Promoting Investment in Urban Development

This report highlights the important role of investment by the private sector, in particular foreign direct investment (FDI), in achieving the Sustainable Development Goals (SDGs) by 2030. It emphasizes the large need for private investment in support of sustainable urban infrastructure in cities around the world, draws lessons on how to attract and mobilize investment, and emphasizes the important role of public management and investment promotion at the city level.

Bridging the Financing Gap

By 2050, 70% of the world’s population will be living in cities. In Africa, two-thirds of the projected total population of 2.5 billion will require urban services by 2063. Key development challenges that cities face include affordable housing, attractive real estate for new investors at competitive rates, jobs, transport within and between cities, health services, reliable supply of clean water and electricity, sanitation, reduction of noise and pollution, quality and affordable education, adequate recreation facilities, food security, telecommunications, and climate change mitigation and adaptation.

According to the United Nations Conference on Trade and Development (UNCTAD), the current annual investment gap in meeting investment needs in key SDG sectors by 2030 in developing countries alone is USD2.5 trillion.

This gap needs to be filled through a combination of local and international public and private investment, including official development assistance (ODA) and FDI. At the UNCTAD World Investment Forum 2016 in Nairobi, city managers and experts argued that local finance will largely determine the future of urban development in developing countries, since cities cannot solely depend on national governments for financial resources. Therefore, city leaders need to generate revenue locally more efficiently, but also look for additional revenue streams. The private sector, including FDI, can contribute by bringing revenue, creating jobs, and financing urban development projects that improve urban public services. One means of doing this is via public-private partnerships (PPPs) or arrangements between governments and private sector entities to provide public assets or services.

Potential contributions of the private sector to investment gaps in different SDG related sectors are given in figure 1. It illustrates that private sector investments in projects related to power, climate change mitigation, telecommunications, and transport have greater potential than private investments in biodiversity or climate change adaptation.

Figure 1. Potential private-sector contribution to investment gaps at current and high participation levels (USD billions)

Source: UNCTAD World Investment Report 2014

1 The following persons participated in the panel discussion: Mr. Russell Curtis, Head, Durban Investment Promotion Authority, South Africa; Mr. James Donovan, Chief Executive Officer, ADEC Group; Mr. Mohan Guruswamy, Chief Knowledge Officer, World Free Zones Organization; Mr. Evans Kidero, Governor, Nairobi City County, Kenya; Ms. Aisa Kirabo Kacyira, Deputy Executive Director, UN-Habitat; Mr. Arvind Mayaram, Chairman, Consumer Unity and Trust Society Institute for Regulation and Competition; and Mr. James Mugerwa, Managing Director, Shelter Afrique. Ms. Beatrice Marshall, Global Anchor of CCTV Africa, moderated the discussion.
The role of FDI
Globally, FDI is the largest source of external finance for developing countries as a group (see figure 2) and can therefore be an important means to address urban challenges such as creating jobs, alleviating traffic congestion, and providing new affordable housing, schooling, and health services for growing urban populations.

The role of cities in attracting investment is becoming ever more important. Given their size, cities have become drivers in their own right in attracting investments with their own distinctive investment determinants, location advantages, and investment needs. As a result, an increasing number of investment promotion agencies (IPAs) are working at the city level and cities are exchanging solutions and best practices with other cities around the world.

While some bigger cities have been able to attract FDI, smaller urban centres in developing countries have not yet benefitted from such investments. This paper looks at several requisites to attract FDI to cities:

1. Leadership and urban planning
2. Investment policies and promotion
3. Investment facilitation
4. Partnerships

1. Leadership and Urban Planning
Cities require strong leadership in formulating and sharing a clear vision, strategic objectives, and roadmaps to attract investment for development with the engagement and support of various stakeholders. Urban governance, especially issues of land and good legislation, is a fundamental element for sustainable urban development. Urban lands have the potential to create wealth for both private and public sectors, yet they have to be backed by clear governance to guide who owns the land, how cities invest in land, and how the public and private sectors share the benefit from the value accrued from the land. Stable leadership, assistance, and regulatory certainty, such as fair and transparent guidelines, locally produced pre-feasibility studies, and the pre-approval of projects, can improve investor confidence.

Cities should concentrate on investing in proactive and strategic urban planning and design. Political and technical expertise in urban design and planning enable cities to plan ahead for urban extension. Well-developed city master plans help accelerate profit motives and investment that would generate revenues. Cities should also formulate urban development planning policies that proactively support urban expansion patterns and guide efficient spending of their investment.

Urban planning and investment attraction should be inclusive. The planning of big investment projects should therefore involve consultation with civil society on social, environmental, and other matters including gender issues. Cities should build systems through which investor communities can be involved in city development and achievement of SDGs. It is important to enhance the social impact and the sense of belonging as well as the contribution of investors to the community. SDG projects in urban development often entail the provision of public services and are almost always long-term with long payback periods and large upfront investments. Local, multistakeholder buy-in early on can improve the sustainability of potential investments, provide a stable investment climate, and reduce the risk that investment projects will be challenged at a later stage.

“Cities need to create an environment where citizens feel a greater appreciation to their cities and sense of belonging.”
Mr. Evans Kidero, Governor of Nairobi City County, Kenya

However, while important, city planning only plays a catalytic role. Investment policies at the national and local level and proactive targeted investment promotion efforts will be required to attract the substantial investment needed.

Figure 2. FDI, remittances, and ODA to developing economies*, 2007–2015 (USD billions)

Source: UNCTAD, based on data from the UNCTAD FDI/MNE database (for FDI inflows), from OECD (for ODA), and from the World Bank (for remittances).
Note: Data are shown in the standard balance-of-payments presentation, thus on a net basis.
*Excluding data from the Caribbean financial centres
2. Investment Policies and Promotion

In order to attract investment into sustainable urban development, an enabling investment policy framework needs to be put in place. If such a framework already exists, it will need continuous review to keep the investment location competitive and to strengthen its social, environmental, and governance features.

Because most SDG sectors fall under national legislation and regulations, cooperation with legislators, regulatory authorities, and policymakers at the national level is critical. National governments may also have programmes to promote specific cities as investment destinations. City associations and networks can support investment promotion efforts and advocate for urban interests at the national level. While at the city level local corporate and real estate taxes can be used as promotion instruments, tax incentives should be monitored for effectiveness in achieving desired outcomes and to avoid a “race to the bottom” among competing cities.

In addition, proactive investor targeting will be necessary to bring specific investment opportunities to the attention of potential investors. This can be done by national IPAs, but some cities and subnational regions have established IPAs at the city or municipal level to ensure that urban planning, policies, and investment promotion efforts are well aligned and focused. Such city IPAs not only help improve city administrations in their efforts to target and facilitate investments that they are seeking, but also create an image that the city is ready to do business. Examples of successful city IPAs are the Durban Investment Promotion Agency in South Africa and Invest Hong Kong in China.

In order to promote investment in urban SDG projects, IPAs should:

- enhance in-house expertise in SDG related sectors and projects;
- select and target SDG subsectors that match their development objectives and for which the location is competitive;
- develop pipelines of bankable SDG projects;
- promote supportive policies and measures for target sectors; and
- strengthen networks of in-country partnerships and broaden contacts with potential investors.

3. Investment Facilitation

Investment facilitation policies, measures, and practices in the pre-establishment, establishment, and operational stages of investment projects have often been neglected compared to investment incentives, even though they are critical in securing and retaining investments (see figure 3). This also applies to projects in urban development, whether in infrastructure or manufacturing. 2 Investment facilitation often requires special units within IPAs dealing with business and aftercare services.

The establishment of Economic Zones with the needed business infrastructure and their own management agencies within or close to urban areas could be a tool to provide an attractive environment with adequate facilitation services for businesses. Services can be extended to ensure the sustainability of labour, environmental, health, and safety features within the zones. 3 Zone authorities can also help promote linkages and assist with local sourcing through the identification and upgrading of suppliers. 4 In some countries, zone authorities have pooled resources from already established companies within their zones to create incubation centers, which have helped start-ups and new investors who subsequently became suppliers to larger companies. These local supply chains are important to secure the sustainability of operations of foreign affiliates.

Figure 3. Categories of promotion and facilitation policies, 2000–2015 (per cent)

![Figure 3. Categories of promotion and facilitation policies, 2000–2015 (per cent)](image)

To attract and facilitate investment, sound data and transparency are essential. These can tighten the nexus between governments, investors, civil society, and other stakeholders and help cities to enhance models to deploy more capital, improve PPP projects, and evaluate investment promotion and facilitation efforts. Providing better data and monitoring ongoing projects can also help explain how investments benefit people.

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2 See UNCTAD’s Global Action Menu for Investment Facilitation.
3 At the UNCTAD World Investment Forum, the World Free Zones Organization mentioned that they had launched a programme called “Free Zones of the Future”, which has a number of certifications for free zones, including green certification, smart zone certification, and certifications for safe and secure zones.
4 See Enhancing the Contribution of Export Processing Zones to the Sustainable Development Goals, UNCTAD, 2015.
4. Partnerships
Partnerships in many forms and at different levels are crucial to the performance and success of investments in developing countries. Cooperation between outward investment agencies (OIAs)\(^5\) in home countries and IPAs in host countries and cities could be institutionalized for the purpose of:

- marketing investment opportunities in home countries, including investment in SDG projects in urban areas;
- OIA provision of investment incentives and facilitation services for urban SDG projects in developing countries; and
- joint monitoring and impact assessment.

PPPs have worked in providing public services, including low-cost housing, when there are proper policies and planning procedures in place. Shelter Afrique, a pan-African finance institution that supports the development of the housing and real estate sector in Africa, has assisted governments to facilitate PPPs and create low-income housing. Shelter Afrique entered for instance into a direct partnership with the city of Kigali in Rwanda, which facilitated advanced planning and joint operations. Kigali’s city administration consulted in the past with a variety of investors and other relevant institutions in formulating the city’s business plans on housing development and has sought to improve accountability and collaboration.

Key Messages

- FDI can play a critical role in filling the investment gap for sustainable urban development.
- Cities must have strong leadership, demonstrate clear roadmaps for investors, and provide support, particularly for SDG investments in sectors that are regulated at the local level.
- Urban SDG projects often entail the provision of public services and are almost always long-term; investors must be socially accountable and local, multistakeholder buy-in can contribute to a stable investment climate.
- Attention to strategic urban planning and design, land management, and urban legislation is critical for pursuing the SDGs and for providing clarity and predictability to investors.
- A concerted effort is needed to acquire technical expertise and the institutional capacity to attract, facilitate, and retain investment in cities.
- Partnerships are crucial in securing investments in urban development, including IPA-OIA partnerships and PPPs.

“There are many city-level investment and development challenges we all face daily. As we collectively build more effective and practical partnerships that target a better investment facilitation function, we will see accelerated achievement on the SDG sectors, and beyond. This is especially so for developing countries.”

Mr. Russell Curtis, Head, Durban Investment Promotion Authority, South Africa

\(^5\) Outward investment agencies include outward investment promotion agencies, development finance institutions, and investment guarantee schemes. See Outward Investment Agencies: Partners in Promoting Sustainable Development, UNCTAD, 2015.