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The State of African Cities 2018
The geography of African investment

Press Release

Foreign investment could help lift millions of Africans out of poverty
"FDI …has both negative and positive effects and careful choices need to be made by cities in the pursuit of FDI, if it is to lead to inclusive growth." The State of African Cities 2018 report 20188

NAIROBI, 21 June 2018: - Foreign firms and investors in African cities can play a catalytic role in the development of the continent according to a report just released by UN-Habitat and the IHS-Erasmus University of Rotterdam and co-financed by DFID, the African Development Bank and the Government of Norway.

According to The State of African Cities 2018 report: The geography of African Investment, Foreign Direct Investment (FDI) "if guided wisely can provide credible solutions to urban poverty and unemployment alleviation" by supporting Africa's shift from growth dominated by the primary sector to one led by manufacturing and knowledge intensive industries.

Cities account for around 70 per cent of global GDP and UN-Habitat's New Urban Agenda (2016) stresses their role as vehicles for inclusive and sustainable economic growth.

Currently Africa attracts just five per cent of global FDI despite being home to 15 per cent of the global population. However the recent FDI growth rate is the second highest in the world – and FDI makes up a third of foreign financial resources flowing into Africa. The four major FDI centres in Africa are identified as Cairo, Lagos, Johannesburg and Nairobi and the report suggests both West and East Africa are likely to experience sustained investment growth, primarily in manufacturing.

The report explores four industrial sectors - manufacturing, services, Hi-tech and resources. Hi-tech has the highest FDI growth rate although still on a small scale, and in limited locations. Manufacturing FDI has the largest share of investment in Africa and areas such as machinery, building, car parts, consumer products, food and textiles are currently the most important in terms of employment generation.

Western Europe is the largest investor followed by Asia, North America and Africa itself, with geographic proximity being an important factor. North Africa receives most of its FDI from Europe and the Middle East while Eastern Africa's mostly originates from Asia. The research shows that investment by Chinese firms has made contributions to African development, particularly with job creation in the manufacturing and infrastructure sectors.

The report suggests that the growth in African economies and decline in extreme poverty along with improvements in economic policies, advancing political stability and enhanced business environments have all made Africa increasingly attractive to foreign direct investment. However Africa can still play a greater role in the world economy.

"The report shows that African governments need to connect FDI attractions to sustainable urbanization by underpinning it with robust national urban policies, urban planning and financial and legal systems," says UN-Habitat Executive Director, Maimunah Mohd Sharif in her foreword to the report.

As a clear message to policy makers on the continent, the report singles out the importance of accessibility – including air, land and sea links as well as urban mobility, large local markets, connectivity, energy supply, public services and urban attractiveness. The report also finds that a skilled workforce is becoming more important than low wages, and that good governance and regional integration are also key elements.

The report sounds a warning bell on how FDI can exacerbate inequality and calls for African governments to have clear policies on areas that will benefit cities and aim for investments most likely to foster economic growth such as IT and manufacturing rather than those with limited value addition like resource extraction.

With The State of African Cities 2018: The Geography of African Investment report, UN-Habitat, IHS-Erasmus University of Rotterdam, SEBS Wits University, the African Development Bank and their research partners aim to provide guidance on these choices and to facilitate understanding of the complexity of global investment in Africa.

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