AFRICA FIRST?

- What can African cities do to attract more and better-suited FDI?

EVT 25 23 November at 14:30 to 17:30pm at Exhibition venue

Based on extensive primary investment flow research coupled with qualitative research, the State of African Cities 2018 report makes a set of evidence-based recommendations for national and local leaders in how to attract more and better-suited FDI into cities in Africa. During the Africities Session EVT25 a panel of mayors, investors and development experts debate to agree on the five priority actions for African cities regarding FDI attraction in support of sustainable development. Below is a long list (but not exhaustive) of the recommendations of report.

1. African cities are today strongly disconnected from the investment backbone of the world economy. The competitiveness and resilience of African cities will depend on the improvement of regional, continental and global investment connectivity.

2. Because cities in Africa are now the fastest growing in the world African local, regional and continental authorities need to consciously embrace rapid urbanization and coordinate and collaborate activities across geographic scales, to ensure sustainable development.

3. Decision-makers in African cities will need to have an up-to-date global geographic investment map. Since 2003, the source of investments into African cities have increasingly been from distant locations across the globe. Similarly, for example, Johannesburg’s biggest global investment competitors are Bogota and Chicago and, in Africa, Cape Town and Casablanca. Its biggest competitors in Asia are New Delhi and Manila, and in Central Europe, Zurich and Helsinki.

4. Being a green city gives an added advantage in attracting FDI, as the report shows that besides a city’s level of global competitiveness (based on World Economic Forum indicators), the level of “greenness” measured by Yale University’s Environmental Performance Index, determines the level of FDI that a city attracts.

5. It is essential for city authorities to know the facts on comparative advantages of African cities for FDI attraction. It is shown that African investment is determined by access to growing local markets, physical proximity to regional markets, skilled workforce ability, business trustworthiness, available domestic credit for partnerships, and, governments with progressive forms of democracy. It is also shown that, in future, the increased involvement of women in the formal labour force will strongly boost future investment. Furthermore, the average minimum wage levels across African cities do not have a significant relationship with the attraction of FDI into these cities. This means that generally wages are not an operation cost, considered by multinationals investing in Africa.

6. Targeted measures are needed to tackle widening inequality due FDI in African cities. The report’s research found that FDI in general increases inequality in African countries, unless accompanied by well-developed technological absorptive capacity in the country, improved
tertiary education, and institutional reliability. Africa holds now the highest wage inequality levels in the world by Gini coefficient.

7. Well-functioning urban planning policies and systems are key to successes in attracting real estate investments. The report shows that real estate FDI into African cities is determined by the regulatory quality of the cities, urban population growth, the amount of total FDI invested, the control of corruption, the presence of special economic zones. While real estate FDI is deterred by rigid town planning policies, and the number of days needed to obtain a building permit.

8. Understanding the determinants of Chinese FDI into African cities is important. The report finds the main determinants of Chinese investment into Africa are political instability, levels of democracy, market seeking motives, and political proximity and economic proximity to China, while the largest recipients include Nigeria, South Africa, Zambia, Ethiopia and Tanzania.

9. It is shown that Africa has the highest food insecurity levels in the world, due to high volumes of food imports (corn, wheat, rice, pork and chicken), and the exploitation of food multinationals that are mainly geared towards exports to global markets.

10. Getting national energy policies right is a key determinant to FDI in renewable energy. Policies include feed-in-tariffs (price regulation), renewable portfolio standards (inclusiveness of renewables), fiscal measures, energy production payment (government contributions), public investments and carbon tax (fossil fuel-imposed tax).

11. To rank high in a ‘smart city’ comparisons, cities need to succeed in attracting FDI. The report’s study on smart cities shows that the ‘smartness’ of a city is not only measure by technological advancement and coordination of cities but related to city’s position within global networks of FDI.