vital for the welfare of the world.

[1] The empowerment line is an MGI estimate of the means required for every individual to achieve sufficiency in basic needs (for example, nutrition, energy, housing, healthcare, education, and other essentials) along with economic security, enabling them to cross the hurdle of mere subsistence and be empowered to realize their potential.

[2] Acha Leke, Mutsa Chironga, and Georges Desvaux, *Africa's business revolution: How to succeed in the world's next big growth market,* Harvard Business Review Press, 2018.

Africa's growth has downshifted since 2010, after a promising opening to the millennium

Thirteen years ago, MGI published its first report on Africa's economies, *Lions on the move: The progress and potential of African economies*, a title that reflected the dynamism and power we saw radiating from a newly thriving continent. That publication, our subsequent perspectives, and work by others contributed to the world's rising expectations of Africa's growth and economic potential.[3]

However, when it comes to Africa's economic performance, not all decades are alike. This report focuses on the decade from 2010 to 2019, before COVID-19 swept the world. Its findings are drawn from our yearlong study that analyzed the economic performance and potential of African countries, cities, and companies, enriched by conversations with many of the continent's leading thinkers and business leaders.

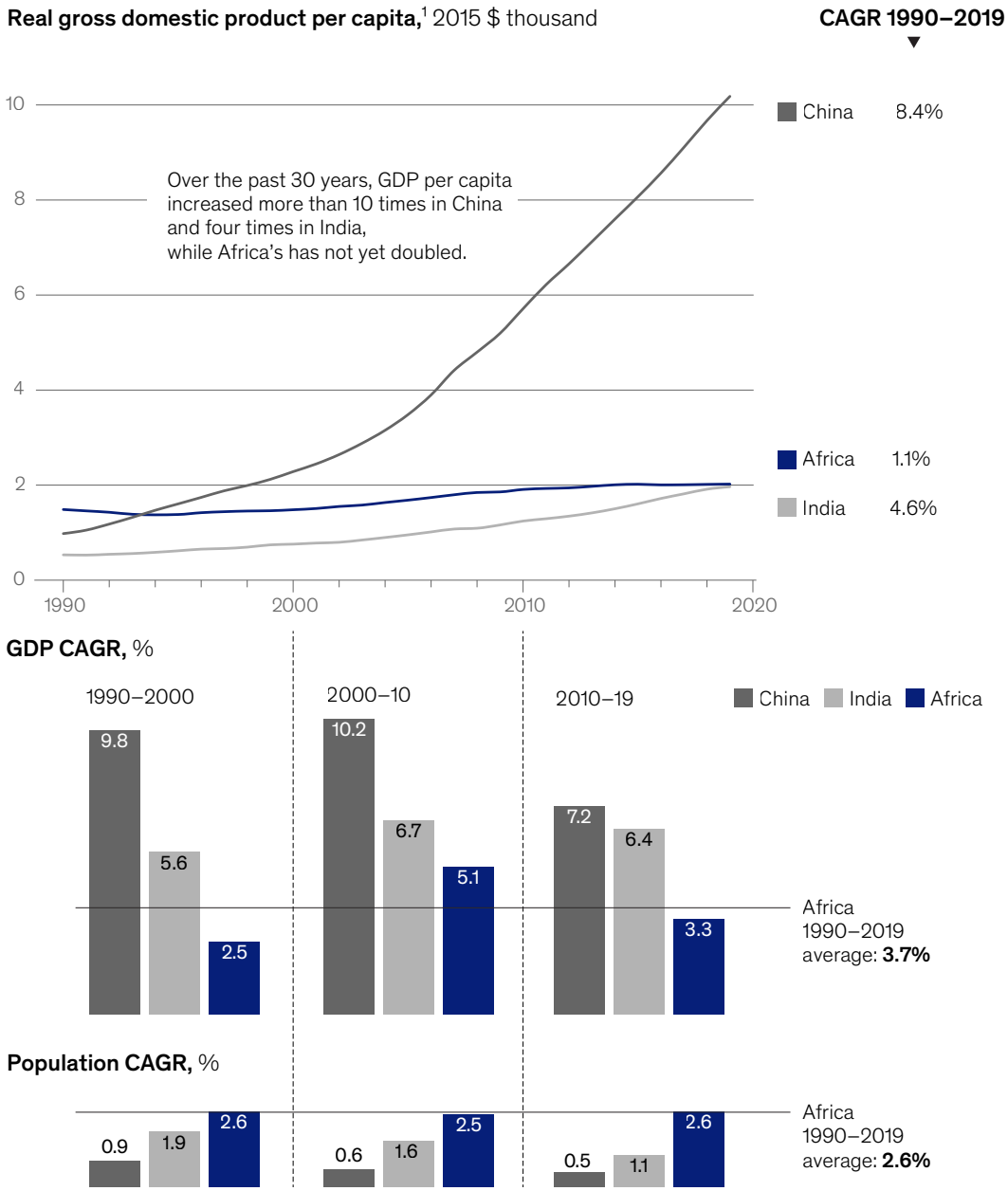
Looking at this and the two decades before this period—the burst of high growth at the start of the century that followed the sluggish 1990s—puts the economic acceleration from 2000 to 2010 into context. Over the 30-year period from 1990 through 2019, Africa's real GDP grew at a

[3] *Lions on the move: The progress and potential of African economies,* McKinsey Global Institute, June 2020; Acha Leke and Saf Yeboah-Amankwah, "Africa: a crucible for creativity," *Harvard Business Review,* November–December 2018; see Simon London, "How to win in Africa: An interview with Acha Leke and Georges Devaux," *McKinsey Quarterly,* November 2018.

rate of 3.7 percent annually, compared with India's 6.2 percent and China's 9.1 percent. Given the continent's rapidly expanding population, the contrast between these three regions is even more stark on a per capita basis: GDP per capita in Africa grew by only 1 percent per year, compared with 5 percent in India and 8 percent in China (Exhibit 1).

Exhibit 1

Africa's real GDP per capita has grown only 1.1% annually since 1990.[1]



[1]Includes 47 African countries with consistent data for 1990–2019, excluding Djibouti, Eritrea, Liberia, Libya, Sao Tome and Principe, Somalia, and South Sudan.
Source: World Bank; UN Department of Economic and Social Affairs, population division; McKinsey Global Institute analysis

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Africa did not benefit from the tailwinds that propelled many emerging economies into the new millennium. In the decade between 1990 and 2000, Africa's GDP grew by only 2.5 percent a year, or a bit slower than its population growth rate. Unlike China, India, and other regions, the continent was not among the first places to benefit from broad corporate moves to offshore operations to lower-cost manufacturing bases. Gaps in infrastructure and skills, along with relatively high hurdles to conducting business, low levels of intracontinental trade, and dependence on natural resources, were obstacles to Africa's growth.

In the first decade of the 21st century, however, African economies experienced a broad-based economic acceleration. Between 2000 and 2010, the continent's real GDP grew 5.1 percent a year, roughly twice the rate of the 1990s. More than two-thirds of the 30 largest economies in Africa accelerated their growth during this decade relative to the previous one.[4] The continent attracted increasing investment and experienced a rise in consumer spending. It also benefited from improved political stability, productivity, and business growth. A strong global commodity cycle set off a boom in African mining from 2002 to 2007, as metal and oil prices almost tripled and foreign investors looked to Africa to help meet growing demand driven by the rapid growth of emerging economies elsewhere.[5] While many Africans remained poor, the proportion of the continent's population living in extreme poverty fell by ten percentage points. There was widespread optimism that, after a long period of stagnation, Africa was rising.

After 2010, however, Africa's economic progress slowed due to a confluence of factors ranging from waning demand for commodities to deteriorating economic fundamentals in the continent's largest economies. The decade got off to a rocky start, as demand for commodities waned. Steep price declines hit oil exporters in particular just as the Arab Spring in 2011 and subsequent conflicts and institutional instability slowed economic activity across North Africa. Together, countries affected by these trends account for almost three-fifths of the continent's combined GDP.

Oil price shocks presaged a longer-term decline in other commodities that affected additional African countries such as South Africa. The value of African commodity exports fell from $256 billion in 2010 to $147 billion in 2019, and the continent's share of global commodity exports declined from 7 percent to 4 percent.[6] Crude oil and natural gas accounted for the lion's share of this decline, but exports of more buoyant commodities such as copper ore and coffee also stagnated.

Political instability also increased across the continent and continues, even in countries with faster-growing economies. We found that 30 percent of Africa's population was affected by unstable political events such as coups that brought instability in the 2010–19 decade, compared with 4 percent in the preceding decade.

Declining foreign direct investment (FDI) added to economic deceleration on the continent. After quintupling to peak in 2008, FDI flows into Africa declined in 31 of Africa's 54 countries, falling fastest in in Nigeria and South Africa, the two largest economies.[7]

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4 Previous MGI research reported economic acceleration in 27 African countries based on World Bank data for the period 2000 to 2008. The update in this report reflects a difference of time period (2000 to 2010) and a restatement of the World Bank's GDP estimates, which brought to 30 the number of African countries experiencing accelerated growth in real GDP from 2000 to 2010. Due to a lack of data, we have excluded Djibouti, Eritrea, Liberia, Libya, Sao Tome and Principe, Somalia, and South Sudan.

5 Previous MGI research has found that such commodity-cycle benefits rarely translate into sustainable growth unless the gains are invested for the long term. For more information, see *Reverse the curse: Maximizing the potential of resource-rich economies,* McKinsey Global Institute, December 2013.

6 Includes Africa's five most valuable commodity exports: crude oil, natural gas, gold, platinum, and iron ore.

7 In 2018, South Africa's president announced a program to recruit $100 billion in foreign direct investment over the following five years. By 2022, net inflows of FDI reached 10 percent of GDP, compared with about 1 percent in years prior.

Finally, Africa's net external debt, while low by global standards, increased by 24 percentage points to 57 percent of GDP by 2019, signaling deteriorating macroeconomic fundamentals. Debt-servicing costs doubled, and current-account balances halved, making it harder for African governments to invest in growth. Just three years later, in 2022, the region's average debt-to-GDP ratio stood at 67 percent, a further deterioration triggered by increased government spending during the pandemic, weak management of public finance, and high inflation.

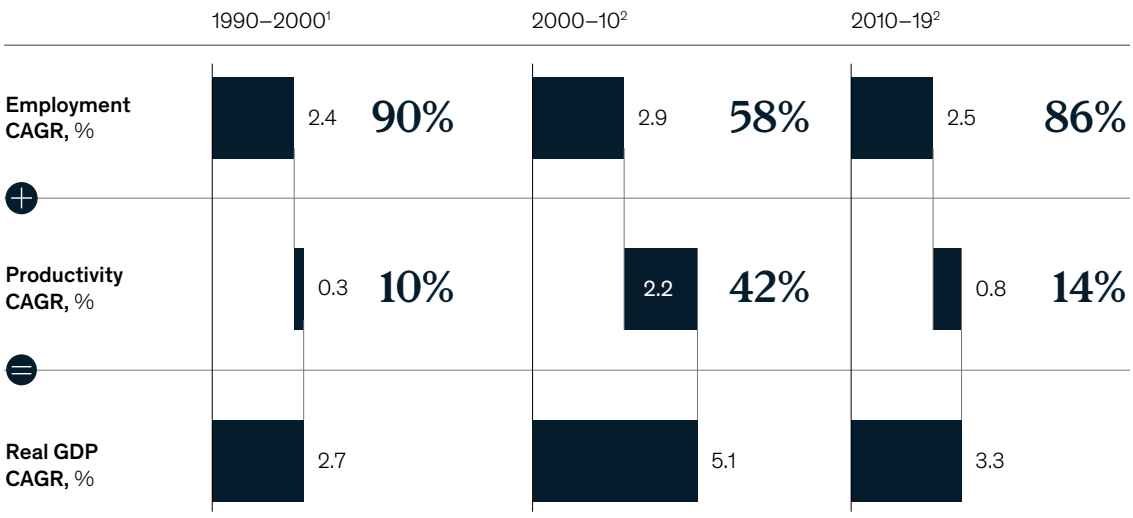
All of these developments coincided with and contributed to a steep decline in Africa's annual productivity growth, which fell from 2.2 percent in the 2000–10 decade to 0.8 percent in 2010–19. Productivity declined sharply in the extractive industries as well as in the services sector, which increased output but not enough to keep up with the rapid growth of the sector's workforce as millions of people left work in agriculture and moved to cities (Exhibit 2).

Exhibit 2

Economic growth increased in Africa from 2000 to 2010 but has since fallen to near 1990s levels.

Africa real GDP growth decomposition, %

X% Share of growth



[1]The 1990–2000 period is based on Conference Board data set and covers 33 African countries.
[2]The 2000–2019 period is based on the MGI Africa Productivity Model and covers 44 African countries.
Note: Figures may not sum to 100% because of rounding.
Source: The Conference Board, 2022; MGI Africa Productivity Model, 2022

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The continent's overall GDP growth slowed to 3.3 percent a year from 2010 to 2019, closer to the level in the 1990s. Population growth outstripped poverty reduction, and the absolute number of Africans living in poverty increased by 30 million. More recently, COVID-19 struck a further blow: the continent's GDP contracted by 2.1 percentage points in 2020. Since the start of 2020, the number of people living with acute food insecurity has more than doubled to roughly 200 million.[8] While economic growth has regained some momentum as the pandemic has waned, rising energy and food prices coupled with a stronger dollar are taxing consumers and presenting challenges for African governments. These include increased civil unrest and rising insecurity levels as well as a funding squeeze that the majority of African countries are currently experiencing.[9] At the same time, the continent must grapple with the longer-term and more permanent impacts of climate change (see Box 1, "Climate change holds risks for Africa and creates opportunities to reinvigorate its economies").

8 *Global report on food crises: Acute food insecurity hits new highs,* United Nations Food and Agriculture Organization, April 2022.
9 *Regional economic outlook, sub-Saharan Africa: The big funding squeeze,* International Monetary Fund, April 2023.

Box 1

Climate change holds risks for Africa and creates opportunities to reinvigorate its economies

Looking to the future, climate change may pose a new challenge to growth on the continent as Africa faces the potential for increasing weather-related acute events and sustained threats to productivity. More frequent and severe droughts are expected to affect agriculture and manufacturing. At the same time, rising sea levels and greater storm severity put coastal cities and key infrastructure at risk of flooding.

Today, 460 million people, or 36 percent of the total African population, are exposed to at least one form of climate hazard such as drought, heat, water stress, or flooding. By 2050, this number will almost double to 900 million people, or 45 percent of the continent's population, in a 2°C warming scenario. Large parts of Africa face a loss of labor productivity related to the potential for reduced effective working hours from rising heat and humidity.

Impacts will not be evenly distributed across the continent. Extreme precipitation may become more frequent across central parts of Africa, while parts of northern and southern Africa could experience drought in eight out of every ten years. Smallholder farmers and pastoralists will experience large impacts of climate change and will need to adopt new practices in livestock management, soil enhancement, and irrigation to adapt. For example, in East Africa, 40 percent of the population could be exposed to agricultural drought over the next 30 years.[1]

Beyond rising physical risks, global efforts to decarbonize could affect Africa. The continent depends on commodity exports, including fossil fuels and minerals, for 16 percent of its GDP. Some portion of this production will be threatened if the world uses less fossil fuels and ramps up demand for sources of energy that produce lower emissions. Under McKinsey's "current trajectory" energy transition scenario, global oil demand could peak by 2027 and then decline, and global gas demand could peak by 2040.

If leading countries accelerate efforts to achieve their net-zero commitments, the transition could be even faster. Under such an "achieved commitments" scenario, global oil demand could peak as soon as 2024, while global gas demand could peak around 2030.[2] Additionally, mining in Africa emits more greenhouse gases on average than elsewhere in the world, in part due to reliance on coal-generated energy and emissions-intensive underground mining processes. Companies may have to take bold actions to adopt renewables. In combination, these two effects—lower demand for fossil fuels and loss of market share to lower-emission producers—could result in $150 billion of lost commodity revenue annually on the continent.[3]

1 For more information, see *Green Africa: A growth and resilience agenda for the continent,* McKinsey & Company, October 2021.
2 For more information, see "The future of African oil and gas: Positioning for the energy transition," McKinsey & Company, June 2022.
3 See *Green Africa,* October 2021.

Box 1 (continued)

At the same time, the net-zero transition also presents opportunities for Africa to benefit. Our analysis identified eight manufacturing opportunities that together could generate up to $2 billion in revenue a year in total and create 700,000 new jobs by 2030. These businesses include assembly of off-grid and microgrid solar systems and electric two-wheelers, as well as potential and nascent next-generation opportunities such as electric vehicle charging stations and production of cross-laminated timber.[4]

Africa also has the potential to be a supplier of green hydrogen as well as a provider of carbon credits that by one estimate could generate over $100 billion a year by 2050.[5] And the continent can be a much greater source of materials needed to support the world's transition to a low-carbon economy. For example, we estimate that Africa has 93 percent of global platinum reserves, nearly half of global cobalt and manganese reserves, a third of aluminum reserves, and 11 percent of copper and lithium reserves—all commodities needed in the manufacture of green technologies such as electric vehicles and wind- and solar-powered infrastructure.[6]

The magnitude of these opportunities is unclear as many uncertainties exist, not least the pace of the global net-zero transition and what share of the opportunities the continent can capture. Making the most of these opportunities for Africa will require concerted efforts to grow new businesses, secure capital, and build technical know-how.

4 For more information, see Lyes Bouchene, Kartik Jayaram, Adam Kendall, and Ken Somers, "Africa's green manufacturing crossroads: Choices for a low-carbon industrial future," McKinsey & Company, September 2021.

5 *Africa's green energy revolution: Hydrogen's role in unlocking Africa's untapped renewables,* Masdar, November 2022; and *Roadmap report: Harnessing carbon markets for Africa,* Africa Carbon Markets Initiative, November 2022.

6 MineSpans, McKinsey & Company, accessed March 2023.

While economic growth has regained some momentum as the pandemic has waned, rising energy and food prices coupled with a stronger dollar are taxing consumers and presenting challenges for African governments.

There is no ‘one Africa’—the continent’s recent slowdown masks divergence across countries

Behind the aggregate figures and continent-level challenges, African countries have seen a significant divergence: across a large, fragmented continent with low levels of intraregional trade, there is no such thing as a single African economy. Since 2010, some African countries have sustained solid, even accelerating, growth, while others have experienced sharp declines.

Nearly half of Africa’s people live in countries where annual GDP growth between 2010 and 2019 exceeded 4.2 percent, the continent’s average growth rate since 2000. These countries were largely midsize economies and together accounted for just over a quarter of total African GDP in 2019. Their higher annual GDP growth was accompanied by a higher-than-average increase in investment, exports, and urban population since 2010. These faster-growing countries are generally in the earlier stages of economic development, comparatively less urban, and less reliant on mined commodities. Concentrated in East and West Africa, they also export less and have lower levels of per capita investment than the African average.

The other half of Africa's population lives in slower-growing nations, which include the continent's five largest economies—Algeria, Egypt, Morocco, Nigeria, and South Africa—as well as its ten smallest. Together they accounted for almost 75 percent of Africa's 2019 GDP. Although these countries typically started the decade with a higher level of investment, exports, and urbanization, their subsequent growth in these areas lagged behind that of the continent's more dynamic economies.

There is no doubt the COVID-19 pandemic and the global slowdown and inflation that have followed affected all African countries. In our analysis, we look at the 2010–19 period because the tumult of the pandemic years clouds the preceding patterns of economic growth. For instance, annual GDP growth in 2020 was –1.7 percent compared with 3.3 percent between 2010 and 2019—what a difference one year of pandemic can make.

Looking at how economic growth has played out across African countries since 2000, we found they fell into the following four clusters (Exhibit 3):[10]

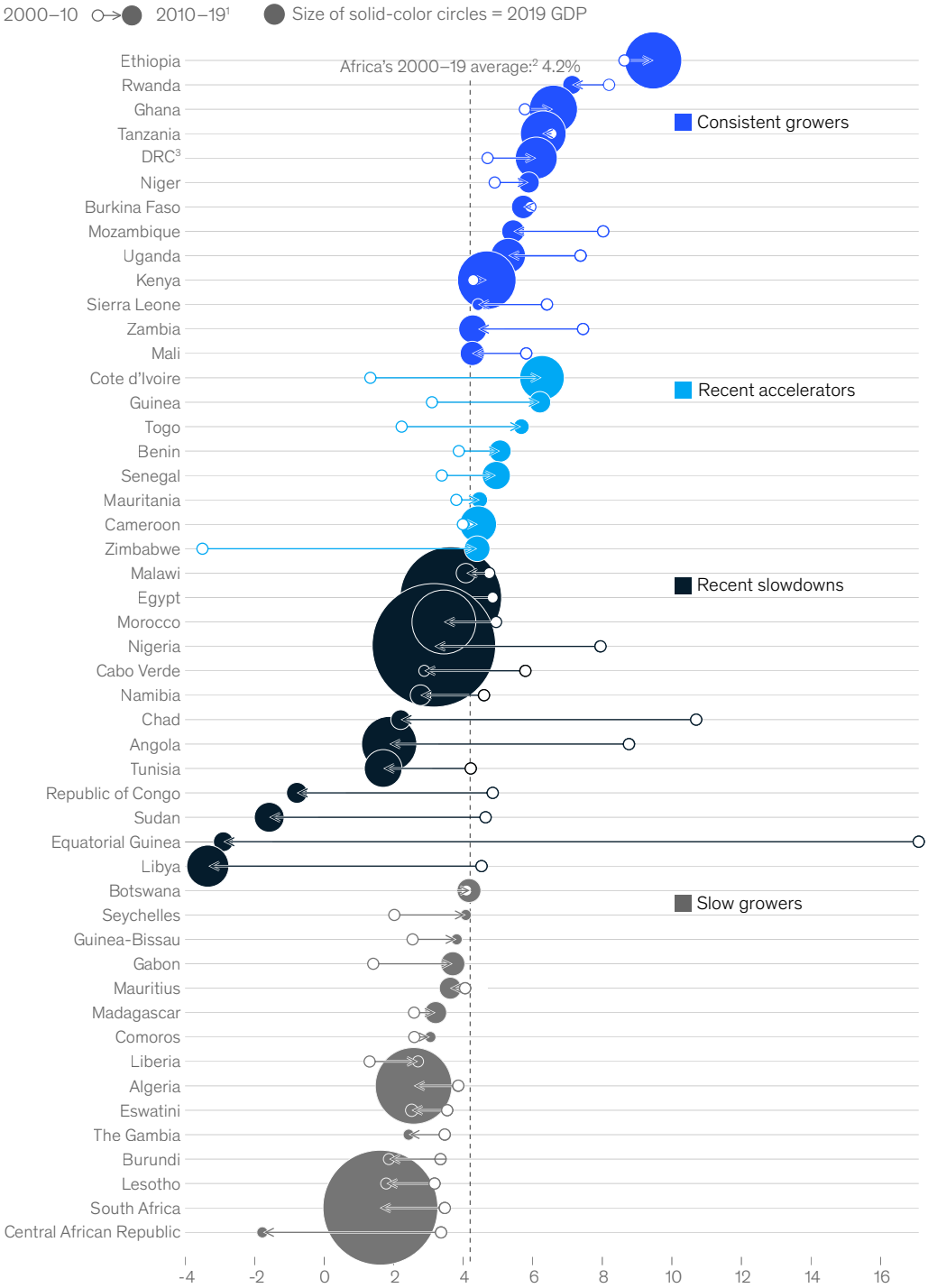
- **Consistent growers** exceeded Africa's average growth rate of 4.2 percent a year from 2000 to 2019. These 13 countries, mostly in East and West Africa, accounted for 41 percent of Africa's population and 21 percent of its GDP in 2019. Over the past 20 years, consistent growers have had above-average growth in urbanization, in levels of capital investment, and in exports, albeit off a low base. They also have had steady growth in per capita consumption, 3 percent annually on average. Ethiopia, the largest of the consistent growers, stands out for reducing the number of people living in absolute poverty by 30 million out of a total population of 115 million over the 2010–19 decade. Rwanda, the second-fastest-growing economy during that period, experienced significantly high GDP per capita growth of 4.6 percent, compared with 0.4 percent on the continent overall. Despite the challenges of COVID-19, more than half of these countries had continued to achieve economic growth exceeding the continental average of 4.2 percent as of 2022.
- **Recent accelerators** underperformed in the first decade of this century but exceeded Africa's average growth rate from 2010 to 2019. The eight countries in this cluster, all but two of which are in West Africa, make up 9 percent of Africa's population and contributed 7 percent of its GDP in 2019. Growth in investment per capita, exports, and urbanization in these countries shifted from below the African average in the first decade of the century to above average since 2010. Aggregate consumption per capita in these nations grew 2 percent annually on average over the past decade. While the percentage of people living in poverty has decreased, growth was not strong enough to reduce their absolute number, which increased by roughly one million between 2010 and 2019. Six of these countries had economic growth higher than average in 2022.

[10] The four clusters include 49 economies with complete GDP data for 2000–19. Djibouti, Eritrea, Sao Tome and Principe, Somalia, and South Sudan are excluded.

Exhibit 3

Wide variation in economic performance across the continent makes it clear that there is no 'one Africa.'

Real GDP growth, %



[1]Shares of population and GDP as of 2019 instead of 2020 to eliminate one-off impact of COVID-19.
[2]African average calculated based on 49 economies that have complete GDP data in 2000–19 (Djibouti, Eritrea, Sao Tome and Principe, Somalia, and South Sudan excluded).
[3]The Democratic Republic of the Congo.
Source: The World Bank; McKinsey Global Institute analysis

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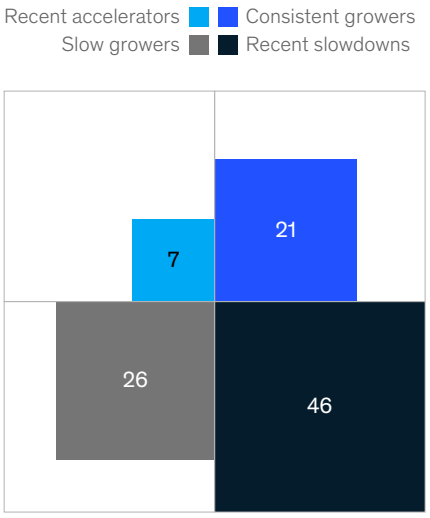
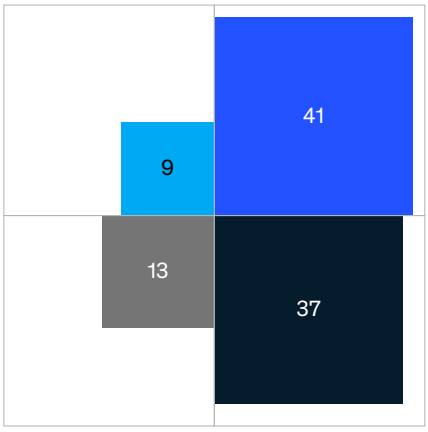
Exhibit 3 (continued)

Countries' share of Africa's 2019 GDP, %



Countries' share of Africa's 2019 population, %



Source: World Bank

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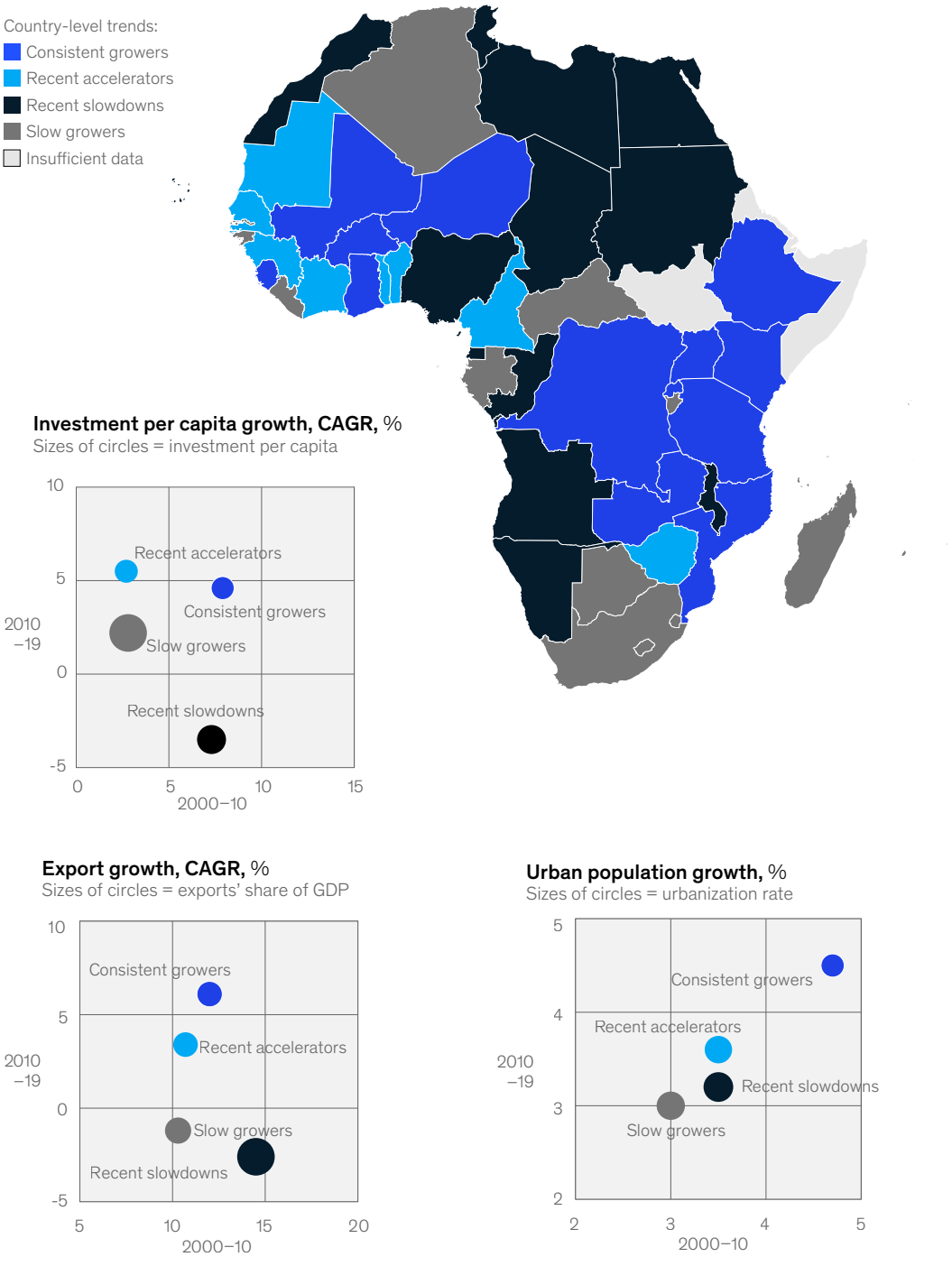
— **Recent slowdowns** outperformed the continent's average economic growth in the first decade, then slowed from 2010 to 2019. These 13 countries include some of Africa's largest economies, such as Egypt, Morocco, and Nigeria, and were home to 37 percent of Africa's population and accounted for 46 percent of Africa's GDP in 2019. The slowing pace of their economic growth over the past decade was driven by slower-than-average growth in exports and investment per capita compared with the rest of Africa, even though they had the highest levels of urbanization. These economies account for over half of the continent's exports of primary commodities. Between 2010 and 2019, growth in these countries did not keep pace with population growth—in aggregate, 27 million more people in this cluster lived in poverty at the end of the period—and per capita consumption growth was stagnant at 0.8 percent a year on average.

— **Slow growers** consistently underperformed Africa's average growth rate over the past 20 years. These 15 countries were home to 13 percent of Africa's population and accounted for 26 percent of its GDP in 2019. They range from some of Africa's largest economies, such as South Africa and Algeria, to nine of its ten smallest economies. Consistent with their overall growth rate, they had below-average rates of investment, exports, and urbanization. Due to sluggish growth over the long term, eight million more people in these countries lived in poverty in 2019 than in 2010, and per capita consumption growth was only a little more than zero.

Exhibit 3 (continued)

Economies are growing faster in East and West Africa, where investment, exports, and urbanization have increased more rapidly.[1]



The boundaries and names shown on this map do not imply official endorsement or acceptance by McKinsey & Company.
[1]Not included due to lack of data: Djibouti, Eritrea, Sao Tome and Principe, Somalia, and South Sudan.
Source: World Bank; McKinsey Global Institute analysis

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These clusters differ meaningfully in their productivity levels and growth rates. Consistent growers and recent accelerator clusters are significantly less productive than their recent slowdown and slow grower counterparts, at least for now, as they urbanize and shift employment to more productive sectors. They are and will continue to be less dependent on highly productive natural resources but have nonetheless had higher productivity growth. Over the past decade, their productivity grew at nearly 3 percent annually, much higher than the 1.3 percent productivity growth rate among recent slowdowns and the slightly negative productivity growth of slow growers—though still lower than the average of 3.7 percent among global emerging markets. Even within clusters, there was no "one Africa" when it came to productivity, either; productivity levels, particularly among slow growers and recent slowdowns, varied dramatically despite those clusters' relatively higher average productivity overall (Exhibit 4).

In a stark illustration of no "one Africa" at work, decelerating growth among recent slowdown and slow grower economies combined to slow the continent's growth. Had Africa's GDP continued to grow at the pace it achieved from 2000 to 2010, its GDP in 2019 would have been $3 trillion instead of $2.6 trillion. Fully 65 percent of this difference can be explained by Africa's "big three" economies, with Egypt and Nigeria among the recent slowdowns and South Africa among the slow growers (Exhibit 5).

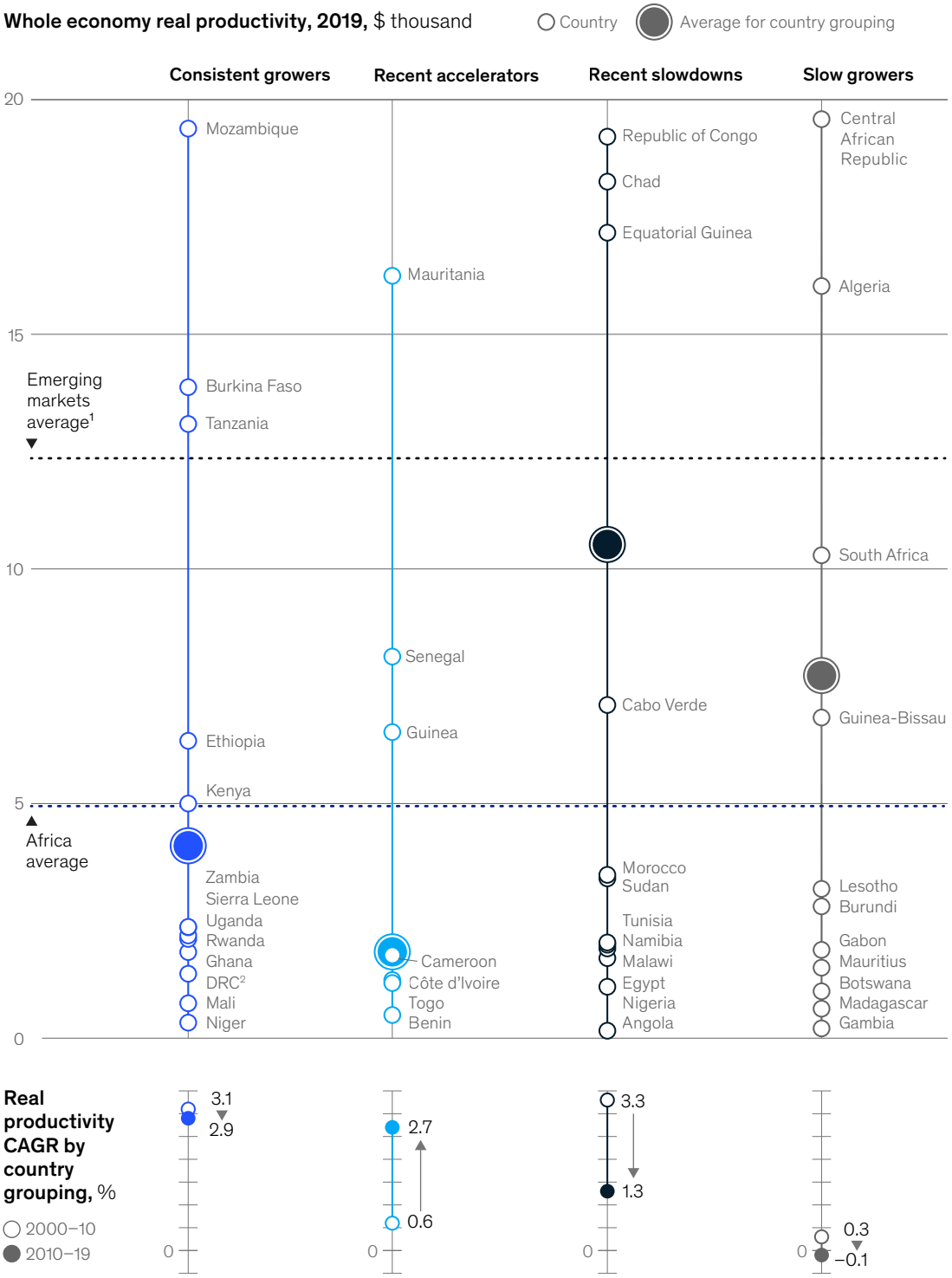
Nigeria had the largest impact. Its services sector alone was responsible for 30 percent of the continent's slowing economic pace, as its average annual growth rate fell from 11 percent in the 2000–10 decade to just 3 percent from 2010 to 2019. This drop reflects the decline in trade—responsible for one-third of Nigeria's services-related GDP—attributable to slower growth in consumer spending on goods (from 10 percent from 2000 to 2010 to 2 percent annually from 2010 to 2019). Growth in other services sectors such as real estate and information and communications technology (ICT) also decelerated significantly over the same period.

Egypt made the second-largest contribution to Africa's economic deceleration, as its slowing oil and gas production shaved 11 percent off growth. South Africa's economy grew at a consistently low pace over both decades.

Had Africa's GDP continued to grow at the pace it achieved from 2000 to 2010, its GDP in 2019 would have been $3 trillion instead of $2.6 trillion.

Exhibit 4

Recent accelerators and consistent growers have lower but faster-growing productivity.



[1]Emerging markets category includes middle-income countries as defined by the World Bank.
[2]The Democratic Republic of the Congo
Source: MGI Africa Productivity Model

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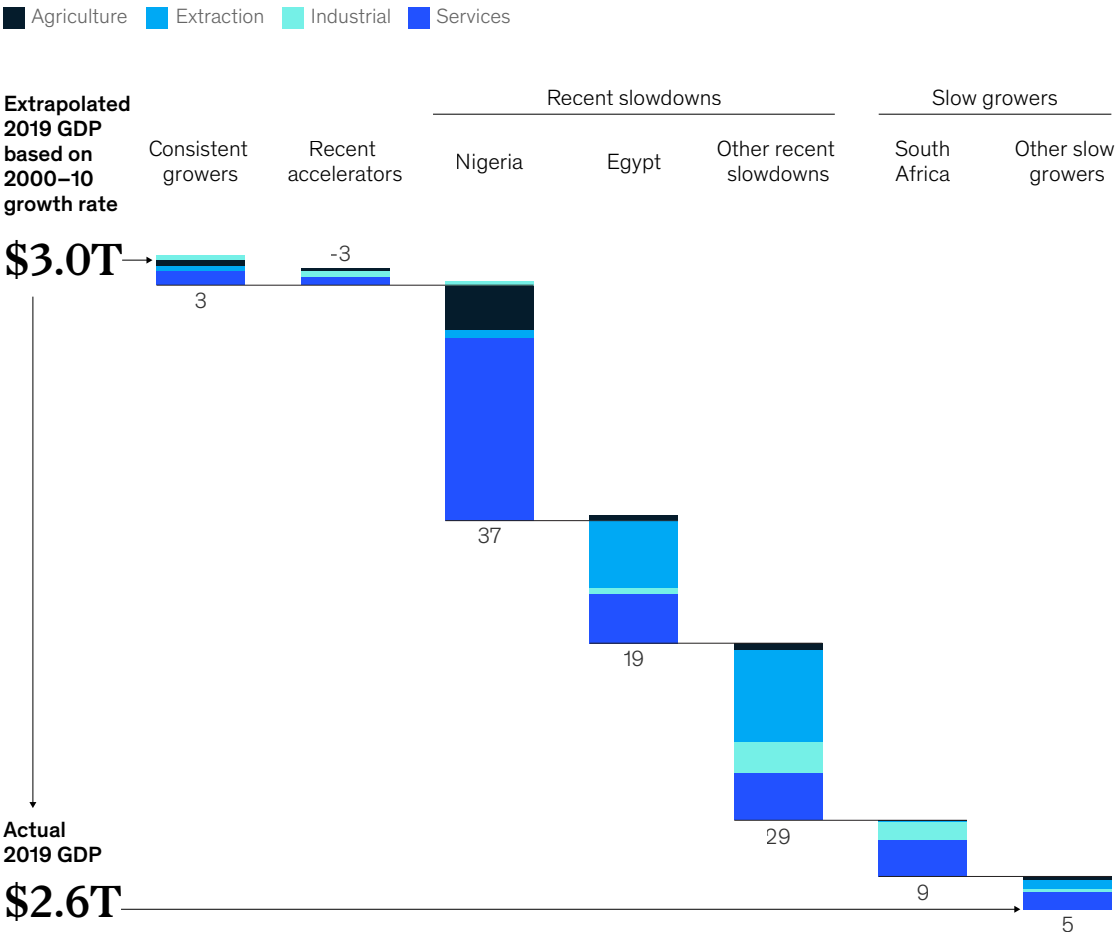
Exhibit 5

Downward trends in Egypt, Nigeria, and South Africa explain 65% of Africa's GDP slowdown.

Country and group decline in 2019 GDP from 2010 projection, % of total difference[1]



[1]Difference between 2019 actual growth rate and the extrapolated 2019 GDP based on 2000–10 growth rate. GDP decomposition by sector is estimated using GVA
Note: Percentages may not add to 100 due to rounding.
Source: MGI Africa Productivity Model; McKinsey Global Institute analysis

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Africa's economies are shifting rapidly from agriculture and extraction to services, but productivity still lags behind

Productivity reflects the amount of economic output created by each worker. Growth in productivity drives economies, and at the individual level, it can translate into higher living standards and well-being. Traditionally, agriculture has dominated the African economy, but African agriculture at large is made up of myriad smallholder farms that are generally low in productivity, though improving slowly. The other traditional pillar of the African economy is the extractive industries, which are highly productive in terms of dollar revenue but employ relatively few people, limiting their economic contribution. Productivity has increased only modestly on average across all sectors of the African economy over the past two decades and is low across the entirety of the African economy relative to peers (Exhibit 6).

Productivity measures output relative to input, or the value of goods and services produced divided by the amount of labor, capital, and other resources required to produce them. In this paper, we focus on labor productivity, defined as the economic output per worker. This productivity measure is commonly used because it is the most consequential determinant of long-term economic growth. Thus, establishing productivity as the foundation of African economic growth is a key to reinvigorating prosperity and resilience on the continent.

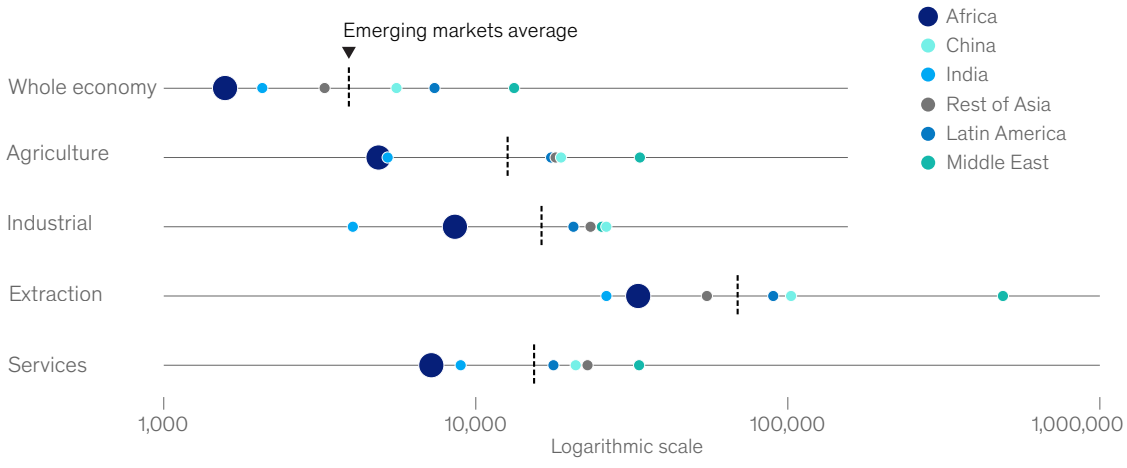
A structural shift to services

The African economy has been undergoing a profound structural shift to services over the past 20 years, as people have left work in the fields to take jobs in trade and other services in cities. Reflecting that shift, employment in services increased from 30 percent to 39 percent over that period, although in 2019, half of the African workforce remained in agriculture.

Exhibit 6

African sectors are less productive than the average for emerging markets.[1]

Real productivity, 2019, $



[1]Emerging markets include middle-income countries as defined by the World Bank.
Source: MGI Africa Productivity Model; McKinsey Global Institute analysis

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Services also secured its place as the major driver of the continent's economic output, contributing 56 percent in 2019 compared with 50 percent in 2000 as it captured share from the extractive industries, which were hit by the decelerating commodities cycle over that period (Exhibit 7).

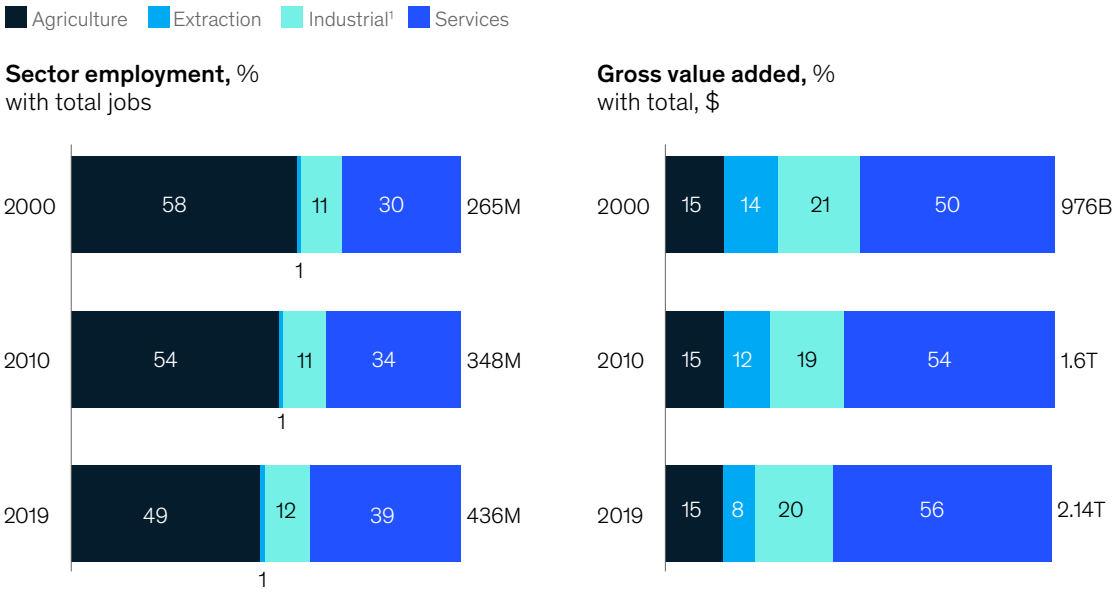
A shift to services is a pathway to increased prosperity trod by many countries, and Africa's shift to services closely mirrors what occurred in India.[11] Such a transition provides a productivity boost, since service-sector productivity is higher than that of agriculture (though generally less than in the industrial sector).

Services create significant opportunities for African countries to boost economic output and job creation—but only if productivity in the sector improves. Real productivity, a measure of efficiency, in the continent's services sector was $7,200 in 2019, compared with $8,900 in India, $17,700 in Latin America, and $20,900 in China. In other words, African productivity was the lowest of any region in the world. Nor has it grown since; the sector recorded negative productivity growth of -0.1 percent during the 2010–19 decade.

[11] Tianyu Fan, Michael Peters, and Fabrizio Zilibotti, *Growing like India: The unequal effects of service-led growth,* National Bureau of Economic Research working paper number 28551, July 2022.

Exhibit 7

Africa is undergoing a fundamental structural shift to services.



[1]Includes manufacturing, construction, and utilities.
Note: Figures do not sum to 100 percent due to rounding.
Source: MGI Africa Productivity Model

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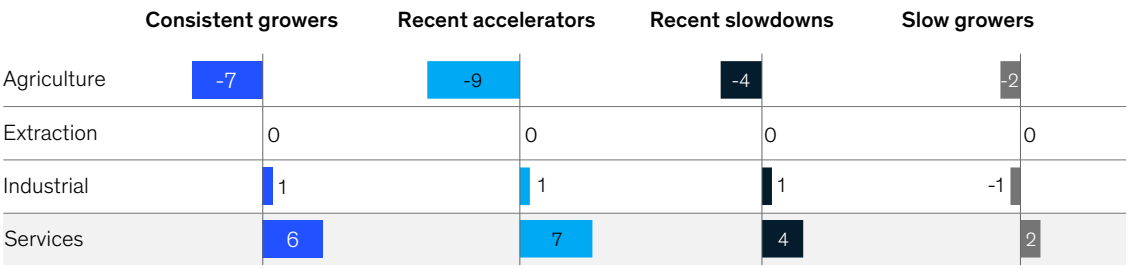
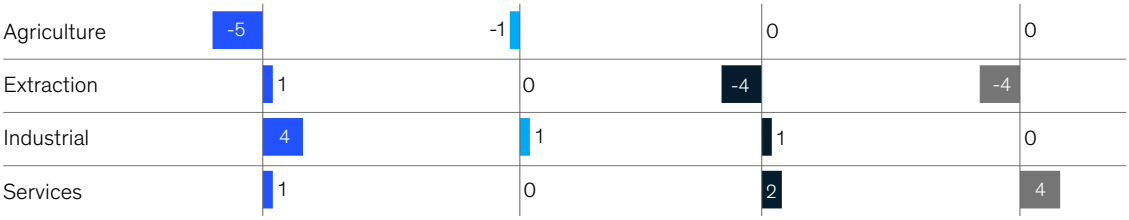
Exhibit 7 (continued)

The shift to services between 2010 and 2019 occurred across all clusters.

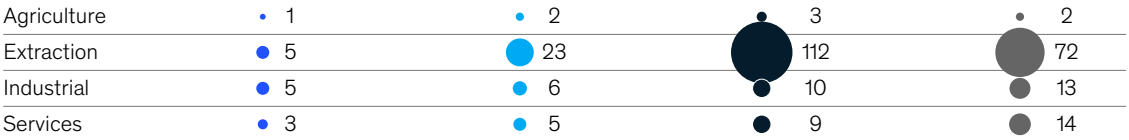
Change in share of employment, 2010–19, percentage points



Change in share of gross value added, 2010–19, percentage points



Real productivity, 2019, $ thousand



Source: MGI African Productivity Model

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From 2000 to 2010, the services sector in Africa increased productivity by 1.8 percent, and simply returning to that level would increase the sector's gross value added (GVA) by $400 billion by 2030. Additionally, if Africa matched the productivity growth of Asia's strongest services hubs, it could add $1.4 trillion to the continent's economy, almost doubling the GVA from services today. This would create 225 million jobs by 2030—a crucial consideration in the light of Africa's rapidly growing workforce. Even on its current trajectory, the services sector will create at least 85 million net new jobs across the continent by 2030, sufficient to absorb almost half of all new labor-market entrants.

Productivity has not been uniform across the African services sector. Employment in trade grew most in absolute numbers and accounts for almost half of Africa's service jobs, or some 80 million people across the continent. Yet the trade subsector in Africa, characterized by high levels of informality and fragmentation, has very low productivity by global standards. It has absorbed millions of people who moved out of agriculture and into informal, precarious, and low-paid jobs.

By contrast, financial and business services are highly productive relative to other services subsectors and contribute the greatest economic value, accounting for nearly a fifth of Africa's GVA today (Exhibit 8). This subsector encompasses banking, insurance, scientific research and development, travel agencies and related activities, and rental and leasing activities. Financial and business services contributed more than one-third of the GVA created by Africa's shift to services from 2000 to 2019 but less than 10 percent of the employment shift over the same period.

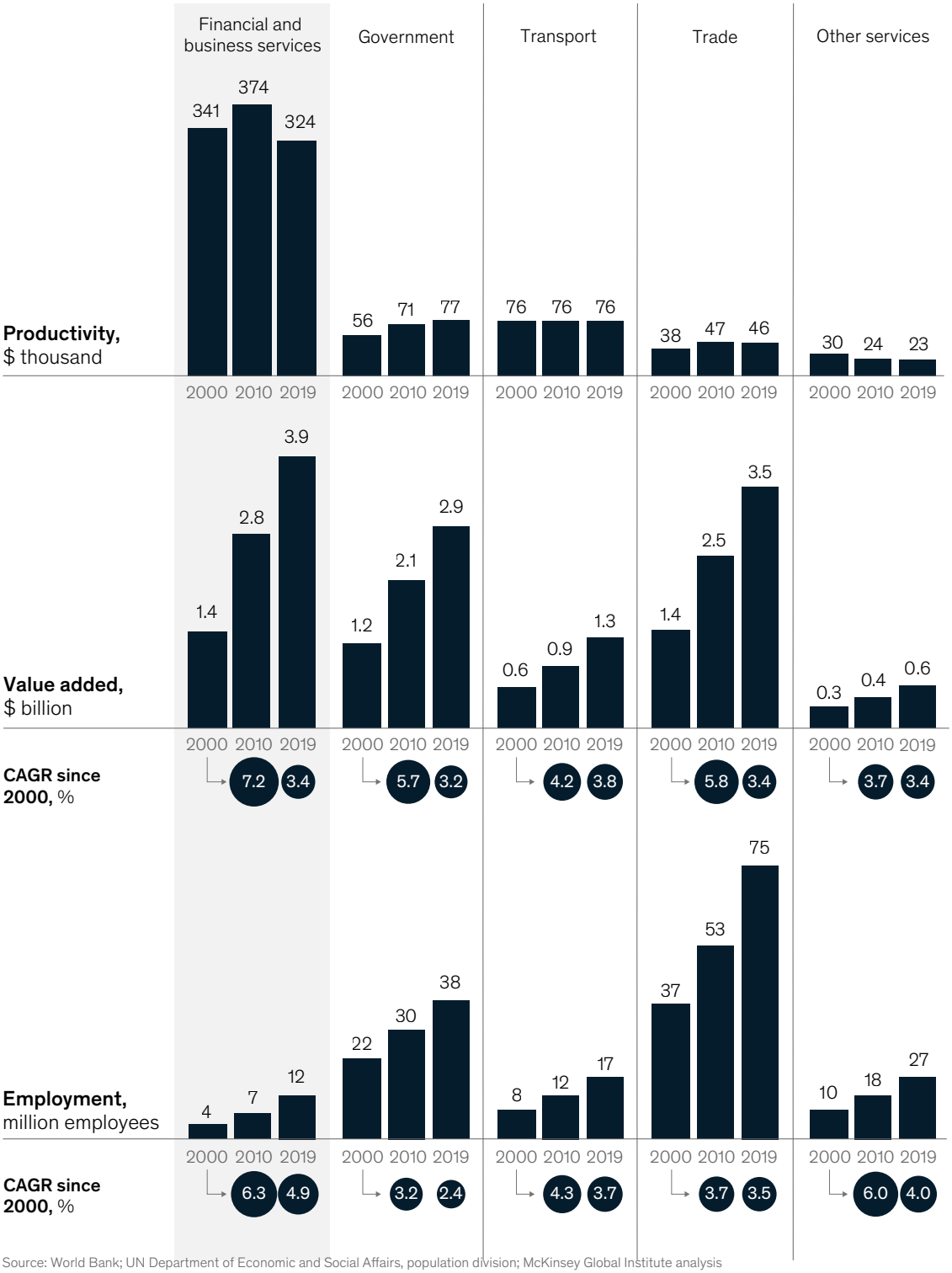
Many other services subsectors are suitable for growth locally and globally. Targeted interventions to raise their productivity include increasing digitization, developing skills, and exporting talent. Tourism, for example, is another fast-growing, employment-intensive services subsector that could benefit from such interventions. Africa will soon have the world's largest working-age population, which could meet the growing global talent shortage via services outsourcing (Exhibit 9).

In particular, ICT and digital technologies have transformative cross-sector effects that could boost the services sector's productivity overall. The emerging digital transformation taking place on the continent is evident in the vibrancy of its technology start-ups, which numbered more than 5,000 in 2021. Yet ICT infrastructure, access, and usage lag behind—only 14 percent of households had internet access in 2019. Even in cities, half the population does not use the internet. Tackling these digital bottlenecks is a crucial first step because digital infrastructure is critical to improving productivity in the services sector.

Africa will soon have the world's largest working-age population, which could meet the growing global talent shortage via services outsourcing.

Exhibit 8

Africa's financial and business-services subsector is the most productive, but it employs the fewest people.



Source: World Bank; UN Department of Economic and Social Affairs, population division; McKinsey Global Institute analysis

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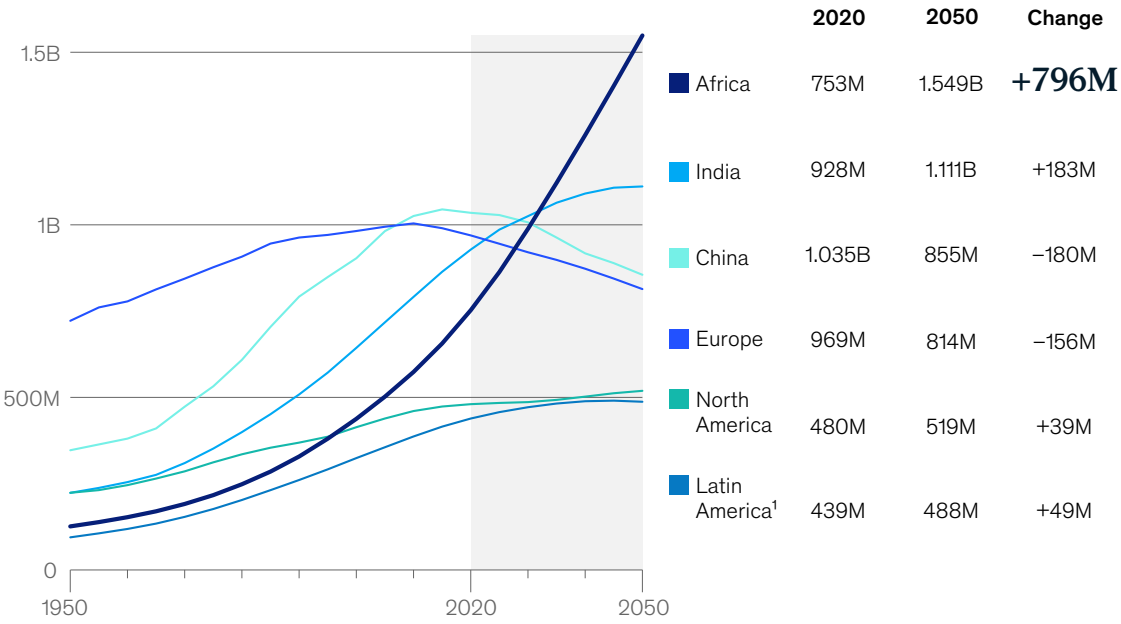
Exhibit 9

Africa will add 796 million people to the global workforce and be home to the largest and youngest population by 2050.

Working-age (15–64) population



[1]Includes the Caribbean.
Note: Data for 2020–50 are projected using medium variant scenario.
Sources: UN Population Prospects 2022; McKinsey Global Institute analysis

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An opportunity to increase domestic and export manufacturing

The industrial sector, which spans manufacturing, construction, and utilities, also presents opportunities to spur productivity. As the continent rapidly shifted to services over the past two decades, the relative size of the industrial sector remained constant, accounting for roughly 12 percent of employment and 20 percent of output. Its share of employment increased in only 14 African countries from 2010 to 2019. One such exception was Ghana, where industrial employment as a share of total employment increased from 10 percent in 2010 to 16 percent in 2019.

Nonetheless, the sector had the highest productivity growth of any sector in Africa over that period—1 percent a year on average compared with 0.8 percent across sectors—and is the only sector in which productivity growth did not decline over the 20-year period. Faster-growing economies in the consistent growers and recent accelerators clusters in particular benefited from accelerated growth in manufacturing output and the associated boost in productivity.

Through increased local manufacturing, countries and companies can identify key products the continent can produce to meet burgeoning local demand, produce for global markets, and, where needed, reduce dependence on imports. For example, apparel manufacturing has increased significantly in Ethiopia to address demand in global markets, while Gabon doubled employment in its wood processing industry from 2010 to 2019.[12] Cote d'Ivoire and Ghana, which together produce more than 60 percent of the world's cocoa, doubled their share of locally processed cocoa beans from 15 percent to almost 30 percent from 2000 to 2019. They recently joined forces to continue raising the industry's GVA and prosperity for cocoa-growing regions. Additional potential areas will continue to materialize, especially as multinational companies seek to diversify their supply chains.

Vaccines are an example of a product where Africa is looking to ensure greater self-sufficiency. They fell under the spotlight during the COVID-19 pandemic when a lack of local vaccine manufacturing capacity left many African countries struggling to procure a sufficient supply of vaccines for their populations.[13] To prevent such shortages, the African Union set up the Partnerships for African Vaccine Manufacturing, with the goal of increasing vaccine manufacturing to meet 60 percent of the continent's demand by 2040. Currently there are more than 30 initiatives to support vaccine manufacturing in several African countries, including Ghana, Rwanda, Senegal, and South Africa.[14]

Building a robust industrial sector will require investment to increase the capacity of African manufacturing, create jobs at scale, and achieve the industrial sector's full economic potential continent-wide. To unlock the continent's potential, African public- and private-sector leaders can also work to realize the full potential of the African Continental Free Trade Area (AfCFTA), which aims to reduce border constraints and increase intra-Africa trade as well as support economies of scale, increase competitiveness, and encourage flows of technology and talent. Establishing more seamless, frictionless, and tighter connections among countries on the continent will ensure that those investments pay off (see Box 2, "Imagining a more interconnected Africa").

Africa's industrialization opportunity includes increasing manufacturing output for African markets as well as for export markets beyond the continent. At a global level, Africa accounts for 2 percent of total manufacturing output, but only 0.6 percent of imports of manufactured goods globally come from the continent. If African countries were to match India's rate of production for domestic markets and achieve its 2 percent share of manufactured goods sold, they would unlock $140 billion in additional economic value by 2030, implying 2.1 percent productivity growth annually compared with just 0.4 percent over the past decade.

12 *Sourcing in a volatile world: The East Africa opportunity,* McKinsey & Company, April 2015.
13 Andrea Gennari, Tania Holt, Emma Jordi, and Leah Kaplow, "Africa needs vaccines. What would it take to make them here?" McKinsey & Company, April 2021.
14 *Expanding sustainable vaccine manufacturing in Africa: Priorities for support,* GAVI, the Vaccine Alliance, November 2022.

Box 2

Imagining a more interconnected Africa

Africa trades much more with economies beyond the continent than within it. Only 10 percent of imports come from another African country, and 17 percent of exports are going somewhere else on the continent. By contrast, across the Association of Southeast Asian Nations, or ASEAN, 21 percent of imports and 22 percent of exports are intraregional, while in Latin America, intraregional trade accounts for 19 percent of imports and 20 percent of exports. Europe is Africa's largest trading partner, followed by China, and both trade far more with the continent than its countries trade with one another (Exhibit 10).

China is the largest trading partner and has the broadest trade linkages with Africa. For some smaller countries with relatively low overall trade volumes, such as Benin, Republic of Congo, Madagascar, and Mauritania, China is the main trading partner. Nonetheless, most trade value goes to and comes from Europe.

The sources of intra-African imports are fairly evenly distributed across the continent. In contrast, almost 80 percent of exports of African countries are to countries outside the continent. With 53 African trading partners, South Africa accounts for 32 percent, or more than $35 billion, of the flow of intracontinental goods, the most such trade on the continent. Nigeria comes in second with more than $7 billion in flows across 51 African partners. For some smaller economies like Mali, Rwanda, and Togo, the main trading partner is another nearby African country.

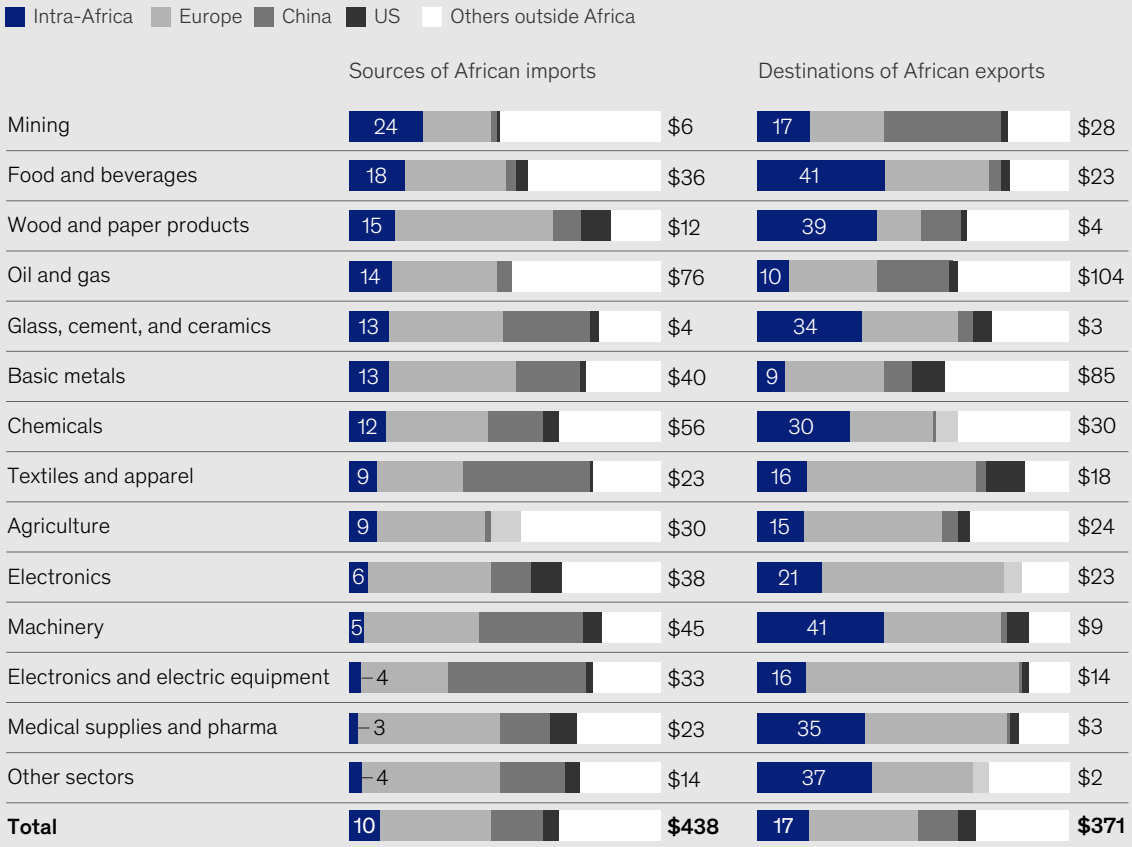
To increase intra-Africa trade volumes, the most critical value chains can be prioritized based on their potential for import substitution, contribution to economic growth, and inclusivity of women, youth, and small and medium-size enterprises, as well as feasibility. Agro-processing, pharmaceuticals, automotive, and logistics could deliver substantial value, but significant investment and bold interventions are needed to realize their potential. For example, improving transportation and logistics would require reducing customers' delays at borders, increasing the quantity and availability of quality trucks through financing, and scaling cold chain storage and transportation, which are among the priorities of the African Continental Free Trade Area.

See exhibit next page

Exhibit 10

Africa trades more with other world regions than itself.

Distribution of imports to and exports from Africa, 2021, %, with total value in billions[1]



[1]Based on data as reported as of March 2023. Sectors are approximated using two-digit Harmonized System codes.
Source: UN Comtrade; McKinsey Global Institute analysis

McKinsey & Company

Reversing the trend and driving a shift in extracted commodities

Currently, most African exports are extracted commodities. However, extractive industries, which employ a much smaller workforce than other sectors, saw a sharp drop in the proportion of value they added to the African economy—from 14 percent in 2010 to 8 percent in 2019. Productivity in the extractive industries also declined from –1 percent a year on average from 2000 to 2010 to an average of –5 percent a year in the subsequent decade. This decline occurred in all clusters except for consistent growers, where extractive industries in Ghana, Tanzania, and Zambia recently increased productivity.

Among Africa's five most valuable commodities—crude oil, natural gas, gold, platinum, and iron ore—export revenues grew 17 percent a year on average in the 2000s. However, 75 percent of that growth was due to increased prices. From 2010 to 2019, revenues from exported commodities fell by 6 percent annually on average, with 60 percent of the decline driven by shrinking volumes. For some commodities, this decline was far more pronounced than in the

rest of the world. For example, crude oil volumes in Africa dropped 41 percent compared with an 11 percent decline elsewhere. Natural gas volumes in Africa fell even more, by 59 percent, even as they increased 29 percent in the rest of the world.

Nonetheless, extraction remains the highest-productivity sector on the continent as in the rest of the world. It is not, however, a large employer, and the cyclical and volatile nature of primary commodity prices makes it difficult to base a sustainable economy on this sector alone. Additionally, resource wealth across Africa has not always translated into greater human development, due to the complex connections between resource extraction and governance.

Going forward, Africa's vast resources will need to better support its growth. Hydrocarbons will continue to be important for the continent, and reversing declining production will be imperative. At the same time, the sector can work to further decarbonize production by changing energy sources used in the production process, increasing efficiency to limit energy consumption in the production process, and attracting significant investment in carbon offsets to ensure net-zero production. To make the most of their significant gas resources, gas-rich countries should focus not only on providing incentives for production and reducing flaring to meet domestic and global demand; they will also need to urgently invest in the requisite infrastructure for transportation, processing, and distribution of these gas resources to support local industrialization and to grow export revenues.

Africa also has many ways of reducing its reliance on traditional extraction to grow its economy and establish more transparent governance of trade in commodities that are newly in demand as a result of the world's transition toward net zero. It has many of the materials needed for the journey, such as cobalt, bauxite, platinum, and copper; tapping those stores of value will initially entail securing appropriate access to resources through fair regulation and licensing. Working to ensure the rapid development of low-carbon energy supplies for the extractive industries, particularly metals, will also be important. Capital will be needed for new projects and built infrastructure, while existing operations can be enhanced through local capability building and the transfer of expertise. Such advances also represent an opportunity to train workers with the skill sets for the new economy.

Finally, Africa can improve the downstream part of the metals value chain, such as smelting and refining, to increase value added and infrastructure development. Automotive companies, battery OEMs, and other downstream players can play enabling roles through strong partnerships with extractive businesses. Investing in automation and digital technologies will further enhance the sector's productivity. [15]

Achieving the long-awaited African green revolution

Rapid growth in the African services and industrial sectors will still leave hundreds of millions of people working in agriculture. Agriculture is the backbone of many African economies, providing more than 70 percent of employment in rural areas, 49 percent of the continent's total employment, and 15 percent of total value added. The sector's productivity and output improved steadily over the past two decades as millions of workers left for jobs in other sectors. Over time, the primary driver of agricultural growth has shifted from big increases in the labor force to growth in real agricultural capital stock. Yet African agricultural yields and productivity lag behind the standards of global peers, and action is needed to improve and ensure the livelihoods of African farmers, who are a mainstay of many economies and remain crucial to the continent's food security.

[15] Acha Leke, Peter Gaius-Obaseki, and Oliver Onyekweli, "The future of African oil and gas: Positioning for the energy transition," McKinsey & Company, June 2022.

Though Africa remains a net food importer, the trade balance in agricultural products has improved over the past decade. In 2011, the value of net agricultural imports was nearly $30 billion. In 2021, the balance was about $6 billion. Ethiopia, Morocco, and Rwanda have experienced rapid growth of crop outputs, but neither those countries nor Africa as a whole have achieved a green revolution similar to those in China, India, and other developing regions.

At less than $2,000 per worker on average, Africa's agricultural GVA is the lowest globally, which partly explains why so many people are leaving the land to seek better opportunities in the services sector. Although estimates of untapped agricultural land on the continent range from 480 million to 840 million hectares, much of that land is unreachable or heavily forested, so Africa will need to increase the sector's productivity and learn to produce more with less. Over the past decade, agricultural productivity in most African countries has improved at a rate too slow to close the gap with the rest of the world, exceeding the global average in only eight of Africa's 54 countries. Especially in a context of climate change and geopolitical volatility, the continent's slow growth in agricultural output could threaten its ability to feed its people.

Our analysis finds that if African countries were to match the productivity growth that Indian agriculture experienced from 1980 to 1990, they would collectively add $200 billion of value to their economies by 2030—or $40 billion more than expected at current productivity levels. The impact on food production could be tremendous. For example, analysis by McKinsey suggests that Africa could produce two to three times more cereals and grains than it does today, which would add 20 percent more cereals and grains to current worldwide output. Similar increases are possible in the production of livestock and horticultural crops.[16]

How, then, can African countries unleash an improvement in agricultural productivity and the farmer incomes it would deliver? To start, countries can separate their agricultural growth strategies from their social benefits programs. A government-coordinated agricultural growth strategy could focus on enabling the private sector to deliver strong economic growth and returns. Social benefit programs for those working in the sector, by contrast, could focus on initiatives such as direct cash transfers to smallholder farmers to achieve social objectives such as poverty reduction, rural community welfare, food security, and societal stability.

To transform and boost food production and productivity, countries can pursue four strategies. First, countries can maximize output value by aligning production resources and production choices with comparative advantage, shifting to higher-value production and increasing value added via agro-processing. Second, countries can boost production by building the right logistics systems to get produce to consumers. Third, countries can empower "midsize change agents" by enabling farms of all sizes to mobilize through a system of traders and warehouse aggregators. Fourth, African countries, together with the private sector, can develop financial solutions that enable forward contracts and access to futures markets to allow farmers to hedge against falling prices and bring greater price stability to the market.

To improve food security beyond the economic needs of domestic and export production, African countries can develop capabilities to evaluate economic and food security trade-offs. This would involve using levers other than domestic production—for example, strategic reserves, hedging, strategic importation and trade agreements, subsidies, distribution systems, social education campaigns, and food-waste management.

[16] Lutz Goedde, Amandla Ooko-Ombaka, and Gillian Pais, "Winning in Africa's agricultural market," McKinsey & Company, February 2019.

Africa is the world's fastest-urbanizing region but depends too heavily on its primary cities

The future of Africa lies in its vibrant cities. Although 57 percent of its population lived in rural areas in 2019, the continent is urbanizing faster than any other place on the planet. Since 2000, Africa's urban population has grown 3.7 percent, outpacing global population growth of 2.5 percent. Over the next two decades, the continent will become majority urban as more than 500 million people arrive in its cities and create the largest total number of urban dwellers in the world.

Urbanization is generally a positive economic force and a crucial driver of economic growth, especially in low-income countries. Cities contribute significantly to overall country GDP and are valuable sites of productive employment opportunities. In Africa's largest cities, households earned and consumed more than twice as much as the rest of Africa from 2000 to 2019, and these cities also had a much lower share of poor households, 2 percent compared with 9 percent on the continent overall.[17]

[17] Based on a sample of Africa's 35 largest cities (excluding Lubumbashi, Mbuji-Mayi, and Mogadishu). These cities account for 13 percent of Africa's total population and 31 percent of Africa's GDP.

The number of large African cities will multiply. By 2040, the continent will be home to 12 cities of more than ten million people each as ten more cities join Cairo and Lagos. Additionally, 19 cities will have populations between five million and ten million, or nine more such cities than there are today.[18] These 31 cities will be spread across the continent and split evenly among countries across all four clusters. In 24 of them, GDP increased faster than GDP in the country overall over the past decade (Exhibit 11). As a weighted average, GDP in all 31 cities grew 4 percent compared with an average of 3.2 percent in their countries and 3.3 percent across Africa over the same period.

With cities as with countries, however, there is no "one Africa." City growth varied across country clusters—not surprising, perhaps, since cities typically drive country-level growth. Within the clusters, there was also wide variation, with some cities thriving in spite of a declining national economy and vice versa (Exhibit 12). Cities in consistent grower countries had the biggest gains in GDP and population from 2000 to 2019. They represented nearly 80 percent of the cities in faster-growing clusters that will have five million or more residents by 2040. Cities in clusters that grew more slowly than average—recent slowdowns and slow growers—also expanded more slowly, accounting for roughly 40 percent of cities that will have five million or more residents by 2040. GDP is not growing fast enough in these cities to meaningfully offset their population growth of 2.7 percent on an unweighted-average basis. As a result, their GDP per capita decreased by 0.1 percent annually over the past decade compared with growth of 2.6 percent a year in cities within faster-growing economies. Fostering accelerated economic growth in these cities is an urgent priority.

We define primary cities in Africa as the largest city in each country. These cities attracted 67 percent of total urban migration over the past two decades. Champions of GDP growth, they also contributed nearly a third of Africa's nominal GDP in 2019.[19]

By 2040, Africa will be home to 12 cities of more than ten million people each as ten more cities join Cairo and Lagos.

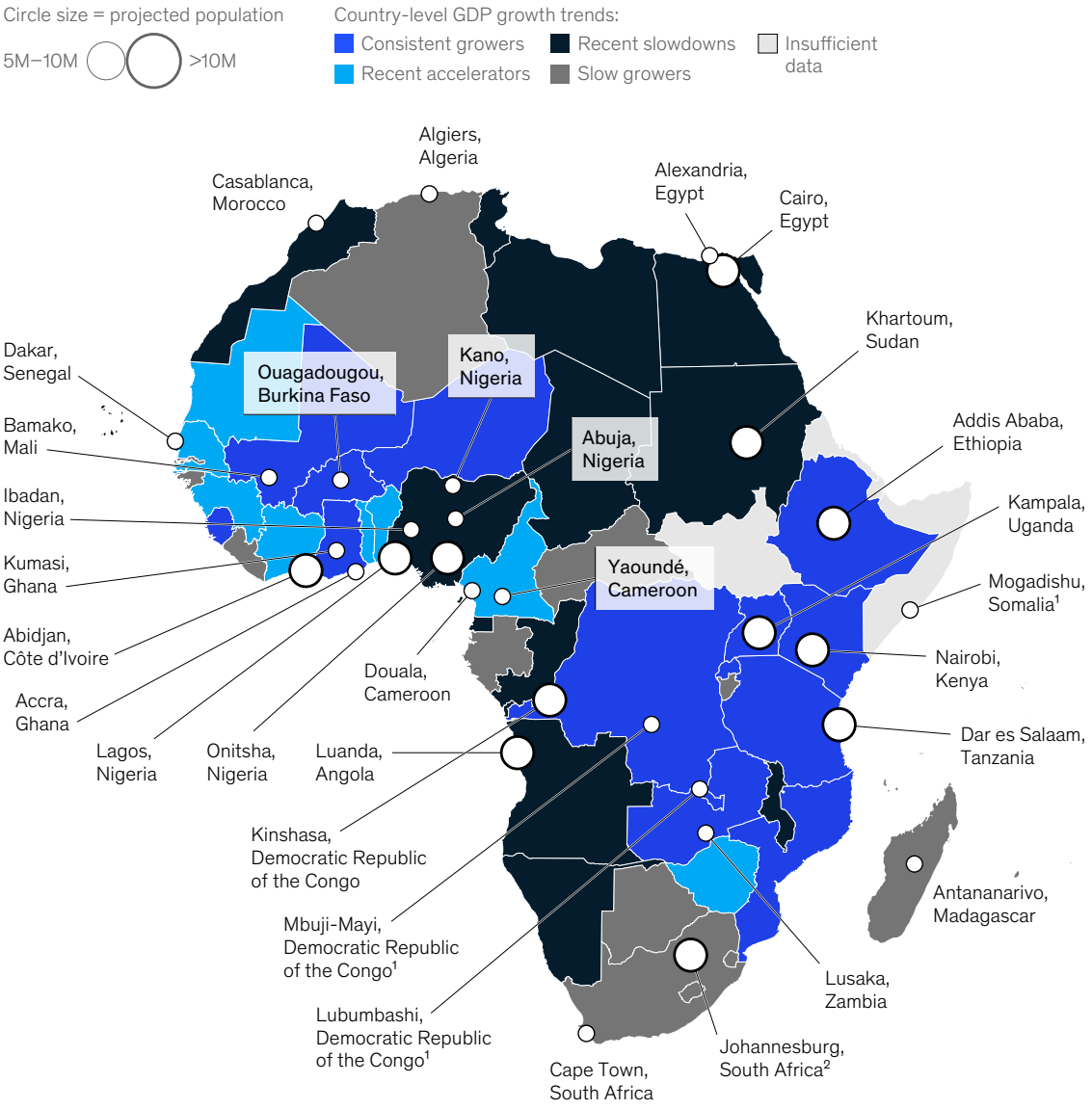
[18] 2040 population figures rely on estimates from Oxford Economics. The basis of population forecasting at the city level is a natural change and net migration model. Birth rate and death rate in a city relative to national figures are projected, and census or historical estimates of population by age as a starting point are used. Then, how births enter into the city's population, deaths exit, and people move through the age bands is modeled over time. Finally, migration is added, which is forecast through the economic performance of a city relative to the country. 2040 population figures for Lubumbashi, Mbuji-Mayi, and Mogadishu and are estimated by extrapolating UN 2035 population estimates to 2040 using the 2030–35 population growth rate.

[19] In the sample of 48 primary cities in the data set we use, across time from 2000, the urban wealth scaling exponent (percent increase in log GDP with 1 percent increase in log population) is 1.13, the same as some studies found in the United States and Germany and just below the 1.15 observed in China. See Luís M. A. Bettencourt, "The origins of scaling in cities," *Science,* volume 340, number 6139, June 2013; Luís M. A. Bettencourt et al., "Growth, innovation, scaling, and the pace of life in cities," *Proceedings of the National Academy of Sciences*, volume 104, number 17, April 2007; Luís M. A. Bettencourt and José Lobo, "Urban scaling in Europe," *Journal of the Royal Society Interface*, volume 13, number 116, March 2016; Genta Kuno and Pradipto, "Non-trivial relationship between scaling behavior and the GDP microstructure in Indonesian cities," *PLOS ONE*, volume 17, number 11, November 2022; and Joao Meirelles et al., "Evolution of urban scaling: Evidence from Brazil," PLOS ONE, volume 13, number 10, October 2018.

Exhibit 11

By 2040, Africa will have 31 cities—19 more than today—with more than five million people.

African cities with more than 5 million people by 2040



The boundaries and names shown on this map do not imply official endorsement or acceptance by McKinsey & Company.
Note: Djibouti, Eritrea, Sao Tome and Principe, Somalia, and South Sudan are excluded due to incomplete GDP data 2000–19.
[1]Lubumbashi, Mbuji-Mayi, and Mogadishu are not included in the other cities analyses as they are not included in the Oxford Economics data set.
[2]Greater Johannesburg includes the city of Johannesburg, Ekurhuleni, and the West Rand.
Source: Oxford Economics; UN World Urban Population; MGI Pixels of Progress geospatial data set

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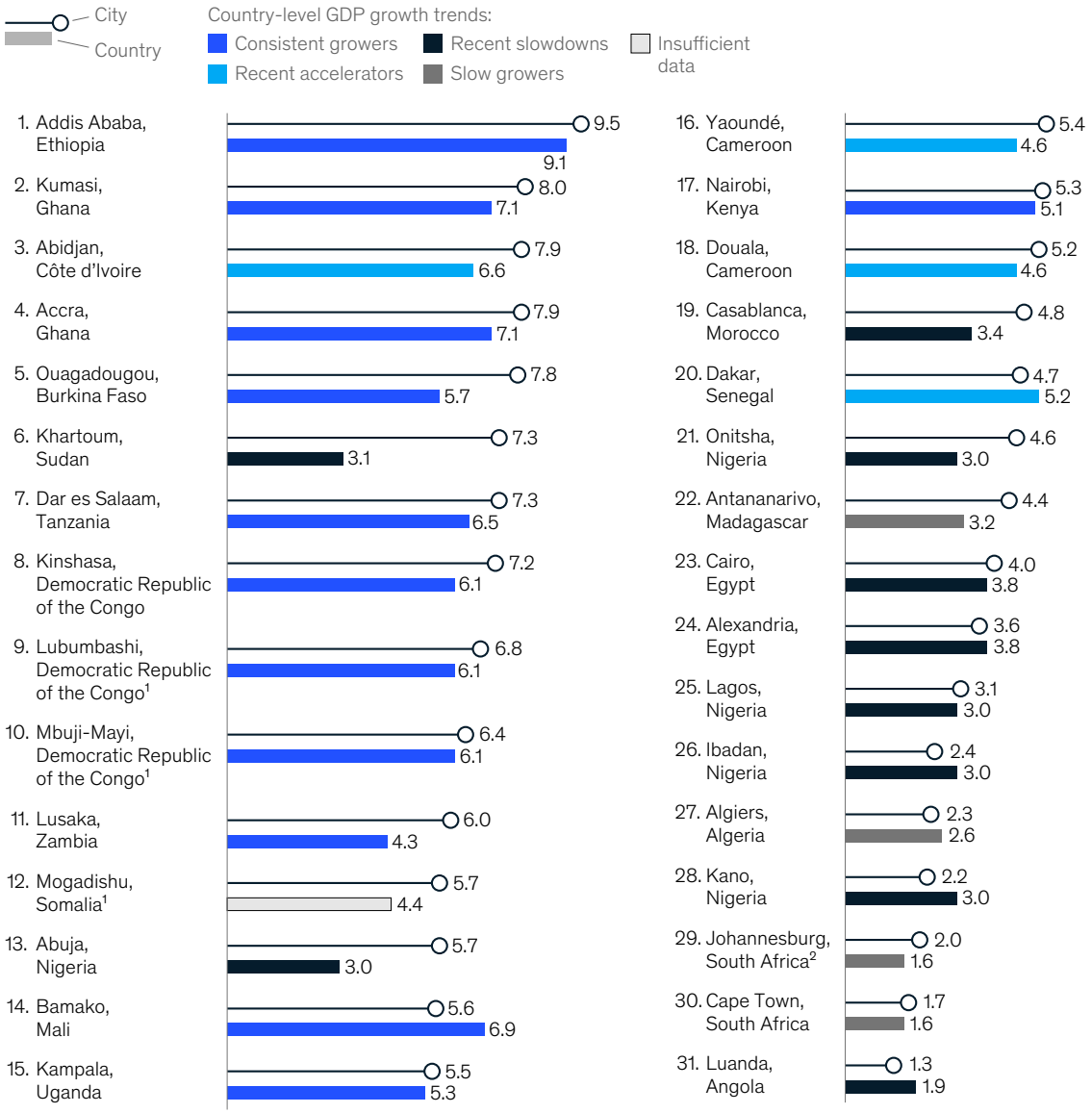
Exhibit 11 (continued)

Cities with fastest growing GDP are generally located in countries that are consistent growers or recent accelerators.

Real GDP CAGR over 2010–19 for Africa's largest cities and their countries, %



[1]Lubumbashi, Mbuji-Mayi, and Mogadishu are not included in the other cities analyses as they are not included in the Oxford Economics data set.
[2]Greater Johannesburg includes the city of Johannesburg, Ekurhuleni, and the West Rand.
Source: Oxford Economics; UN World Urban Population; MGI Pixels of Progress geospatial data set

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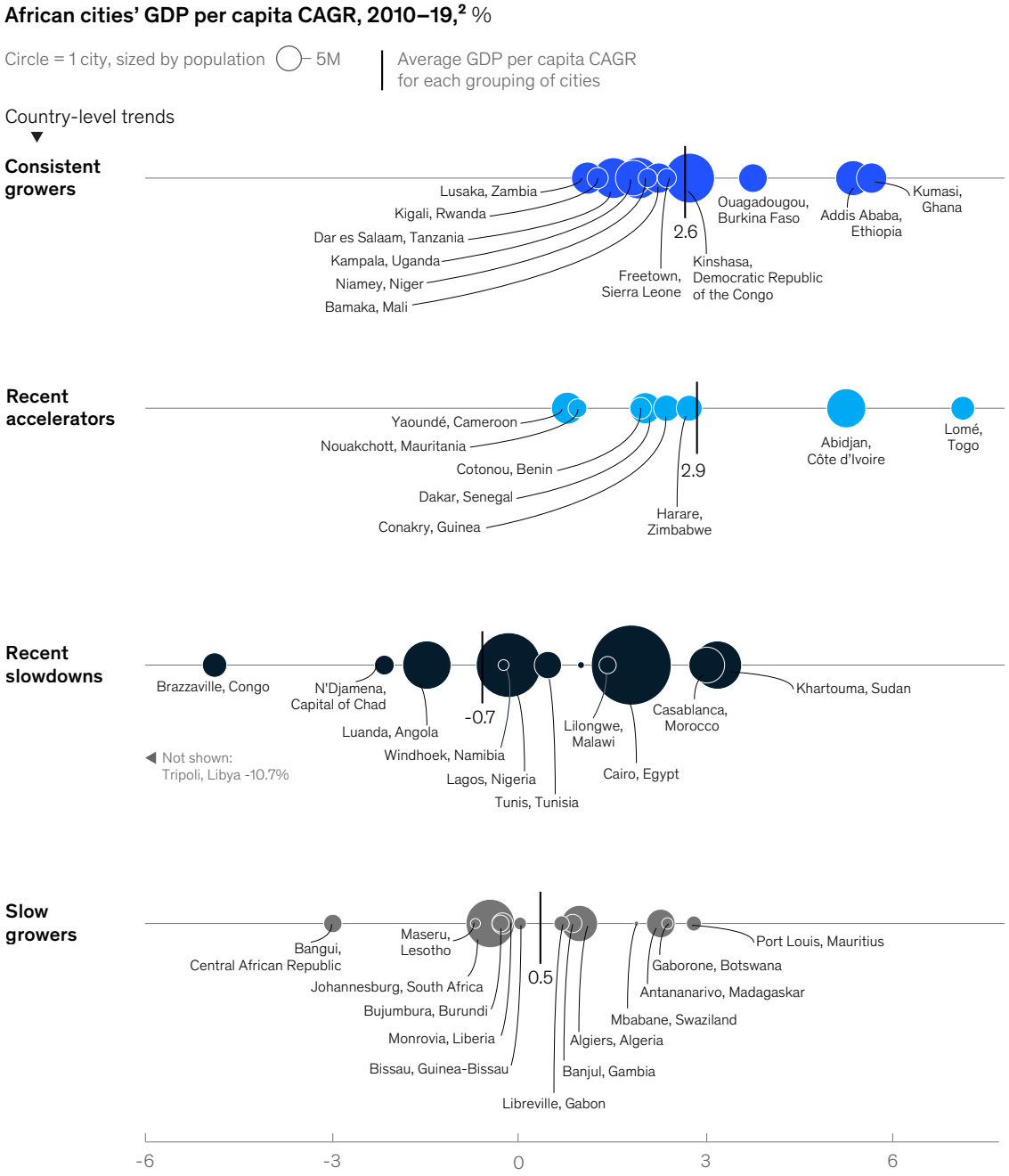
Exhibit 12

Per capita GDP is increasing more rapidly in African cities that are growing faster.[1]



[1]Based on an analysis of 45 primary cities, which are the largest cities in their countries by population.
[2]Average GDP per capita and population growth rates in clusters are non-weighted.
Source: Oxford Economics; McKinsey Global Institute analysis

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Africa's second cities, those with the second-largest population in each country, are generally not nearly as vibrant or dynamic as their larger cousins. Among a set of the largest countries on the continent, only four of 14 have a second city larger than half the size of their primary city.[20] In five countries, the second city has a population of less than 25 percent of the primary city's population. By contrast, in Brazil, China, India, and the United States, the population of the second city is more than 60 percent of the population of the largest city (Exhibit 13).

This points to an opportunity for Africa's second cities, which today are adding people more slowly than primary cities. On average, the populations of second cities grew 2.5 percent from 2000 to 2019, while those of primary cities increased 3 percent. In fact, less than half of second cities in our sample were growing faster than Africa's continent-wide population growth rate of 2.6 percent.

African countries have an opportunity to significantly expand their second cities. Of course a second city cannot make itself into something it is not: ports, resource extraction hubs, and tourist hubs require significant natural endowments and infrastructure. However, second cities, supported by national governments, can focus on getting the basics of urbanization right by identifying competitive advantages, investing to improve the enabling environment, exploring partnerships to attract investment, planning and building green infrastructure, and insisting on opportunity for all through inclusion of city outskirts and by building affordable housing.

A focus on second cities should not divert attention from the reality that many African cities have a need for sustainable investment in essential services and critical infrastructure. Different cities have different critical needs, but in growing urban communities, affordable housing is high on the priority list. Compared with other emerging regions, Africa has significant infrastructure gaps, especially in access to electricity, water, paved roads, and the internet. Urban infrastructure supports economic development in powerful ways. The number of African people living in urban centers will double over the next 20 years, and critical to the continent's ability to accommodate its rising population is the built environment and its supporting infrastructure—transportation, power, water, and telecom systems.

However, Africa's urban infrastructure is significantly deficient across nearly all infrastructure asset classes. For example, 100 million residents of African cities, or 18 percent of the urban population, lack access to electricity. While countries such as Egypt, Morocco, and Tunisia have attained nearly full urban electrification, in others like the Central African Republic, urban electric coverage is less than 40 percent. The gap is even greater in water and sanitation infrastructure and services; 66 percent of Africa's urban population has no access to such services.

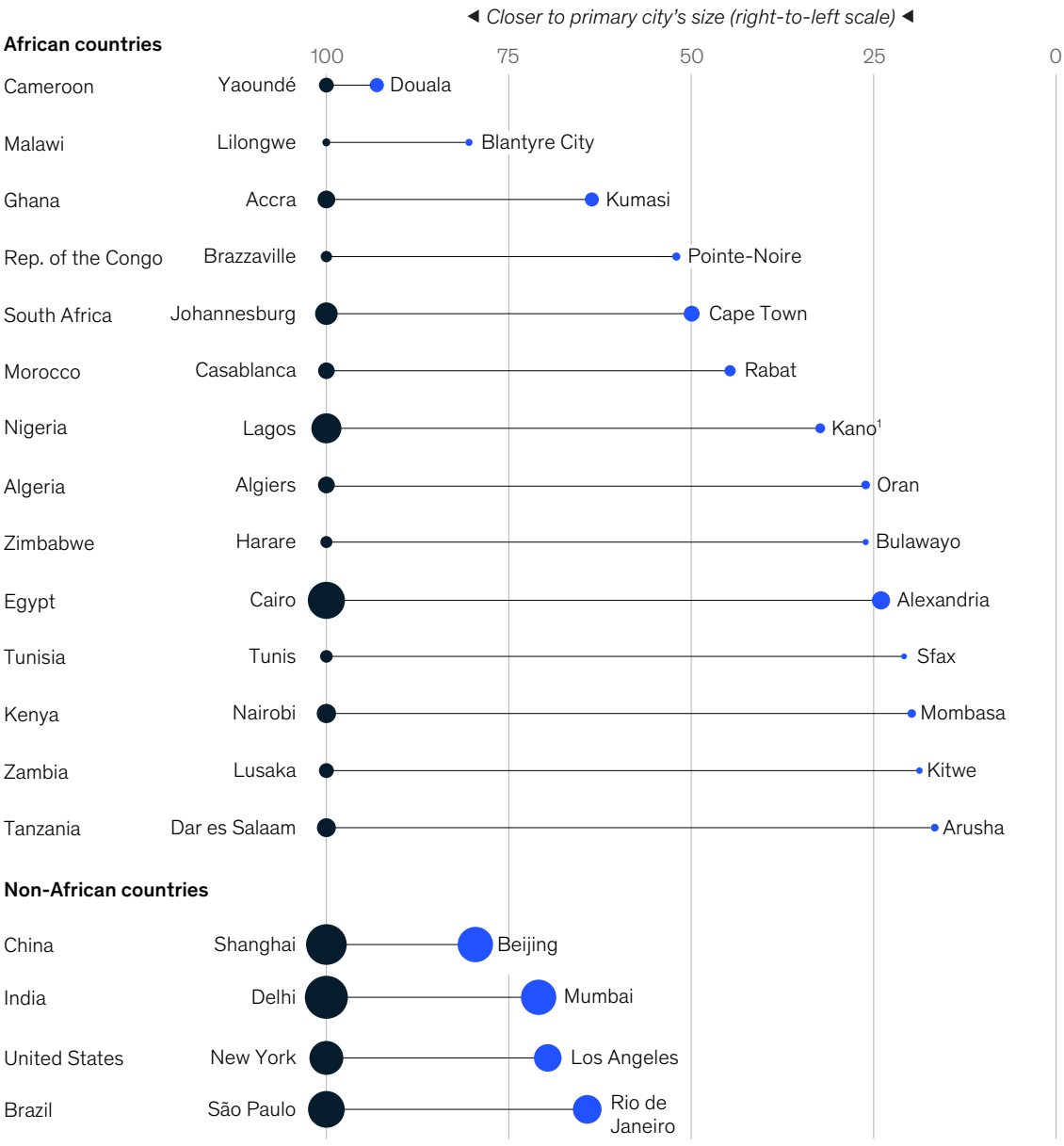
A comparative study using satellite imagery found that urban roads in Africa occupy a smaller share of land than in other major urban areas around the world. Those roads that do exist in African cities are disproportionately clustered near their centers, leaving the outskirts disconnected. Housing is similarly scarce, and more than 60 percent of the continent's urban population lives in slums, a figure that tops 90 percent in some countries such as South Sudan. Africa's telecommunications infrastructure is a bright spot, with universal mobile phone coverage across all urban areas.

[20] The 14 countries are the overlapping sets of the ten largest countries by population and the ten largest countries by GDP (excluding Angola, the Democratic Republic of the Congo, Ethiopia, Libya, Sudan, and Uganda because of limited data availability).

Exhibit 13

African second cities are undersized compared with primary cities.

Countries' secondary cities as a share of the primary city's population, %



[1]Using Oxford Economics definition of urban agglomeration, Onitsha would include a number of adjacent areas including Agulu, Asaba, Awka, Nnewi, and Ogidi, and would have a population of 6.7 million (45% the size of Lagos). In this instance, we've shown Kano as Nigeria's second city as it's more consistent with traditional definitions of Nigeria's cities.
Source: Oxford Economics

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In aggregate, insufficient urban infrastructure prevents African cities from reaping the benefits of scale and agglomeration. The scale of infrastructure investment required on the continent is estimated to be roughly 8.6 percent of GDP annually.[21] Urban areas require the greatest investment in infrastructure asset classes such as sanitation, with cities needing 70 percent of the overall investment.[22] However, significant improvements in how countries invest in infrastructure projects and the impact this infrastructure has on national economies, including on sustainability and inclusivity, is needed to justify such spending.

To do more with less, cities can explore private partnerships, introduce investment accountability, assess and manage expenses, and embrace technology. To attract private-sector financing in particular, governments and their institutional partners can take decisive action to improve the commercial viability of projects by mitigating political, currency, and regulatory risks and by increasing the number of bankable projects.[23]

Implemented with coordination and coherence, infrastructure plans could improve individual welfare and deliver real socioeconomic returns. Each dollar invested in such projects is estimated to add 20 cents to GDP.[24] Investing to expand and enhance the productivity of urban infrastructure and attracting private capital for infrastructure investment, therefore, are crucial to turning Africa's rapid urbanization into the valuable asset it could be.

The scale of infrastructure investment required on the continent is estimated to be roughly 8.6 percent of GDP annually.

[21] Julie Rozenberg and Marianne Fay, *Beyond the gap: How countries can afford the infrastructure they need while protecting the planet*, World Bank, 2019.
[22] *State of the world's sanitation: An urgent call to transform sanitation for better health environments, economies and societies*, World Health Organization and United Nations Children's Fund, 2021.
[23] For more information, see Kannan Lakmeeharan, Qaizer Manji, Ronald Nyairo, and Harald Poeltner, "Solving Africa's infrastructure paradox," McKinsey & Company, March 2020.
[24] *The economic impact of infrastructure*, McKinsey Global Institute, June 2013.

St. James beach, Cape Town

Kejetia market, Kumasi

Box 3

Two thriving second cities

Cape Town in South Africa and Kumasi in Ghana are two cities that have adopted policies and made investments that illustrate the opportunities to invigorate Africa's second cities.

They reflect the divergent growth paths of Africa's economies. South Africa is a slow grower, and Cape Town's GDP grew 1.7 percent on average annually over the most recent decade. Kumasi mirrored Ghana's progress as a consistent grower, achieving an average of 8 percent annual GDP growth from 2010 to 2019. Rapid migration combined with high birth rates among their existing populations mean that GDP is spread more thinly, and Cape Town's GDP per capita grew by just 0.4 percent a year on average since the start of the millennium, while Kumasi's grew by an average 3.6 percent a year.

In Cape Town, public–private initiatives have attracted about 20 additional direct flights from major global markets over the past decade, resulting in two million annual foreign tourists in the city and contributing an estimated 200,000 direct jobs—about 10 percent of the city's total. Its tech sector has attracted investment, and the city is now home to 200 fintech start-ups and data and engineering hubs of global technology companies drawn by its universities and low labor costs.

The city has developed a bus rapid transit system to relieve urban congestion and support its investment in tourism, and it generates its own electricity, reducing the impact of national power outages that have depressed South Africa's overall growth.

Kumasi is rich in mineral resources, including two of the largest gold mines in the world. Yet the city has worked to grow its manufacturing subsector, including textiles, agro-processing, and wood products. And Deutsche Bank has stepped in to support the expansion and renovation of the Kumasi Central Market, West Africa's largest market with 12,000 shops and stalls.[1]

Together with the World Bank, Kumasi is working to introduce a transit system similar to Cape Town's, which will reduce travelers' reliance on the informal taxis and vans called tro-tros, though it will need to extend water and sanitation facilities further from the city center where many of its newest residents live.

These two second cities demonstrate how, with similar support from multilateral and private financial institutions and corporations as well as local innovations, many of Africa's second cities can capitalize on their strengths to step up economic growth and productivity.

[1] "Deutsche Bank finances the expansion of the Kumasi Market in Ghana," Deutsche Bank, January 13, 2022.

Africa's large companies have proven resilient—and most have considerable unmet potential for growth

Large private companies have an important role to play in rekindling economic progress in Africa because they contribute disproportionately to growth, innovation, employment, exports, productivity, and taxes. Previous MGI research found that emerging economies with consistently high growth rates had twice as many large companies as other economies.[25] The effects of the COVID-19 pandemic, followed by a slowdown in the global economy and rising inflation, have intensified pressures on performance and the need for growth. Africa's big companies have proven resilient in the face of challenges over the past decade and now are well positioned to grow. Their success and growth will have positive knock-on effects among the myriad small and medium-size enterprises that participate in their supply chains and support the vast majority of jobs on the continent.

[25] For more information, see *Outperformers: High-growth emerging economies and the companies that propel them*, McKinsey Global Institute, September 2018.

Already the continent's entrepreneurial vibrancy is showing encouraging signs: funding of technology start-ups across Africa increased by 18 times between 2015 and 2021.[26] Large companies, too, have grown revenues faster than continent-wide GDP since 2015. On an unweighted basis, these companies grew 3 percent per year on average over that period, a growth rate that rises to 5 percent annually on a weighted basis.[27]

Africa is home to many large companies

At least 345 companies in Africa have annual revenues of $1 billion or more. Collectively they produce revenues of more than $1 trillion (Exhibit 14). About 230 of these 345 companies are homegrown, meaning they were started in an African country, often by a local entrepreneur. Fifty-two of the continent's $1 billion–plus companies are state-owned enterprises. These large companies operate in all major sectors on the continent, but 70 percent of the revenues they generate come from just six subsectors: oil and gas, mining, retail and consumer goods, financial services, manufacturing, and telecommunications.

Data for African countries and cities reveals great diversity among them, and Africa-level statistics for large companies show similar significant variation—here, too, there is no "one Africa." Roughly 40 percent of the 345 companies are based in South Africa, a disproportionately large share relative to its GDP. Of the 147 large companies headquartered there, 118 are homegrown while the rest are foreign owned. This suggests an opportunity to expand the corporate footprint in other African countries.

An additional 32 percent, or 111 companies, are in other slow grower or recent slowdown economies. The number of companies in the largest of these economies—Algeria, Angola, Egypt, and Nigeria—is in line with similarly sized economies around the world such as Brazil, China, and India, but still far lower than South Africa's 147 large companies. For example, Egypt's GDP is four-fifths the size of South Africa's, but the country is home to only 33 large companies, or one-fifth the number of companies in South Africa. Nigeria's GDP is larger than South Africa's, but only 23 large companies are headquartered there—just 16 percent of the number of large companies in South Africa.

Surprisingly, recent accelerator and consistent grower countries—those where GDP grew more than 4.2 percent from 2010 to 2019—are home to few large companies. The countries in these clusters account for 28 percent of Africa's nominal GDP but have only 10 percent of its large companies. This is likely because on a stand-alone basis, these countries are smaller markets.

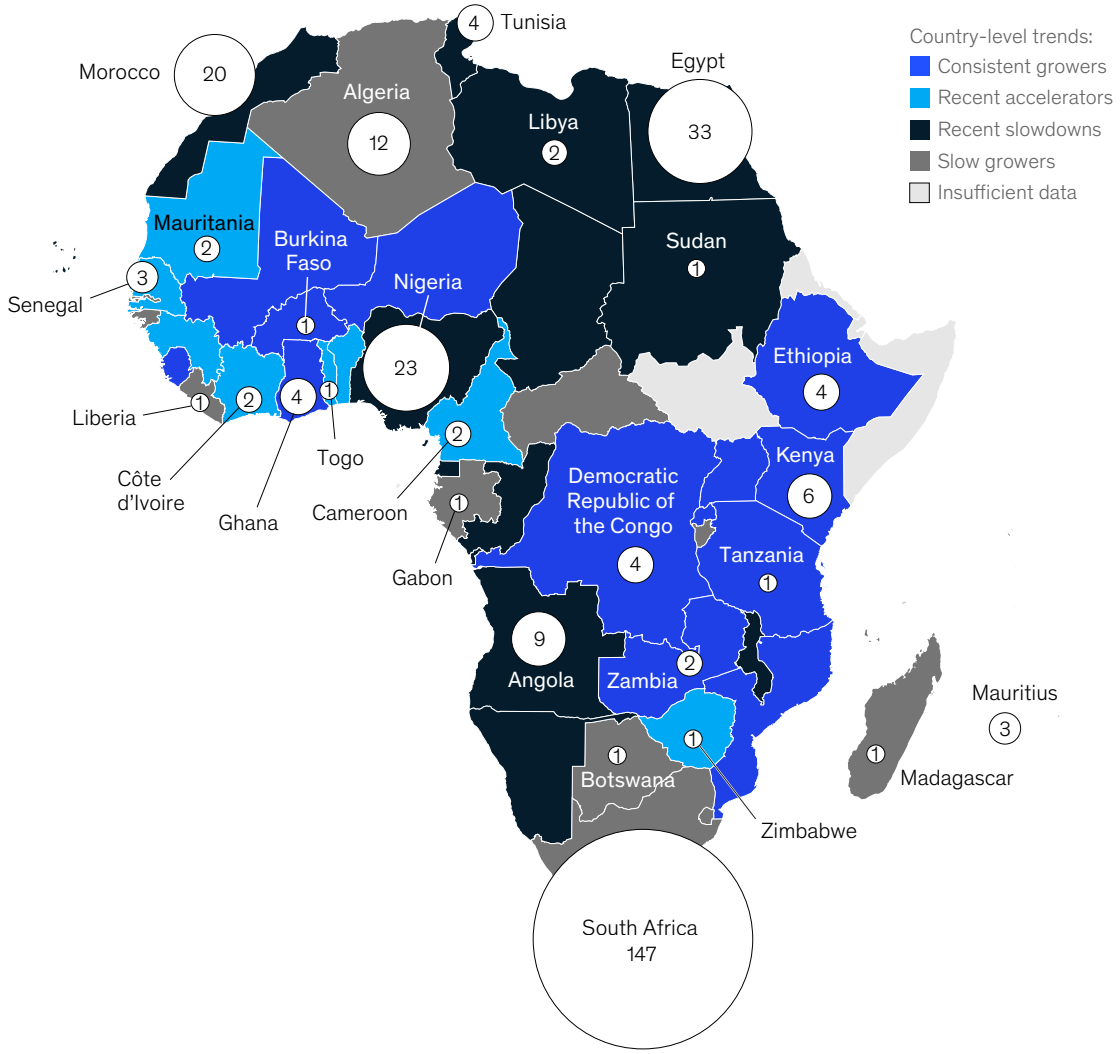
[26] For data from 2015 to 2019, see *2019 Africa tech venture capital report*, Partech Partners, January 2020; for data from 2020 and 2021, see *The African tech startups funding report*, Disrupt Africa, 2021.

[27] Weighted by company revenue share of aggregate revenue for companies with more than $1 billion in revenue for which data is available.

Exhibit 14

Africa has at least 345 companies with revenues of $1 billion or more, roughly 40% of which are headquartered in South Africa.

Number of $1 billion+ companies by country[1]



The boundaries and names shown on this map do not imply official endorsement or acceptance by McKinsey & Company.
[1]Excluding 54 foreign companies with no particular base in any African country.
Source: McKinsey African Companies Database; McKinsey Global Institute analysis

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Roughly half of large homegrown companies are publicly traded, 30 percent are privately owned, and the remainder are state-owned enterprises. The rest of the large companies operating in Africa are subsidiaries of foreign firms, roughly 37 percent of which are publicly traded and the remainder private, including a few state-owned enterprises primarily from China. Compared with other markets, foreign-owned companies have a disproportionately significant role in African countries. They account for one-third of all large companies in Africa and roughly one-third of corporate revenues as well. Given the relative significance of these institutions, foreign firms could work to become more entwined in the fabric of the African business economy and operate more as homegrown companies than as subsidiaries of global giants. Previous McKinsey research has found that winners in Africa often tailor their offerings and business models to the markets where they operate and build local teams and talent pools.[28]

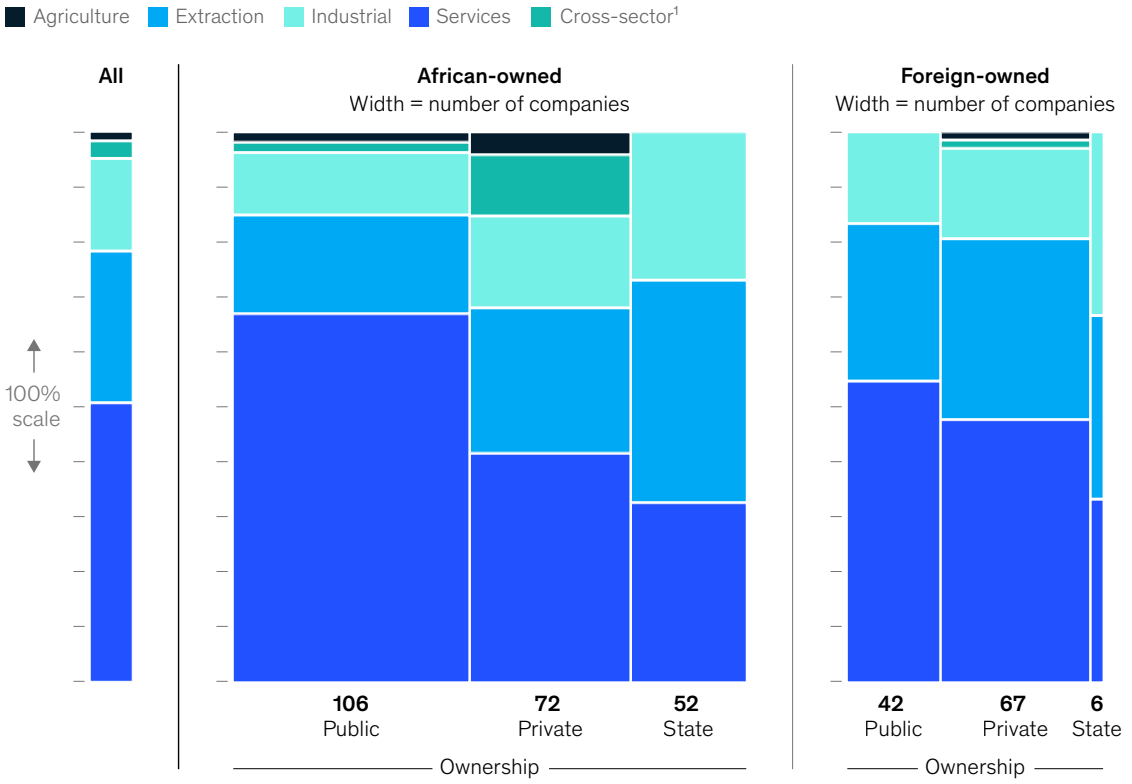
The ownership structure of companies also varies by sector. Large homegrown and foreign public and private companies are concentrated in services, while state-owned enterprises are more involved in extractive industries (Exhibit 15).

[28] *Dance of the lions and dragons: How are Africa and China engaging, and how will the partnership evolve?* McKinsey & Company, June 2017; and *Africa's business revolution*, 2018.

Exhibit 15

Across Africa, the distribution of sectors varies by ownership.

Distribution of large companies by sector (%) **and ownership** (#)



[1]Cross-sector includes large conglomerates operating across multiple sectors.
Source: McKinsey African Companies Database; McKinsey Global Institute analysis

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Performance of Africa's large companies varies

The performance of large companies in Africa varied dramatically between 2015 and 2021, a period that included a global commodities downturn and the onset of the COVID-19 pandemic. Proportionally, the number of large corporations on the continent shrank compared with those in other regions and countries. We estimate that since 2015, Africa has lost 16 percent of its businesses with revenues exceeding $1 billion (only one-tenth of the loss was due to exchange rate effects) and added 9 percent more new large firms—resulting in a net decrease in large companies. Some 50 percent of the large companies that closed, were acquired, or had declining revenue were in the services sector, with 19 percent in extractive industries and 18 percent in manufacturing, construction, and utilities. In comparison, Latin America has had a 31 percent increase in large firms since 2015, and China and India, respectively, attracted 57 percent and 30 percent more companies with revenues of more than $1 billion.

Nonetheless, the continent's large companies in aggregate grew revenues by 4.9 percent annually on average from 2015 to 2021. Certain types of companies, though, performed better than others. Specifically, South African companies increased revenues at an average rate of 5.5 percent a year, and North African companies by 4.4 percent a year. Companies in the rest of Africa fared far less well. Their revenues declined by 1.7 percent on average over that period, as exchange rates fell. Currency values fell 16 percent on average in South Africa and 80 percent across North Africa, while across the rest of the continent, they fell on average by 189 percent (Exhibit 16).[29]

Additionally, the revenues of homegrown companies grew slightly faster than those of companies in Africa with headquarters elsewhere, by 5.5 percent and 4.4 percent, respectively. Companies in consistent grower economies increased revenues at a rate of 2.2 percent on average, which was slower than companies grew in other clusters. Revenues of companies in the recent accelerators cluster grew 5.6 percent, those in recent slowdowns grew 4.1 percent, and large businesses in slow growers grew 5.3 percent.

Across sectors and on a weighted basis, the best-performing sectors were power and utilities, agriculture, and mining, each of which increased revenues more than 10 percent annually on average. Revenues in sectors such as IT, financial services, and retail and consumer goods grew more than 4 percent. Oil and gas companies, which outnumber firms in all other sectors, faced significant price headwinds and so were an exception as their revenues declined by more than 1 percent annually on average.

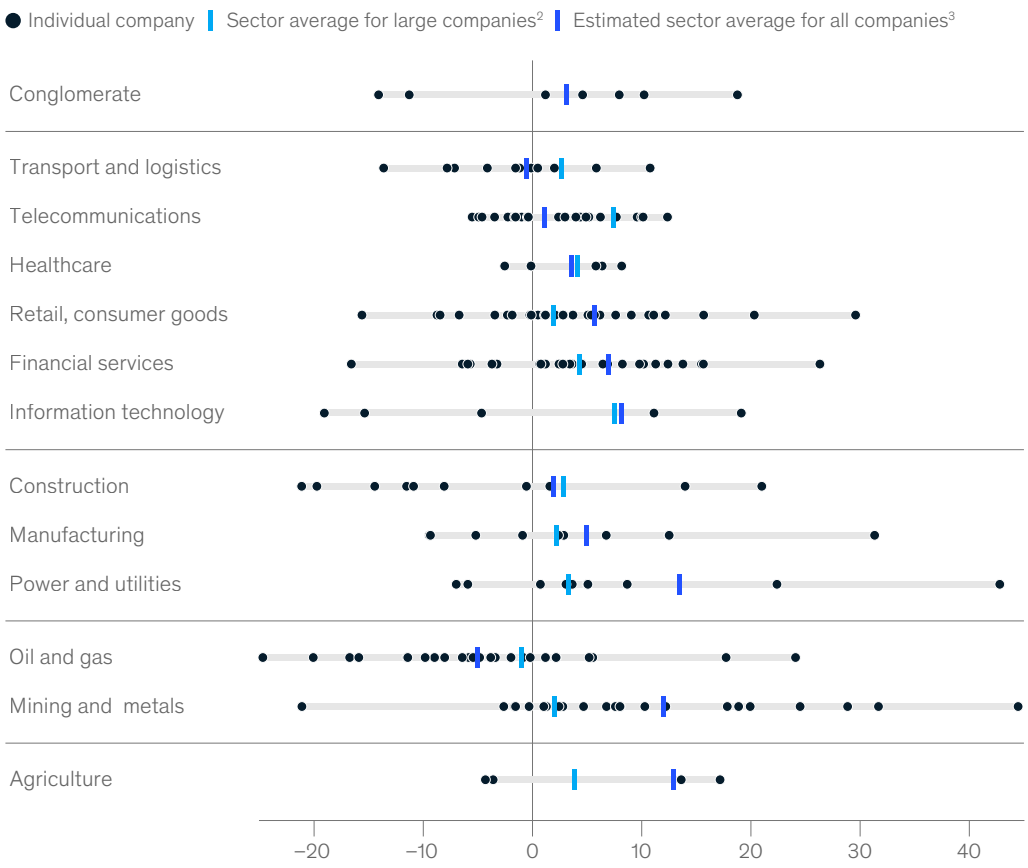
However, variation in growth within sectors dwarfed variation in growth between sectors, suggesting potential to improve average firm performance across all sectors. In nearly every sector, at least one large company's revenue grew at more than twice the average sector growth rate from 2015 to 2021—and sometimes by much more. Similarly, at least one large company in every sector except healthcare had revenues that declined more than 5 percent per year.

[29] The change in exchange rate by region was calculated as the unweighted average of the percent change of exchange rate (local currency units per dollar) from 2015 to 2021 of countries in each region. Local currency growth rates were higher and, accordingly, resulted in falling growth rates due to depreciation that took place in most markets.

Exhibit 16

Companies are growing at diverse paces within each sector, but average growth rates remain close across sectors.

Change in companies' CAGR by sector,[1] 2015–21, %



[1]Includes 190 companies with revenue data available for 2015 and 2021. Of those companies, 169 remain among Africa's 345 companies with $1 billion or more in revenues. Twenty-one others had $1 billion or more in revenues in 2015 but their revenues have since declined below that level. Two media firms with over $1 billion in revenue are not shown for low sample size.
[2]Large company sector average is weighted by 2021 revenue share and includes the 190 companies w revenue data available.
[3]Overall sector average growth rate estimated based on growth rate of sector value add.
Source: McKinsey African Companies Database; Oxford Economics (for value added)

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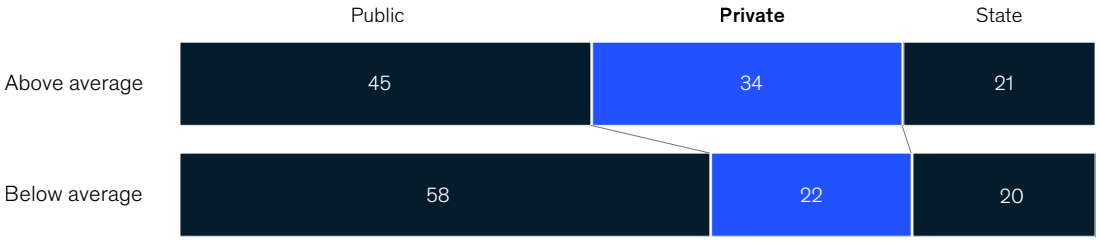
Exhibit 16 (continued)

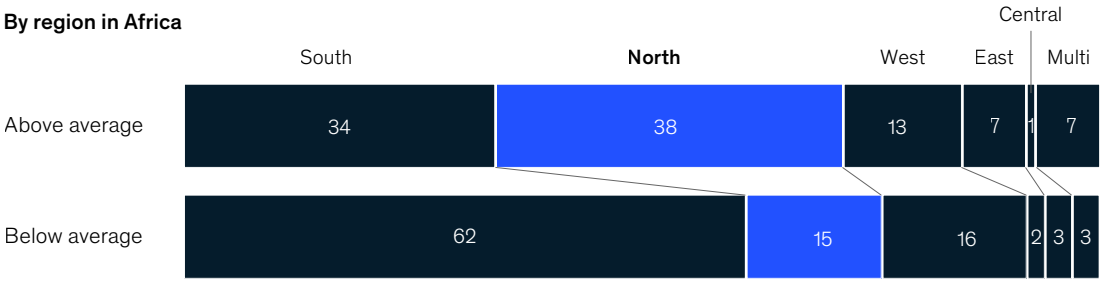
The companies with revenue growth faster than the average were disproportionately private and located in north Africa.

Distribution of companies whose revenue CAGR over 2015–21 was above or below average, %

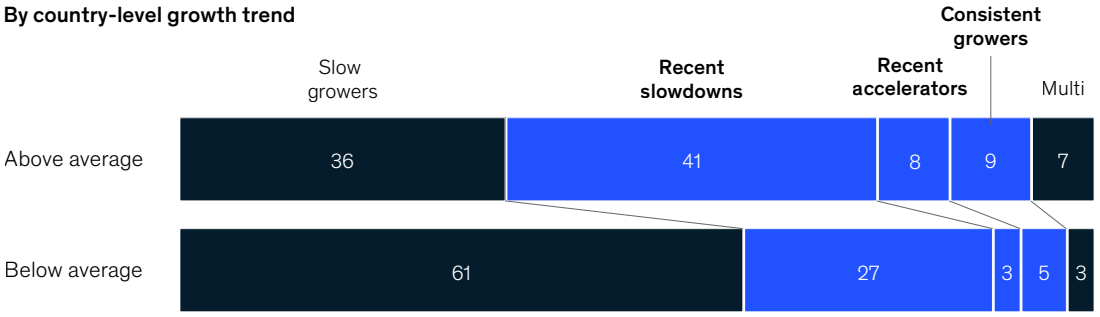
By ownership



By region in Africa



By country-level growth trend



[1]Compared with 2015–21 revenue growth.
Source: McKinsey African Companies Database; McKinsey Global Institute analysis

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Significant value creation opportunities exist

As GDP growth recovers in many parts of the continent, large companies have considerable potential for value creation. We estimate that more than half of the 345 large companies in Africa could increase their revenues collectively by more than $550 billion by 2030 with ambitious strategies to access new markets, strengthen productivity, and increase operational efficiency.[30] Sixty percent of Africa's large companies are based in Egypt, Nigeria, and South Africa, so the continent's smaller, faster-growing nations represent a promising next horizon for new business growth.

While all sectors on the continent have growth opportunities, companies in the services sector could capture 60 percent of the overall revenue potential, or $330 billion, while the oil and gas subsector could produce nearly one-third, or $160 billion. About 12 percent of the potential, or $65 billion, could come from mining and metals.[31]

Companies can begin by looking closely at their geographic and product portfolios and prepare to reallocate capital to the fastest-growing countries and cities as well as the highest-return opportunities. For example, opportunities exist to serve both B2B and B2C markets; 130 million new members of the consuming class will join Africa's markets by 2030, making B2C a promising opportunity (see Box 4, "Africa has the potential to unlock more than $3 trillion in consumer spending—but this will take more than a growing population").

An important enabler of corporate growth will be partnerships with stakeholders ranging from African governments to local communities to investors. Successful partnerships will incorporate environmental, social, and governance goals and metrics, helping companies support and enhance the societies they operate in and embrace sustainability and inclusion to propel growth. To capitalize on those opportunities, companies across all sectors will need to improve their competitiveness. Many of them can adopt leaner, simpler operating models; invest in building capabilities among their future leaders; adopt a digital-first approach to replace legacy systems with technology platforms; and harness analytics to identify growth pockets and reduce costs.

Across all sectors, five key common levers for growth emerge. First, companies can envision themselves as African champions, creating value first and foremost for Africa and its people. For instance, mining companies could build more robust mineral refining and processing operations to capture the full value of the continent's natural resources. Second, companies can integrate more into the world. For example, homegrown manufacturing companies could look beyond continental borders to find new markets and cheaper suppliers or to bring in new technologies. Third, companies can address needs in their local communities more actively. For example, banks and telecom operators can expand access to financial services at the bottom of the pyramid through digital channels. Fourth, companies can work more closely with governments and policy makers, for example in the way that businesses came together to support government effectively during the COVID-19 crisis in countries like Nigeria and South Africa. Last, companies can prioritize the energy transition. For instance, oil and gas companies could work to decarbonize their operations to meet the world's climate-change goals and attract increased capital investment.

[30] The potential to deliver $550 billion in additional revenue by 2030 was identified across seven sectors: oil and gas, retail, telecommunications, banking, manufacturing, consumer packaged goods, and insurance.

[31] Capturing the revenue opportunity in the mining sector is not straightforward and is highly contingent on certain assumptions (for example, regarding infrastructure) becoming true.

Box 4

Africa has the potential to unlock more than $3 trillion in consumer spending—but this will take more than a growing population

Tens of millions of new consumers emerge in Africa every year, as its population grows and the continent urbanizes. By 2030, some 130 million additional people are likely to enter the consuming class; by comparison, India is expected to add 140 million new consumers over the same period, the United States 25 million, and China six million.[1] Europe's consumer base is expected to shrink by five million.

Increasing consumer spending has made the biggest contribution to Africa's GDP growth over the past two decades and has the potential to help boost growth over the next ten years as well. It also provides an opportunity for businesses to create value, by offering affordable prices at scale, targeting expansion in growth hot spots, and innovating within local value chains.

There is, again, no "one Africa" consumer market. The largest consumer segment in Africa spends between $2 and $11 a day. This group accounted for 31 percent of consumption in 2019. Spending on basic goods and services as well as food, housing expenses, and transportation accounted for more than 60 percent of consumption on the continent, spending that is now under pressure from inflationary headwinds.

However, consumer patterns diverge across clusters and countries. Discretionary spending accounted for most of consumption growth over the past decade in the more mature economies of recent slowdowns and slow growers. Consumers in consistent growers and recent accelerators spread their activity across basic and discretionary spending.

Because Africa still lags behind other regions in consumption, vigorous productivity and wage growth are needed to accelerate increased consumer spending in Africa and to continue to reduce the number of people below the empowerment line (Exhibit 17). Growth in consumer spending decelerated in the most recent decade, dropping to 3.3 percent annually on average from an average annual growth rate of 5.8 percent between 2000 and 2010. In the first ten years of the millennium, rising average incomes accounted for two-thirds of growth in consumption, and population growth for the remainder. As continent-wide growth stalled between 2010 and 2019, rising incomes represented only 24 percent of the increase in African consumption, while population growth drove the lion's share—a reminder of the potential embedded in Africa's future consumption, especially if a rise in income levels accompanies population growth. Nonetheless, even if the slower overall consumption growth of the past decade persists, the growth of Africa's consumer market to 2030 will exceed $600 billion, taking the total market to $2.2 trillion. If average consumption growth were to return to the rates of the "rising decade" from 2000 to 2010, consumption would grow by $1.3 trillion, taking the total consumer market on the continent to almost $3 trillion.

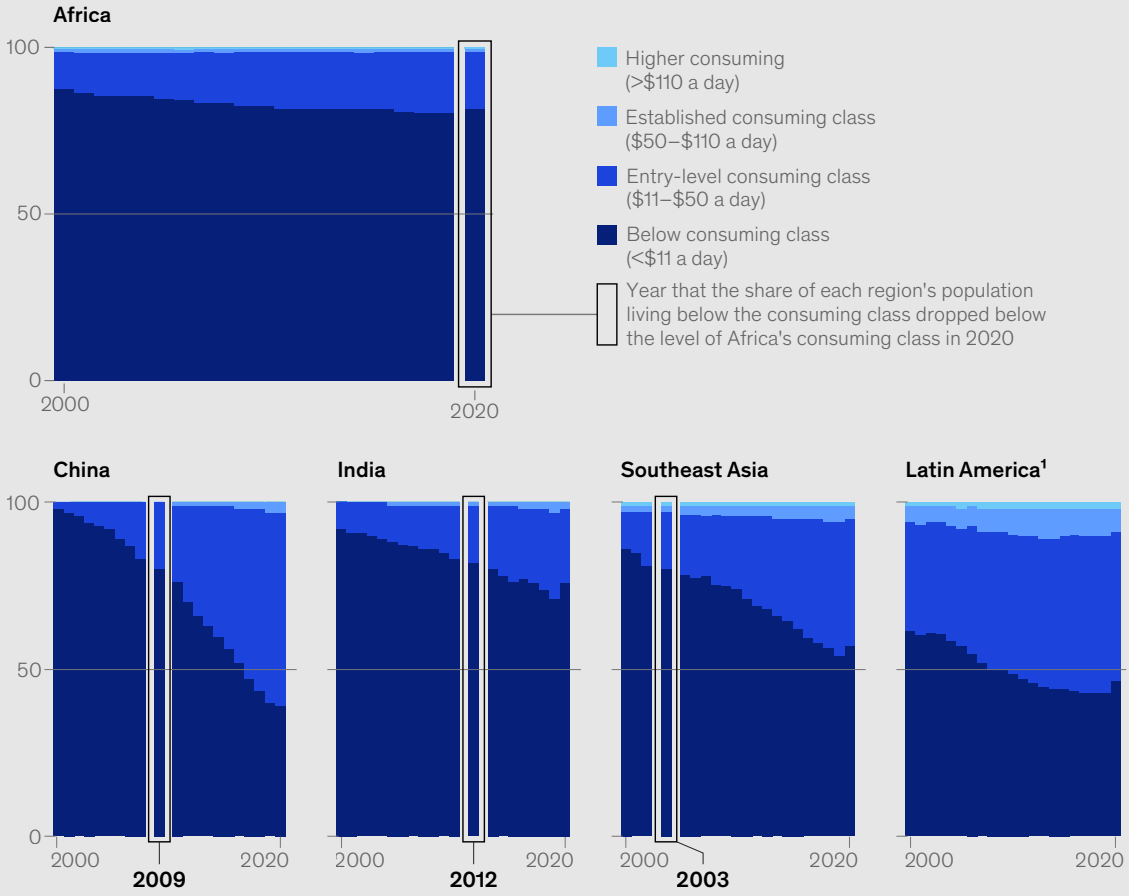
See exhibit next page

[1] The consuming class is defined as those with daily spending of $11 or more.

Exhibit 17

Consumption in Africa lags behind other developing regions, in part because more people on the continent live in poverty.

Distribution of developing regions' population by consumer segments, 2000–20, %



[1]The share of Latin Americans living below consuming class was already lower than Africa's 2020 level at the beginning of this time series.
Source: World Data Lab

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Fostering productive growth in Africa: Opportunities for African businesses and governments

Going forward, productivity must be the foundation of economic growth on the continent. Africa can no longer rely on growth determined by the vicissitudes of the global demand for commodities and export markets. Its complex, multifaceted diversity and thriving demographics are assets that can be developed and fostered to support a productivity-led economy. Our analysis, together with our work with companies and public agencies across the continent, identifies ten practical ways businesses and governments can improve productivity and restore economic vitality while bettering the lives of all Africans.

1. **Pivot from a focus on growth for growth's sake to a focus on productivity.** The continent has made an impressive shift from agriculture and extraction to services, yet its productivity lags behind that of global peers across all sectors. Restoring the levels of productivity growth Africa experienced from 2000 to 2010 would be a good first step, but the continent can go even further, given its talent base. Setting targets and tracking not only economic growth but also productivity by sector will help African leaders implement and execute concrete plans to drive broad-based productivity-led growth.

2. **Fully embrace digital technologies and systems in all areas of the economy.** Across all sectors, but particularly in services, countries and companies can close the competitiveness gap with their emerging-market peers by rapidly deploying digital innovations at scale. Digital products and services can enhance customer experience, drive innovations, and improve productivity in ways that solve real problems in African societies. More and better data and data analytics can help companies identify growth opportunities and tailor offerings across a diverse continent where clients and consumers in different countries have differing needs. Additionally, building and owning proprietary data analytics is a large opportunity in Africa's data-scarce environment. For governments, leveraging digital can stimulate productivity, accelerate economic growth, improve citizen experience, increase revenues, and reduce costs and leakages in the system.
3. **Develop African talent to serve Africa and the world.** This is a crucial step to unlocking productivity because a highly skilled and enabled workforce can do more with less. Creating more relevant educational curricula, training employees to build the skills and knowledge Africa needs, linking talent with job opportunities, and empowering entrepreneurs will enhance the continent's workforce and produce next-generation leaders. Local employees also understand the specific needs of local customers, which is important given the continent's diversity. Digital skills will be important to develop among the continent's young talent, especially since companies around the world, particularly in countries with aging demographics, will increasingly turn to Africa as a source of talent. Indeed, African talent could become the continent's largest export—and given shifts we are seeing in how work gets done, this talent may not need to leave the continent to fulfill this demand.
4. **Reimagine manufacturing for domestic consumption and for export in a competitive way.** Producing goods for domestic consumption is critical. Countries and companies could target promising areas for growth where local and regional demand and the need for self-sufficiency justify investment, such as agro-processing, vaccine manufacturing, and refining of key minerals. However, for Africa's industrial sector to thrive and see sustainable growth, it must improve its productivity and become globally competitive. Africa also could focus on growing its share of global manufacturing exports, building on successes like automotive exports from Morocco and South Africa. Increasing the addition of value locally to its raw minerals before exporting them is one way to achieve this. Building the infrastructure to produce more domestically and to enable exports across the continent will also enhance the resilience of African companies.
5. **Increase regional connectedness.** Africa trades far more with other countries than with itself, and increasing intra-Africa trade is critical because it could become a strong driver of accelerated growth. Investing to lower costs of transportation and coordinating tariffs and regulations across the continent are key enablers of productivity in trade. Having more coordinated and aligned strategies across countries and regions, such as pharmaceutical manufacturing strategies that span countries in East Africa or West Africa, can build resilience and improve productivity. The African Continental Free Trade Area that came into force in 2019 presents an important opportunity—and could apply insights from established models such as the North American Free Trade Agreement, the European Union, the Association of Southeast Asian Nations, and others. Similarly, Africa can better leverage its Regional Economic Communities to support collaboration across national boundaries that will increase productivity and economic growth.

6. **Invest to enhance resource productivity and tap into new opportunities.** While exports, productivity, and proportion of value added to the African economy by many extractive industries declined from 2010 to 2019, extraction will be a part of the continent's development going forward. Investment is therefore needed, for example in digital technologies and automation, to raise the sector's productivity. More broadly, as the world undertakes the energy transition, the types of natural resources it needs are changing, and Africa is well positioned to become a significant supplier. The continent's rich stores of cobalt, copper, lithium, and other metals and minerals are already in demand for everything from the batteries that power electric vehicles to electric grids. Benefiting from both newly sought-after and traditional resource exports is, however, not a given. Lessons learned from Africa's historic reliance on extraction can be used to institutionalize best practices and strengthen governance to ensure that resource wealth is directed to minimizing the sector's impact on the environment, improving worker safety, and spreading prosperity more broadly throughout African society.
7. **Explore opportunities to benefit from the global net-zero agenda.** While climate change presents new challenges to growth in Africa, the world's transition to net zero also brings opportunities for the continent, from supplying the minerals we noted previously to green hydrogen to green manufacturing and business building in addition to carbon credits. Capturing these opportunities will not be trivial, and it will require efforts to structure bankable projects, secure capital, and build technical know-how. Countries in Africa are also considering their own net-zero trajectories and how to grow their economies by following a low-emissions development pathway. Done well, this could deliver benefits such as expanded energy access, reduced air pollution, and improved urban and transit mobility in a way that is affordable and reliable and supports economic development. However, some substantial challenges will need to be carefully managed. The transition should expand energy access in a way that is affordable and reliable and supports ongoing economic development. Given the strained fiscal headroom of many African countries and the costs and uncertainties of many new climate technologies, large-scale support is needed to catalyze capital for investment in climate projects and to bolster vulnerable communities whose livelihoods may be affected by the net-zero transition.
8. **Spur the agricultural transition by improving farming productivity.** Agriculture provides almost half of Africa's employment and is crucial to the continent's food security, so improving the sector's productivity is important to lives and livelihoods. Enhanced regional communication and collaboration can identify the best locations for growing particular crops to improve productivity, coupled with efforts to produce higher-value crops. Rationalization of crop production can be complemented with the development of a world-class trading and warehousing system to more efficiently reach consumers on the continent as well as in export markets. Smart financial solutions making use of futures markets and hedging can support such steps and help farmers hedge against climate shocks and global trade disruptions.

9. **Increase and improve urban infrastructure in Africa's primary and second cities.** Africa's largest cities can close significant gaps in urban infrastructure—transportation, power, water, and sanitation—through more coherent land use planning that incorporates climate adaptation measures and by embracing the use of digital technologies. Public and private leadership will be needed to support the development of infrastructure, which will pay off by increasing the productivity of urban populations and businesses. Better roads and public transportation, for instance, mean less time spent in transit and more time on the job.
10. **Grow and cultivate African business champions.** Thriving corporations are key to achieving strong economic growth across the continent. Large companies fuel supply chains, attract and develop talent, and otherwise contribute to the economies in which they operate in ways that can further enhance economic growth and productivity. Efforts to build and support business champions on the continent could include plans to "spread the wealth," since today, a big proportion of large companies are based in South Africa. Companies across the continent can capture Africa's $550 billion revenue opportunity over the next decade by working to better penetrate existing and new markets, restructuring and reinvesting in their portfolios to foster greater productivity, and partnering more effectively with their various stakeholders. Governments can nurture industries by putting in place environments that enable companies to scale and providing the relevant incentives to support them. As these large companies grow, they can better support their supply chains of small and medium-size enterprises, where the bulk of employment is today, and drive productivity across corporate ecosystems.

The time to act is now. Africa's decision makers in the public and private sectors are faced with an unprecedented opportunity to rekindle growth and set the continent back on a path of strong sustainable and inclusive development. This will not be easy: it will require innovation, investment, and collaboration, particularly given the challenges of climate change and the energy transition as well as the ongoing effects of COVID-19 and the global slowdown. But it is an essential transformation, for the vitality of the continent and the well-being of the wider world.

By recognizing that there is no "one Africa" but rather an array of diversified and divergent strategies for success, leaders can show the way. Governments and businesses across the continent can act decisively to maximize Africa's services opportunity, boost trade and industrialization, transform cities, reimagine agriculture, roll back poverty, and build vibrant economies. This report is a contribution to that vital endeavor and a clarion call for sustainable, inclusive growth.

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