



**THE NEW URBAN AGENDA AND DEMOGRAPHIC DIVIDEND:
INVESTMENTS FOR AFRICA'S YOUTH**

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FOREWORD

Africa's population growth is surging in urban areas. Growth in cities comes from two sources: the increase in urban population growth and migration from rural areas. Moreover, as Africa's urban centers expand, population growth is mainly concentrated among young people. Aware of the growing importance and size of youth populations in cities, when drafting the New Urban Agenda (NUA) at the U.N. Conference on Housing and Sustainable Urban Development (Habitat III) in Quito, Ecuador, in October 2016, U.N.-Habitat met with groups of youth across the continent to inquire on the urban future they wish to see. During the meetings, young people raised issues around housing, sustainable transport, and most importantly, employment.

Job creation in Africa has not occurred quickly enough to keep pace with the youth population. If left untamed, rising youth unemployment can create perplexing challenges for the continent, including a potential increase in extremist terrorism. Achieving the Sustainable Development Goals, as well as the African Union's Agenda 2063, will fully depend on the capacity to generate employment and other opportunities for all young people, assuring them the opportunity to secure their rights, advance their potential, and create shared prosperity and a more sustainable future for us all.

One of the factors that perpetrate youth unemployment in Africa is the misalignment of skills. Young people in Africa are not always equipped with the skills that the existing jobs in their countries require. Agenda 2063 vows to "support young people as the drivers of Africa's renaissance". This entails investing in their health, education, access to technology, opportunities and capital in order to fight youth unemployment and underemployment. Notably, Agenda 2063 vows to work toward the elimination of youth unemployment, by guaranteeing Africa's youth full access to education; training, and skills, in the aim to close the existing skills gap. One of the methods to be used toward this goal is fostering stronger links between the thriving industries in the continent and labor markets.

In simultaneously dealing with the challenges brought about by growing cities, increasing population sizes, and burgeoning youth unemployment, African decision makers must find creative ways to harness the demographic dividend to transform such challenges into growth opportunities. How can African policy makers transform the demographic dividend from a challenge into opportunity? Which skills do African industries require and which policies can address the skills mismatch? How urban growth harness the demographic dividend to remedy the challenges of youth unemployment?

This report summarizes Africa's rapid and idiosyncratic urbanization and the challenges and opportunities such kinetic growth present to implementing the NUA, realizing Sustainable Development Goal 11 on sustainable cities and communities, and fulfilling Agenda 2063's Aspiration 6 on empowered and engaged youth. It further highlights policy intervention areas that would harness the forces of urbanization to capitalize on Africa's demographic dividend and advance sustainable development.

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EXECUTIVE SUMMARY

Africa's youth are key forces of sustainable development. Indeed, both the African Union's (AU) Agenda 2063 and United Nations' 2030 Agenda for Sustainable Development identify youth as key partners of sustainable development, though the youth empowerment agenda is often set aside as part of the social inclusion agenda than the structural transformation one. Two of the region's megatrends, urbanization and demographic transition, call for a paradigm shift toward youth-centered sustainable development. First, Africa is quickly urbanizing, primarily due to natural population increase in cities and peri-urban areas. Second, its youth constitute a large share of the continent's population, with 43 percent of the African population aged under 14 years old (World Development Indicators, 2016). Africa must prepare itself for reaping the socio-economic benefits of its demographic dividend and leverage forces of urbanization to deliver the much-needed job creation and structural transformation of African economies.

The demographic trends above present both opportunities and challenges for Africa's policymakers and development partners. On the one hand, the ample supply of a youthful population presents Africa with a dynamic, collaborative, flexible, and forward-looking labor force, which is the premise of Africa's demographic gift. At the same time, urbanization has immense potential to be a catalyst of youth empowerment and structural transformation efforts. If ill managed, on the other hand, the combined forces of youth unemployment and growing urban inequalities and poverty threaten social development in Africa, making youth more susceptible to social ills such as crime and terrorism, as well as spurring the exodus of Africa's youth to the Middle East and Europe, risking their lives in search of better economic opportunities.

Globally, nations expressed their commitments to readdress the way they plan, manage, and finance urbanization at the U.N. Conference on Housing and Sustainable Urban Development (Habitat III) in October 2016 in Quito, Ecuador. The African Urban Agenda program (AUA)¹ aims to address Africa-specific urbanization challenges and seize the opportunities urbanization, the demographic dividend, and regional integration bring to realize the aspirations of Agenda 2063; the SDG on sustainable human settlement (Goal 11), and the implementation of the New Urban Agenda (NUA).

To discuss these challenges and ways forward, high-level African policymakers, urban experts, representatives from the private sector, youth, and academia gathered at the U.N. expert group meeting on "The New Urban Agenda and Demographic Dividend: Investments for Africa's Youth," in Dakar, Senegal, in March 2017. Participants unanimously agreed that these two trends can be dealt with in tandem by mainstreaming a youth empowerment agenda into various structural transformation and sustainable urban development agendas.

The NUA, Agenda 2063 (particularly aspiration 6 on advancing people driven development and unleashing the potential of women and youth), and the AU's roadmap for harnessing the demographic dividend provide guidance on areas of intervention for youth empowerment. The AU roadmap for harnessing youth potential (and its four main intervention areas of employment and entrepreneurship; education and skills development; health and well-being, and rights and empowerment of youth) gives focus to Agenda 2063's goal 6. The African Urban Agenda, ahead of U.N. Habitat Conference in 2016, urges the need to shift global commitment from one that affirms cities as sites of sustainable development to an agenda that sets out appropriate response to the African urbanization megatrend, acknowledging the centrality of cities as urban

¹ According to UNHABITAT, "Inspired by the strategy document "Optimizing the Urban Advantage", which emerged from the fourth edition of the African Ministerial Conference on Housing and Urban Development (AMCHUD4) in 2012, and guided by the African Union's Agenda 2063, the Africa Urban Agenda Program (AUA) aims to raise the profile of urbanization as a force for the structural transformation of Africa."

pathways of national and global development, notably focusing on urban-rural linkages, the deep poverty of many in African cities and the aspirations of the youth on the continent.²

This report has two goals. First, it summarizes the peculiarities of Africa's urbanization pattern and the challenges and opportunities it presents to the implementation of the NUA. Second, it highlights policy intervention areas for forces of urbanization to harness Africa's demographic dividend and facilitate sustainable development.

² U.N. (2015), Towards An Africa Urban Agenda, United Nations Human Settlements Programme (UN-Habitat) and United Nations Economic Commission for Africa (UNECA)

1. BACKGROUND

British economist Thomas Robert Malthus was the first to propose a methodical theory of population. In his 1798 book, *Essay on the Principle of Population*, he generated a thesis on the relationship between income growth and population growth, indicating that food production grows at a much slower rate than population. Moreover, Malthus argued that slow technological change coupled with fixed resources for food growth causes food production to be constrained by a rapidly growing population; consequently, food availability declines below subsistence levels, and the emergence of a high death rate puts a halt to high population growth (Malthus, 1798).

Danish agricultural economist Ester Boserup presented a more optimistic population theory, which rivaled that of Malthus. In her book, *The Condition of Agricultural Growth*, she stated that in order to adapt to increased population pressure, farming methods evolve and technological change ensues (Boserup, 1981). One example of Boserup's theory is the green revolution of the 1960s, in which the invention of improved seeds and modified crops, as well as the expansion of farming areas, served as an answer to growing population and food scarcity (Rahman, 2004). Where Malthus failed to account for technological change under adversity, Boserup saw it as a result of population pressure and as a solution to finiteness resources on which Malthus bases his theory.

In addition to Malthus's pessimistic theory of population and Boserup's optimistic one, there exists a third school of thought on the topic: the "neutralist" theory in which population growth does not have an effect on economic growth. Adherents to this theory find that, when analyzing the relationship between population growth and economic growth, the positive or negative correlation found disappears once factors such as country size, trade openness, educational attainment, and institutional quality are controlled for (Bloom, Canning, & Sevilla, 2003). As scholars have debated the relationship between demographic change and growth, the discussion on ways to capture the demographic dividend—the direct result of population growth—was born.

The demographic transition starts with a decline in mortality rates, followed by a decline in fertility rates.³ The period between the two declines, commonly referred to as a period of incomplete demographic transition, sees high population growth (which later translates to a large workforce) and when combined with job creation and other interventions, the capture of the demographic dividend⁴ ensues. For example, East Asia demonstrated a successful harnessing of the demographic dividend. From the 1950s onward, the region saw a large decline in child mortality as a result of health, water, and sanitation improvements. As the region's baby boomers entered the workforce in the late 1960s, the dependency ratio shifted. The demographic change, coupled with a good educational and a liberalized trade environment, increased the region's productive ability. Between 1965 and 1990, per capita income in the region grew by 6 percent annually (Bloom, Canning, and Finlay, 2010; Bloom, Canning and Sevilla, 2003).

A demographic transition comes with a number of shifts. In addition to the decrease in fertility and mortality rates mentioned previously, urban change often accompanies the demographic transition. As populations grow, they also shift from living in rural areas to living in urban areas. This trend comes with a number of challenges and opportunities. On one hand, urban areas put some stress on land, air, and water resources—which follows Malthus' theory on the

³ These processes of mortality and fertility declines, commonly referred to as mortality and fertility transition, form integral parts of the demographic transition.

⁴ The demographic dividend is the period in which the working-age population is much larger than the dependent population (i.e., children and elders).

pressure put on resources as populations grow. On the other hand, urban markets present large pools of labor markets and goods and services markets that can create employment for the growing working-age populations, thus assisting countries in harnessing their demographic dividend (Bloom, 2016).

Over the next 40 years, the African continent will simultaneously experience a demographic dividend and city expansion (Population Reference Bureau, 2017 and AfDB, 2012). Presently, 50 percent of Africa's population is below the age of 19 year old, and the continent will be predominantly urban by 2035 (U.N.-Habitat and UNECA, 2015). Implementers of the New Urban Agenda⁵ must find ways to take into account the growing young population and the implications of the interlinkage of demographic dividend and city expansion. Adopted during Habitat III in Quito, the New Urban Agenda commits “to harnessing the urban demographic dividend, where applicable, and to promoting access for youth to education, skills development, and employment to achieve increased productivity and shared prosperity in cities and human settlements.” The declaration recognizes that cities are under a lot of pressure from unsustainable consumption and aims to reconcile city development with increased opportunities for young people (United Nations, 2017).

African leaders have increasingly recognized that the demographic dividend at the country level is central to the continent's economic transformation in the context of the African Union Agenda 2063—the group's strategy for Africa's socioeconomic transformation in the next five decades (African Union, 2014, UNFPA, 2017). Indeed, Africa's youth is an asset and will be a determinant of Africa's development trajectory. Thus, in January 2016, the African Union (AU) General Assembly announced that 2017 would be the year of “Harnessing the Demographic Dividend Through Investments in Youth.” After that meeting, the AU prepared a roadmap to guide countries toward investing in their young population and harnessing the demographic dividend (African Union, 2017). In 2017, a number of reports examined various aspects of Africa's demographic dividend, including the 2018 World Development Report, Africa's Pulse, the Africa Competitiveness Report, and the 2017 African Economic Outlook.⁶ This report aims to contribute to the ongoing dialogue by exploring pathways to reap gender, education, and skills dividend through inclusive and sustainable urban development and productive job creation in Africa.

⁵ See Appendix for broader discussion of the New Urban Agenda.

⁶ World Bank 2018. World Development Report 2018: Learning to Realize Education's Promise. Washington, DC: World Bank.

World Bank Group. 2017; Africa's Pulse, No. 16, October 2017. World Bank, Washington, DC. AfDB, OECD, UNDP 2017. African Economic Outlook 2017: Entrepreneurship and Industrialization.

2. THE NEW URBAN AGENDA, DEMOGRAPHIC DIVIDEND, AND INVESTMENTS IN YOUTH

The New Urban Agenda (NUA) adopted at U.N. conference on Housing and Human Settlements (Habitat III) in Quito, Ecuador in October 2016, aims to strengthen forces of urbanization to bring sustainable economic development, including harnessing the demographic dividend, through the promotion of inclusive urbanization and poverty reduction; urban economic development and prosperity; and environmentally sustainable and resilient development for all.

The New Urban Agenda envisions equal access to economic and productive resources (such as housing, land, and basic services and infrastructure) and opportunities (such as full and productive employment and decent work) for all. The agenda extensively acknowledges the role that well-planned urbanization plays in bringing sustainable development and structural transformation and promotes urban agglomeration economies through an enabling policy framework (particularly planning and management of urbanization) and improved provision of means of implementation (by providing sustainable financing and capacity building to national and local governments and urban planners).⁷

In addition to the broader focus on promoting sustainable urbanization for all, the NUA specifically addresses issues around the demographic dividend, directly and indirectly. First, the agenda argues for the voices and needs of youth and women to be reflected in implementing urban development plans. Second, the transformative commitments in the NUA on social inclusion and end extreme poverty include various interventions targeted at addressing challenges of the youth and women by promoting: increased access to basic physical and social infrastructure; increased security of land for women; secure environment free of sexual violence and harassment, and meaningful participation of women and youth in decision-making. Third, the transformative commitments on urban economic development and prosperity include more direct reforms to harness the demographic dividend. Such reforms include 1) fostering a healthy society (particularly through promoting universal access to sexual and reproductive health care services); 2) increasing economic productivity (through increasing access to income earning opportunities; promoting full and productive employment, and developing skills and education); and 3) harnessing the demographic dividend (through better and more equitable access to education, skills development, and employment for the youth).

In addition, the African Urban Agenda (AUA) caters to Africa-specific urbanization challenges and aims to seize region-specific opportunities to realize the benefits urbanization presents to the continent and to achieve the visions of the Africa 2063 agenda: prosperous, integrated, and people-driven Africa through promoting sustainable and inclusive development, and unleashing the potential of its women and youth, among others.

Investments in youth

As noted above, the AU has also emphasized the role of youth in realizing the Africa 2063 agenda by creating a road map for “harnessing the demographic dividend through investments in youth,” including:

⁷ The proposed integrated financing framework include: Domestic endogenous resource mobilization (through capturing the benefits of agglomeration economies; attracting public and private investment including FDI; expanding the tax base; improving tax administration; capturing increases in land and property values; putting in place fiscal policies to prevent land and real estate speculations, and implementing expenditure controls) complemented by multilateral financing (through increasing financing for affordable housing; climate change mitigation, and insurance projects); municipal borrowing, and transparent system of financial transfers from national to local governments. The proposed capacity building include: 1) facilitating collaboration at all levels of governments through peer learning and best practices sharing programs, and 2) providing local governments with trainings on urban planning, financial management and land value capture.

- i. **Employment and entrepreneurship** programs to reduce youth unemployment through increased investment in sectors with job-multiplier effects and better support for youth entrepreneurs through increased access to credit, leveraging on national and regional youth funds and government procurement.
- ii. **Education and skills development** programs to increase access to internship opportunities, improve curriculum to enhance education quality, expand vocational training opportunities, and promote inclusive access to alternative education.
- iii. **Health and well-being** programs to increase access to health services for the youth, increase child survival, and provide universal access to family planning and sexual and reproductive health services. The roadmap also stresses that the potential of the demographic dividend cannot be fully reached amid persistent gender discrimination and inequality in health and well-being.
- iv. **Rights, governance, and youth empowerment** programs to remove all limitations for youth to fully participate in electoral and governance processes, integrate governance in education curricula, institute youth leadership and empowerment training programs, and strengthen independent youth formations, networks, and organizations.

In addition, the roadmap has laid out a broad implementation and monitoring framework including:

1. Integrate the demographic dividend agenda in sectoral, national, and regional plans.
2. Build on successful initiatives for the demographic dividend and women's empowerment (such as the Sahel Women's Empowerment and Demographic Dividend project) and scale them up to cover more countries and facilitate access to funding.
3. Establish continental and national youth development funds.
4. Create performance-monitoring indexes to follow up progress and ensure accountability.
5. Mobilize support, through AU and partners' bilateral forums (such as Africa-Japan, Africa-China, Africa-European Union, Africa-Korea, Africa-India, Africa-United States, and G-20).

The African Urban Agenda and legislative reforms

Similar to the recommendations in the New Urban Agenda, the AUA has implementation strategies anchored around transformative national urban policy (putting emphasis on the importance of strengthening urban-rural linkages; cross-border functional areas, and regional value creation and integration); legislative reforms in urban planning and land use (to foster policy reforms in housing and land markets, create compact cities and close urban inequalities); context-specific and collaborative decentralization and local government support.

Box 1: Regional legislative reforms

In 2016, to ensure the implementation of the New Urban Agenda—in collaboration with member states, partners, and regional institutions—the African Union Specialized Technical Committee on Public Service, Local Government, Urban Development and Decentralization (AUC STC8 Secretariat) called for:

- a. The implementation of the New Urban Agenda to be anchored in and guided by Agenda 2063, and directed at consolidating and accelerating **Africa’s structural transformation and harnessing urbanization as a force of change.**
- b. The development of a **robust regional strategy** for dealing with the current structural challenges of housing and human settlements on the continent.
- c. Invitations to member states to sign and/or ratify the African Charter on the Values and Principles of **Decentralisation, Local Governance, and Local Governments**, adopted at the African Ministerial Conference in Housing and Urban Development (AMCHUD) in June 2014
- d. Encouragement of member states to ratify, domesticate, and implement the African Charters on the Values and Principles of **Public Service and Administration.**

In addition, the AUA aims to leverage regional integration and value chains and South-South cooperation to realize sustainable urbanization and structural transformation in Africa. U.N.-Habitat, for example, advocates for the new industrialization strategy for Africa, needed to realize the goals of Agenda 2063, to be anchored in cross-border city-regional agglomeration and large agglomeration economies. These regional integration efforts can catalyze the emergence of regional infrastructure projects and facilitate resource pools among member states. The promotion of special economic zones can also be an important source of job creation and value-chain integration of farmers and small and medium enterprises.

3. AFRICA'S DEMOGRAPHIC TRANSITION⁸

Demographic trends and compositions

Africa has the highest population growth rate in the world, primarily due to incomplete demographic transition, i.e., the period when fertility decline has not kept the pace of mortality decline. These parallel trends translate into higher population growth, generating a youth bulge and eventually a large working-age population. During the period 2012-2016, sub-Saharan African countries had one of the highest total fertility rates in the world, with average fertility rates ranging between four to six children per woman (Figure 1A). For the most part, women's desired fertility rate has kept similar pace as actual fertility rate, leaving limited room for family planning services to function as effective form of fertility reduction.⁹ As seen in Figure 1B, Africa's working-age population supports more people in dependency age than any other region. There are at least 80 individuals aged below 15 years old for every 100 working-age individuals in countries at early stage of demographic transition, resulting in youth dependency ratio of 80 percent. In contrast, countries that have completed their demographic transition have youth dependency ratios below 25 percent.

Figure 1A: Total fertility rates by stages of demographic transition, 2012 to 2016 average

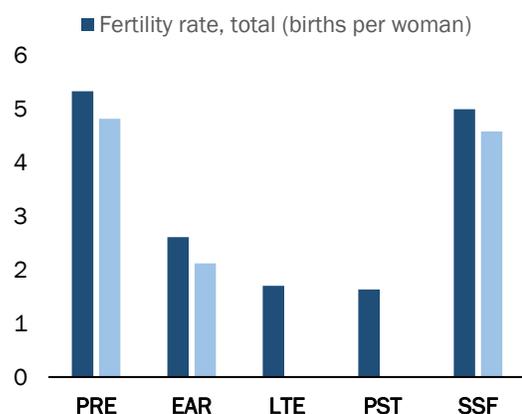
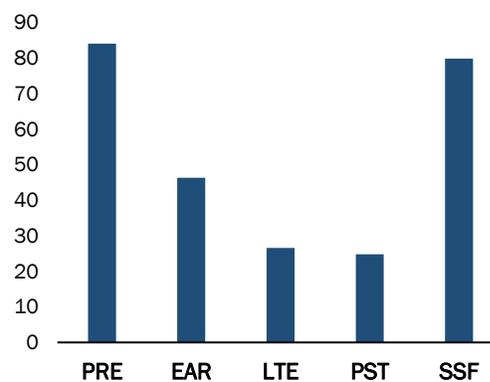


Figure 1B: Age dependency ratio, percent of working-age population, 2013 to 2017 average



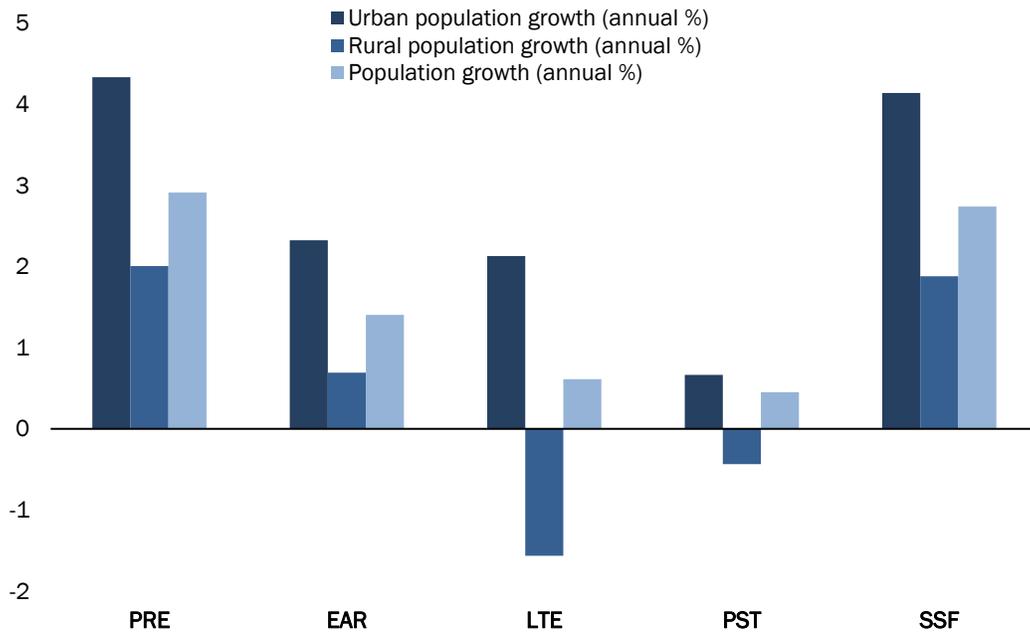
Source: World Development Indicators, 2018 update. Countries in the world are grouped into 4 stages of demographic transition: Pre-Demographic Dividend (PRE); Early Demographic Dividend (EAR); Late Demographic Dividend (LTE), and Post-Demographic Dividend (PST). For comparison, the last column (SSF) represents sub-Saharan African countries including high-income sub-Saharan countries.

While an economy with an aging population struggles with labor supply shortage for “existing roles,” an economy with a youth bulge has to prepare well in advance to create productive jobs for the ample supply of labor to come. As this new, large, working-age cohort enters the labor market, Africa will need various policies in order to ensure that the trend is an asset rather than a liability.

⁸ Based on: AfDB (2012), “Africa’s Demographic Trends: Briefing Notes for AfDB’s Long-Term Strategy”; David Canning, Sangeeta Raja, and Abdo S. Yazbeck (2015), Africa’s Demographic Transition Dividend or Disaster? International Bank for Reconstruction and Development, The World Bank; AEO (2016), African Economic Outlook 2016: Sustainable Cities and Structural Transformation; McKenzi Global Institute (2016), Urban World: Meeting The Demographic Challenge, Washington DC: McKinsey & Company.; Elsenda R., Guadalupe S., Souto I., P. Concepcion (2016), “The Effect of Education on the Demographic Dividend”, Population and Development Review 42(4): 651–671, December, and Roser, Max, and Esteban Ortiz-Ospina. 2017. “World Population Growth.” April.

⁹ High child mortality rates, lower access to schooling and lower educational attainment, and limited labor market participation for women and girls are some of the causes of high [desired] fertility rates.

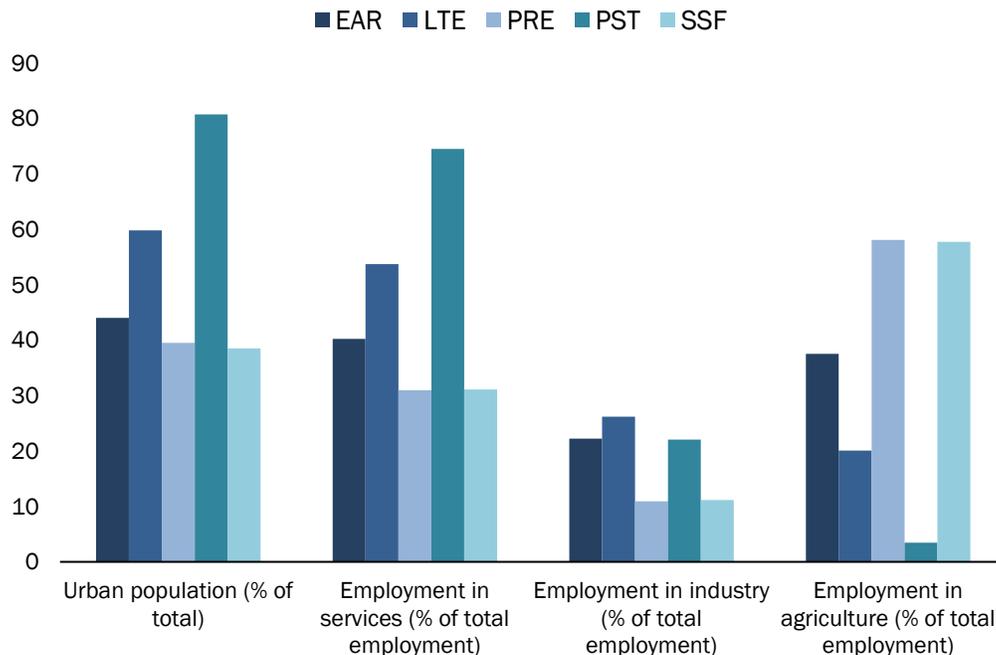
Figure 2: Population growth patterns by stages of demographic transition, 2013 to 2017 average



Source: World Development Indicators, 2013-2017 averages. Countries in the world are grouped into four stages of demographic transition: Pre Demographic Dividend (PRE); Early Demographic Dividend (EAR); Late Demographic Dividend (LTE), and Post Demographic Dividend (PST). For comparison, the last column (SSF) represents sub-Saharan African countries including high-income sub-Saharan countries.

In addition to its age composition, growth pattern of Africa's population is also distinct across rural-urban divide. As models of structural transformation would predict, countries at later stages of demographic transition experience negative rural population growth rates (Figure 2) primarily due to industrial development or a green revolution leading to a greater employment share in non-agricultural sectors (Figure 3). In contrast, Africa's rural population is predicted to continue to grow at a rate of more than 1 percent per annum beyond 2045, with additional 353 million rural dwellers between 2015 and 2050 (AEO, 2016). Despite the continued growth in rural population, Africa's population is growing faster in its urban than rural areas. Thus, efforts to harness the demographic dividend should be targeted at facilitating fertility transition both in urban and rural areas.

Figure 3: Urbanization, employment, and economic structure by stages of Demographic Transition, 2013 to 2017 average



Source: World Development Indicators, 2018 update. Countries in the world are grouped into 4 stages of demographic transition: Pre Demographic Dividend (PRE); Early Demographic Dividend (EAR); Late Demographic Dividend (LTE), and Post Demographic Dividend (PST). For comparison, the last column (SSF) represents sub-Saharan African countries including high-income sub-Saharan countries.

What it takes to realize Africa’s “demographic gift”

Realizing the economic benefits of the “demographic gift” involves accelerating the demographic transition and turning the demographic momentum into real economic benefits (i.e., reaping the demographic dividend).

Accelerating the demographic transition involves efforts for reducing population growth to near-replacement rates through targeted interventions to reduce total fertility and mortality rates through human capital investments in youth, children, women, and mothers. Such investments should target reducing child and maternal mortality, morbidity, and malnutrition to improve child survival rates and lay the foundation for future skills development. These investments should also work to increase female participation in schooling and the labor market, as well as ensure accessibility and affordability of family planning services. Countries that have completed their demographic transition not only have higher share of youth participating in education and employment, they have also closed the gender gap in schooling and labor market participation (Figure 4A & 4B).

Figure 4A: School Enrollment by Stage of Demographic Transition, % gross, average 2012 to 2016

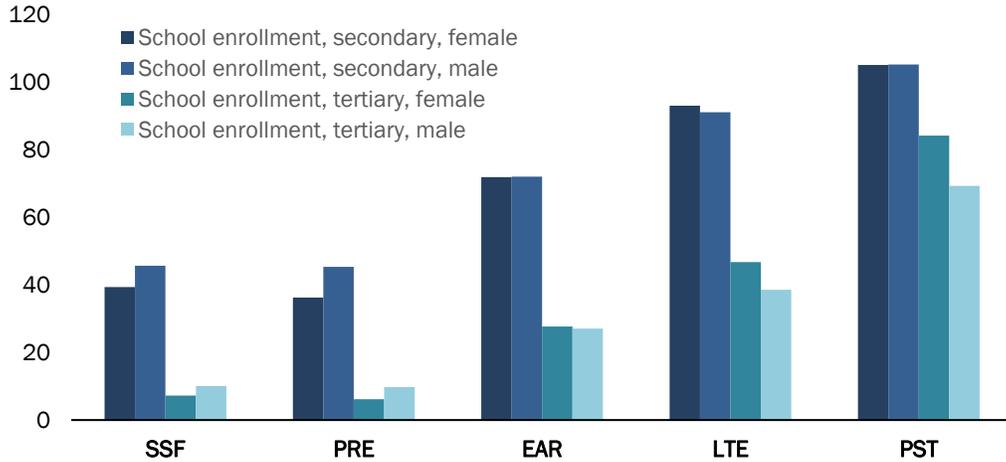
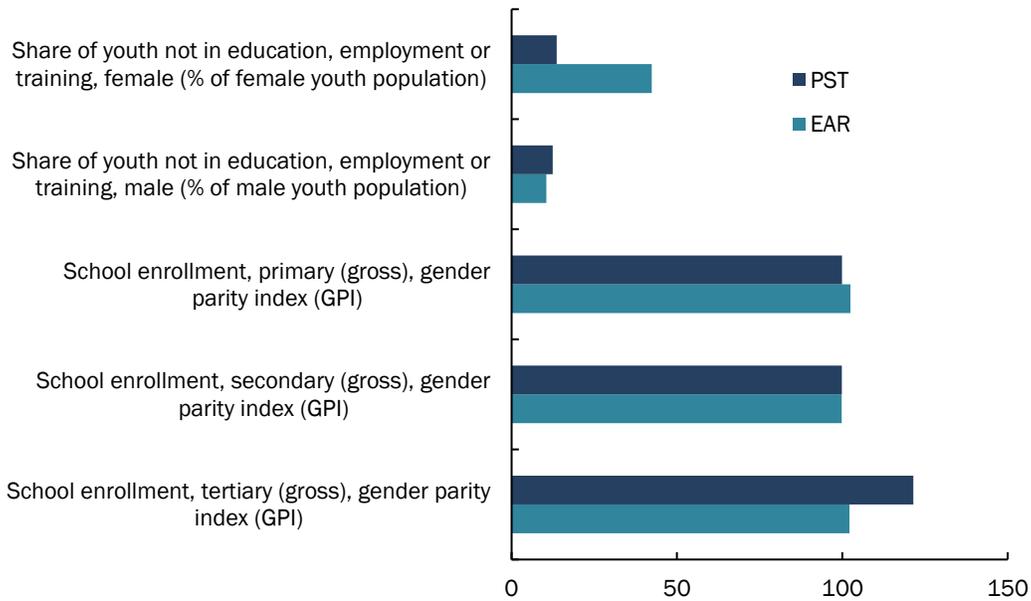


Figure 4B: Gender parity in Schooling and Labor Market Participation by Stages of Demographic Transition



Source: World Development Indicators, 2018 update. Countries in the world are grouped into four stages of demographic transition: Pre Demographic Dividend (PRE); Early Demographic Dividend (EAR); Late Demographic Dividend (LTE), and Post Demographic Dividend (PST). For comparison, the first column (SSF) represents sub-Saharan African countries including high-income sub-Saharan countries. Gender Parity Index (GPI) is constructed as a ratio of gross school enrollment for females and gross school enrollment for male. Data for EAR demographic transition stage is only 2012 for share of youth not in education.

Reaping the economic benefits of demographic transition requires not only human capital investments in the youth and closing the gender gap, but also creating productive jobs to absorb the ample labor supply in sectors with potential for productivity improvement such as the formal sector and rural non-farm enterprises.¹⁰ Thus, the demographic dividend is indeed an education and skills dividend, laid on the foundation of gender equity on one hand, and productive job creation on the other. Without the latter, investments in education and skills do not bear fruit.

The Africa's Pulse (2017)¹¹ report calls for a smarter skills investment strategy to ensure efficiency and better learning outcomes in the face of global competition (which demand the acquisition of a wider set of skills—cognitive, socio-emotional, and technical—of today's workers and future generations, and adaptability of individuals) and resource constraints (which demands managing tradeoffs on skills investments within and across generations of workforce). The report recommends prioritizing universal foundational skills of children, youth, and adults (focusing on early childhood education and educational quality such as effective teaching) and strictly adhering to selective and demand driven investments in skills training to promote productivity, inclusion and adaptability. More specifically, the report further recommends that:

- For productivity, countries should target at promoting demand-driven technical and vocational education and training, higher education, and promoting entrepreneurship and business trainings tied to catalytic sectors. Notably, special attention should be paid to science, technology, engineering, and mathematics education. For these skills investments to pay off, the report urges countries to focus on ensuring the transfer and adoption of technology in economies with an enabling policy environment.
- For economic inclusion, countries need to focus on investing in labor market training programs on foundational skills targeted at disadvantaged youth; improving skills of workers employed in low-productivity activities both in urban and rural areas; and ensuring equal access to quality services to the poor; closing the gender gap; and supporting youth and adults who have missed out.
- For adaptability, the report recommends delaying the tracking of students into technical and vocational streams at least until upper secondary school, creating effective pathways between academic and technical tracks and introducing more active work-based learning practices.

Finally, the report recommends that policymakers answer four basic questions to better manage tradeoffs and set priorities:

1. Are investments in skills meeting the needs of the economy today and tomorrow?
2. Is current skills development built on solid foundations?
3. Are countries in the region investing adequate resources in skills development?
4. Is there a good case for investing in skills of out-of-school youth and adults?

10 At later stage of the demographic transition, countries should also promote savings and invest for retirement.

11 World Bank Group. 2017. Africa's Pulse, No. 16, October 2017. World Bank, Washington, DC. © World Bank. <https://openknowledge.worldbank.org/handle/10986/28483> License: CC BY 3.0 IGO.

4. AFRICA'S DEMOGRAPHIC TRANSITION AND URBANIZATION-INTERLINKAGES

Demographic transition as a driver of Africa's urbanization patterns

Africa is quickly urbanizing and predicted to double its urban population between 2015 (which stood at 472 million) and 2035, reaching an urbanization rate of 50 percent by the mid-2030s. Interestingly, much of the growth in the urban population has and continues to occur mostly in a peri-urban areas. For example, between 2000 and 2010, 58 percent of Africa's urban growth was due to growth in small urban agglomerations with fewer than 300,000 inhabitants (AEO, 2016).

Among the many drivers of urbanization, patterns of demographic transition explain Africa's urbanization more than rural emigration.¹² According to the 2016 African Economic Outlook (AEO), natural demographic growth, particularly high fertility rates, in urban areas prevailed over the economic migration of working-age labor force from rural areas.¹³ The average urban fertility rate in certain African countries—Burundi, the Democratic Republic of the Congo, Mali, Niger, and Nigeria—was above five births per woman during 2000-2014 (see Table 1 and Figure 6.11 of AfDB 2016 report). It is also worth noting that, with the exception of natural-resource based economies, the pace of achieving fertility transition is tied to the pace of urbanization and structural transformation.

Urbanization can be a key contributor to the process of harnessing the demographic dividend

Urbanization can be part of the solution, as much as it is a product of Africa's demographic challenges, by creating the much-needed productive employment for Africa's growing working-age population; by facilitating structural transformation, and by accelerating fertility transition through better schooling and employment opportunities for youth and economic empowerment of women and girls.

Moreover, according to World Bank's Competitive Cities report (2015), 72 percent of the world's 750 largest cities have outpaced the growth of their national economies since the early 2000s. Among these cities, three-quarters of them outpaced their national economies on rates of private-sector job creation, productivity, and income per capita growth. Cities are large sources of productivity gains because they facilitate the benefits of agglomeration economies through the flow of information, knowledge spillovers, a competitive business environment, lower transaction costs of doing business, and cheaper service delivery. Unit cost of public service delivery, including those needed to harness demographic transition, is also cheaper in areas with high population density.

Urban jobs by definition are also mostly non-agricultural and in sectors with productivity higher than that of agriculture (i.e., industry and services sectors). Thus, if created, employment opportunities in non-agricultural sectors raise the overall productivity of the economy, accelerate structural transformation of economies, and improve market access to farmers and rural non-farm enterprises. In addition, when farming is practiced by those who have a competitive edge, agricultural productivity improves as a result of land consolidation and the emergence of commercial farms as well as general improvement in worker productivity.

12 See the article by Barofsky, Siba, and Grabinsky (2016): Can Rapid Urbanization in Africa reduce poverty? Causes, opportunities, and policy recommendation. Accessed from: <https://www.brookings.edu/blog/africa-in-focus/2016/09/07/can-rapid-urbanization-in-africa-reduce-poverty-causes-opportunities-and-policy-recommendations/>

13 AEO (2016) estimates that for every 100 urban workers, there are, on average, 70 children below the age of 15 and five old-age people for the period 2000-2010. While the former is due to high fertility rates, the latter indicates low life expectancy in Africa.

Table 1: Urbanization with structural transformation go hand in hand with demographic transition

(Stages of urbanization, demographic transition and structural transformation in Africa, by country groups (AEO, 2016))

Typology	Urbanization rate	Total Fertility Rate (average)	Share of manufacturing in GDP	Policy challenge
Diversifiers Advanced in fertility transition and urbanizing	40-60%	fewer than 3	13-18%	<ul style="list-style-type: none"> • Increase productivity and share of manufacturing in output; • Transition to sophisticated manufacturing;
Early urbanizers Started fertility transition and urbanizing	30-50%	5	2-14%	<ul style="list-style-type: none"> • Break into high-value-added activities in urban formal sector; • Focus on manufacturing, which can absorb low-skilled labor force; • Pursue ambitious education policies; • Develop higher-value-added urban services; • Increase agricultural productivity; • Continue demographic transition;
Late urbanizers Started fertility transition and urbanization but predominantly rural	<1/3	4 to 6	4-12%	<ul style="list-style-type: none"> • Continue to improve infrastructure particularly transportation linking different urban growth centers; • Develop network of intermediate cities; • Break into manufacturing and high value added services; • Accelerate demographic transition;
Natural resource based Urbanized with windfall from natural resources; high degree of urban primacy and high fertility	40-78%			<ul style="list-style-type: none"> • Diversify their economic base; • Decrease urban fertility rates; • Design policies to deal with adverse global commodity prices
Agrarian Predominantly rural that are still at early stage of urbanization & fertility transition	<1/3	at least 6	4-12%	<ul style="list-style-type: none"> • Begin structural transformation process by raising agricultural productivity; • Engaging in a well-planned urbanization process, which will likely speed up fertility transition;

Note: Adopted from AEO (2016) which is based on U.N. DESA (2015, 2014) statistics

1. **Diversifiers:** Egypt, Mauritius, Morocco, South Africa, and Tunisia.
2. **Early urbanizers:** Benin, Cameroon, Côte d'Ivoire Ghana, Liberia, Senegal, and Togo.
3. **Late urbanizers:** Eritrea, Ethiopia, Kenya, Madagascar, Mozambique, Rwanda, Sudan, and Tanzania.
4. **Agrarian:** Burkina Faso, Burundi, Chad, CAR, Malawi, Niger, Sierra Leon, and Uganda.
5. **Natural resource based:** Algeria, Angola, Botswana, Republic of the Congo, DRC, Guinea, Libya, Mauritania, Nigeria, Somalia, South Sudan, Zambia, and Zimbabwe.

Can African cities deliver demographic transition?

Certain challenges specific to the African context must be addressed in order for the region to fully benefit from urbanization and demographic dividend. Unclear land rights, inadequate infrastructure and services, weak local governments, and financing constraints constitute some of the most serious obstacles to successful urbanization in Africa.

A number of studies and reports¹⁴ have shown that the urbanization pattern in many developing countries, including Africa, is characterized by:

- Urban primacy leading to crowded megacities that are disconnected with secondary cities and rural spaces;
- Urban sprawl (and expansion of African cities to rural areas) and weak transport infrastructure, undermining agglomeration economies;
- Restricted labor mobility and trade between regions;
- Dual housing markets where a formal housing market co-exists with urban slum dwellings due to poorly defined land and property rights and other housing market distortions;
- The youth bulge and a large informal economy coupled with weak performance of manufacturing and high-value added services sectors in generating decent wage paying formal jobs; and
- Unequal access to public goods leading to high multi-dimensional poverty, pollution, and crime.

The following priority areas have emerged on ways forward for successfully managing Africa's urbanization:

1. Creating productive jobs and providing public goods and services for the growing urban population, including affordable housing and improved urban transport infrastructure and public mass transportation services;
2. Promoting secondary cities by reducing urban favoritism, promoting labor and factor mobility across locations, and increasing secondary cities' market access through transport and trade linkages;
3. Clarifying land rights, removing policy distortions in rental markets, and promoting urban slum upgrading programs; and
4. Empowering local governments through capacity building, decentralization of power, and financial transfers, and improving urban planning and regulations.

Thus, efforts to harness the demographic dividend should facilitate fertility transition both in urban and rural areas, promote intermediary cities while getting the basics right in Africa's primary cities, and accelerate structural transformation of rural spaces by addressing market failures in land, credit, and insurance markets.

¹⁴ See for instance Somik Vinay Lall, J. Vernon Henderson, Anthony J. Venables (2017), *Africa's Cities: Opening Doors to the World*, International Bank for Reconstruction and Development / The World Bank, Washington, DC; AEO (2016), *African Economic Outlook 2016: Sustainable Cities and Structural Transformation*; Duranton, Gillies (2009), "Are Cities Engines of Growth and Prosperity for Developing Countries?" Ch. 3 in *Urbanization and Growth*, The International Bank for Reconstruction and Development / The World Bank, On behalf of the Commission on Growth and Development, and Maria E. Freire, Somik Lall, and Danny Leipziger (2014), *Africa's Urbanization: Challenges and Opportunities*, The Growth Dialogue, Working Paper No. 7.

5. NEXT STEPS IN SUCCESSFULLY MANAGING AFRICA'S URBANIZATION AND HARNESSING DEMOGRAPHIC TRANSITION

Policy recommendations need to take into account the heterogeneous progress countries make in achieving demographic transition, urbanization, and structural transformation (see Table 1). They should also involve economic diversification and broader economic integration,¹⁵ expansion of basic service delivery and infrastructure at a speed that keeps up with the pace of urbanization and population growth, access to finance to and political empowerment of local governments, promotion of secondary cities, and social and economic empowerment of youth and women.

High-level African policymakers, urban experts, representatives from the private sector, youth, and academia gathered at the U.N. expert group meeting on “The New Urban Agenda and Demographic Dividend: Investments for Africa’s Youth,” in Dakar, Senegal, in March 2017 to discuss these challenges and ways forward, unanimously agreeing that these two trends can be dealt with in tandem through mainstreaming the youth empowerment agenda into various structural transformation and sustainable urban development agendas. Key policy intervention areas include:

- I. **Quality human capital investments** in youth are the bedrock of any youth empowerment program and their success in producing a generation of economically independent youth and in restoring the hopes of Africa’s youth to thrive in their own countries. Part of the problem with rising youth unemployment in Africa has to do with shortages in labor demand. However, the mismatch between the skills sets that Africa’s youth possess and that of what the national and international labor markets require largely play a role too. Formal and vocational training programs for the youth need to be cognizant of the skills gap and mismatch in the labor market and also prepare youth to continually upgrade their skills with the evolving demands of the labor market. Thus, investments in education need to focus not only on the quality and relevance of education but also adaptability of youth and their skills to meet the growing demand and standards of the global labor market. This includes ensuring that girls have the opportunity to stay in school and complete their education.
- II. **Digital marketplace and knowledge-sharing platforms** are one such mechanism that allow youth to be exposed to best practices worldwide and to learn from their peers. Digital platforms, such as online communities, not only increase access to skills and mentorship opportunities, they also create a digital marketplace for youth entrepreneurs seeking wider markets to sell their products.¹⁶ Providing internship opportunities in leading companies, domestically and abroad, is another source of mentorship and on-the-job training for youth to upgrade their managerial, technical, and entrepreneurial skills.
- III. **Job creation** is another crucial aspect of youth empowerment, one that requires both short and long-term strategy. While keeping young people occupied and away from precarious activities is of immediate concern for policymakers, promoting labor-intensive industries, creating conducive economic environment to attract job-creating foreign direct investment, and promoting thriving private sector development to tap into entrepreneurial ability of the youth should be part of long-term strategy of promoting economic opportunity for the youth.

15 For example, Asia’s success in the demographic transition is due largely to export expansion, which later led to expansion in labor demand.

16 One such platform showcased in the high-level panel Seychelles National Youth Assembly.

- IV. **Youth empowerment:** decision makers on youth issues need to be cognizant of the needs and potential of Africa's youth to be strategic partners for sustainable development, as reflected in SDGs 8-11, and aspiration 6 of Agenda 2063. With this recognition comes the need to increase involvement of the **youth in decision making**, in closing the generational gap for a better understanding of the needs of Africa's future generation, and in creating deliberate platforms (such as youth assemblies) for them to express their voices. Youth can be part of the solution. They have a role to play not just in actively participating in their skills development, but also by coming to the decision-making table and looking out for growth opportunities.

Box 2: Youth opinion poll on state of youth unemployment & youth initiatives

We ran an opinion poll among a sample of 49 participants of the 2017 Young African Leadership Initiative (YALI) program from 49 countries about the status of youth unemployment in their respective countries. We asked respondents about the unemployment rates in their countries, the existence of youth empowerment initiatives, and the most common economic activity in which youth in their countries engage. It seems that, while there may exist a list of youth empowerment programs, there is a serious lack of awareness about them: Most respondents were not aware of existing youth empowerment initiatives in their countries other than YALI. Nevertheless, certain countries have put in place these types of programs to promote youth employment. For instance, Lesotho's ministry of gender has a youth empowerment program where organizations are encouraged to employ youth and the ministry pays their salaries.

When asked about the levels of unemployment, respondents often overestimated their countries' unemployment rates. Using data from the International Labor Organization, we see that there is often a discrepancy between the actual unemployment rate and the perceived one. For instance, there is a 58-percentage point difference between the unemployment rate perceived by a respondent from Uganda and the one reported by the ILO. There are two countries where the perceived unemployment rate is lower than the one reported by the ILO: Mauritius (by 17 percentage points) and Namibia (by 19.9 percentage points). When asked, what they believed is the most effective solution to unemployment in their countries, most respondents stated that they strongly believe entrepreneurship is the answer to youth unemployment.

- V. **Leveraging forces of urbanization:** Beyond capacity building, the youth empowerment agenda must also be **mainstreamed into the structural transformation and regional integration agenda**. First and foremost, policymakers need to establish globally competent cities and economies that are job creators. Second, policymakers can leverage forces of sustainable urbanization to deliver job creation, youth empowerment, and social inclusion.¹⁷ For sustainable urban development to deliver

¹⁷ The panelists at the high-level expert group meeting showcased a list of programs, which engaged unemployed youth into infrastructure and housing projects including: Innovation for Infrastructure program of ECOSOC; Senegal's Emerging Senegal project; Green Cities Program, and emergency community development programs; Cameroon's national youth empowerment program; Nigeria's national housing project, which engaged jobless youth to build 10 million houses and other youth centered urban investment programs and training and education programs, and Seychelles' National Youth Assembly. Relatedly, others suggested that efforts in mainstreaming gender, youth, and the urban agenda include local content in the tendering process of trade partnerships and regional integration efforts such as CFTA to generate jobs for Africa's youth.

job creation and youth empowerment, **means of implementation** must be present.¹⁸ Due to resource constraints, policymakers must establish priorities. Moreover, urban strategies must be based on a diagnostic approach that identifies bottlenecks, considers different country contexts, and leverages the relative strengths of central and local governments. While central governments have a natural lead in promoting labor mobility, developing infrastructure, and reducing impediments to internal trade and ensuring balanced regional developments, local governments have a comparative edge in local public service delivery, in promoting secondary cities and keeping jobs in their local economies. However, in order to establish and maintain their advantage, local governments need to be matched with appropriate fiscal transfers, adequate local revenues mobilization, and capacity building and knowledge sharing among local governments.

¹⁸ See for instance: Department for International Development. (2015). Urban infrastructure in Sub-Saharan Africa – harnessing land values, housing and transport. London: DFID, and Paulais, T. (2012). Financing Africa’s Cities: The Imperative of Local Investment. Washington, DC : AFD, World Bank Group, for recommendations on endogenous mobilization of domestic resources.

6. CONCLUSIONS AND RECOMMENDATIONS

Demographic dividend is education and skills dividend: The case for more and equitable investments

Africa grapples with managing two megatrends—rapid urbanization and a growing youth population—at a time when global competition demands investment in a wider set of cognitive, technical, and professional skills, and the adaptability of individuals and their skills to an evolving labor market.

Skills investments need to catch up with the needs of a growing economy; while at the same time fulfilling the aspirations of Africa’s youth demands ensuring equal opportunity of skills development for all. As leaders grapple with striking the balance between modernizing their economies and leaving no one behind in the skills and productive jobs creation agenda, closer attention should be given to investing in quality education and training for today’s African youth as well as laying strong foundation for Africa’s children, its future workforce. Investing while under resource constraints, of course, requires a smart skills development strategy and high selectivity to match with the skills needs of African economies’ catalytic and job-creating sectors.

While national governments are at the forefront of designing a smart skills investment strategy, the international community can assist in simplifying the hard choices governments have to make by making complementary investments. Youth are also part of the solution. Programs for young people should include as much input from youth groups as possible and allow for youth to be proactive in the decisions that matter for their lives and seek growth opportunities. An emphasis on support for social entrepreneurs and change agents is also important for creating the next generation of women and youth entrepreneurs and productive workforce.

The demographic dividend is also a job creation dividend

Skills investments only bear returns when those youth are engaged in productive employment. Thus, pursuing the structural transformation of economies and job creation in productive sectors are vital steps for capitalizing on the dividend. The NUA and AUA already put a lot of emphasis on sustainable urbanization to deliver jobs and social transformation of Africa’s youth, as envisioned in Agenda 2063. Strong urban development requires reforming land and housing markets, making major investments in basic social and transport infrastructure, and achieving balanced regional urban growth.

To address demographic transition and urbanization in tandem, policymakers should:

- Identify where and why urban populations are growing fast. Most urban growth is happening in secondary cities, which are also at the forefront of linking urban areas with rural ones, and are prime locations for agro-processing industries. Thus, intermediate cities should be strengthened with more resources and local capacity building.
- Link special economic zones (SEZs) with the entire value chain and better policy coordination for effective provision of infrastructure and quality business environment within and around SEZs. SEZs are one of the areas on which the AUA is anchored, but so far most SEZs in Africa are not functioning as natural agglomerations in creating jobs, linking with the domestic economy, and attracting investment and entrepreneurs (Newman and Page, 2017).
- Promote cross-border value creation and investment in regional infrastructures to leverage regional integration for sustainable urbanization.
- Strengthen endogenous resource mobilization for urban development.

While national governments are at the forefront of reforming various urban policies on land, housing, and infrastructure investments, the international community should complement the job creation agenda by investing in inclusive urban development. Such complementary investment may include slum upgrading, ensuring affordable housing for all, promoting urban safety nets, and promoting sustainable financing for industrial development of catalytic sectors such as agro-processing, integration of smallholder farmers and informal sector operators into SEZs and urban agglomerations. Another potential area of intervention for regional and international organizations involves de-risking access to finance to local governments and financing for investments in Africa's intermediary cities and rural spaces. Co-financing urbanization/infrastructure projects that mainstream youth empowerment is yet another investment opportunity on youth empowerment agenda. Perhaps the biggest challenge for achieving Africa's demographic dividend is achieving rural transformation, where the major share of Africans are employed. Linking Africa's rural areas to its urban productive sectors, creating more productive rural employment opportunities, and reforming land policies all contribute to the overall goal of achieving the aspiration of Africa's current and future generations of urban and rural youth.

APPENDIX

The New Urban Agenda

The New Urban Agenda (NUA) serves as a guiding document for planning, financing, and managing sustainable urbanization. It also provides a framework for action, thus allowing national, local, and regional governments to effectively implement the stated goals and transformative commitments. Specific **transformative commitments, stated in NUA**, to achieve sustainable urbanization include achieving:

- **Social inclusion and an end to extreme poverty** by ensuring the progressive realization of adequate housing for all (with increased supply of adequate variety of housing options); improved security of land tenure for all (giving special attention to its role for women) and its effective administration; the provision of basic physical and social infrastructure; quality public spaces; and a secure environment for all; and the promotion of meaningful participation of all stakeholders including women and youth in decision making;
- **Urban economic development and prosperity** by promoting a vibrant urban economy by providing affordable services and infrastructure; fostering a healthy society; increasing economic productivity; promoting the gradual integration of the informal economy into the formal sector; and harnessing the demographic dividend through improved access to quality education; vocational training; skills development, and employment for youth. Achieving this goal also entails supporting local development and fostering cooperation across various levels of government.
- **Environmentally sustainable and resilient urban development** by promoting sustainable use of land and other resources; the maintenance of social and ecological functions of land; and the support of climate change adaptation and mitigation.

Enabling policy framework and means of implementation of the New Urban Agenda

The policy framework of the New Urban Agenda is anchored on urban and territorial spatial development and various operational enablers (such as urban governance based on decentralization and local government support; provision of basic services and infrastructure; and local fiscal systems). The proposed **enabling policy framework** reforms include:

- **Urban governance structure reforms** so that decentralization and local government support are anchored on cooperation, collaboration, and policy coherence between various levels of government in order to reap the benefits of urbanization and to ensure access to basic services for all.
- **Reforms on the planning and management of urban spatial development** by building on city-region, metropolitan, and cross-border functional areas to promote trade and transport links. This will strengthen the role of small and intermediate cities and towns, promote food security and poverty reduction, and encourage cross-border value creation.
- **Land registration and governance reforms** such as developing land inventory information systems, and land registration and titling programs.
- **Housing reforms** to expand affordable housing options and to improve resources for upgrading and preventing the proliferation of slums and informal settlements. The reforms should also introduce regulations in housing markets, which will prevent speculation as well as enforce building codes and standards in order to guide land use

patterns and strategic housing locations (taking compactness, proximity, and density into consideration).

- Improving **road safety, affordable mobility, and sustainable transport infrastructure.**

Means of implementation include providing sustainable financing and capacity building to national and local governments and urban planners. They also include **domestic endogenous resource mobilization**.¹⁹ These means are complemented by **multilateral financing** (e.g., for affordable housing projects, and climate change adaptation, and mitigation), municipal borrowing, and transparent systems of financial transfers from national to local governments, which form the proposed integrated financing framework. Capacity building is another part of an implementation plan targeted at the empowerment of local governments and local state capacity building—through facilitating collaboration, peer learning, and best practices sharing programs by governments at all levels, and providing trainings on urban planning, financial management, and land value capture.

While universal in coverage, the New Urban Agenda allows for context-specific urban development recognizing the differential urbanization challenges faced by developing countries and fragile states, as well as opportunities that cross-border agglomeration economies and functional areas bring to these countries.

¹⁹ Through capturing the benefits of agglomeration economies; attracting public and private investment and FDI; expanding the tax base; improving tax administration; capturing increases in land and property values and putting in place fiscal policies to prevent land and real estate speculations, and expenditure controls.

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