

FDI Goes Local

The Millennium Cities Initiative

by Karl P. Sauvart, Co-Director, Millennium Cities Initiative

Attracting investment at the city level helps to stimulate economies.

The role of foreign direct investment (FDI) in economic growth and development is now widely recognized. All countries in Africa are seeking to attract such funds. For that purpose, they have liberalized their FDI regimes, entered into numerous investment protection agreements and established investment promotion agencies. These good-news stories need to get out to correct the world's image of Africa to the new reality. Still, African countries need to make stronger efforts to attract more FDI (especially outside the natural resources sector) and better exploit the benefits. For that, they need to move away from the national plane and identify concrete investment opportunities at the provincial and city levels. This is precisely where the Millennium Cities Initiative (MCI) comes in.

The MCI is one of a number of practical initiatives launched to help implement the Millennium Development Goals (MDGs) for halving extreme poverty. Anchored in the recommendations of the Millennium Project, an independent advisory body to the United Nations (UN) Secretary-General which was led by Professor Jeffrey D. Sachs, the Earth Institute-based MCI assists seven cities in six African countries to become viable economic units in their own right. The cities are Akure, Nigeria; Bamako and Segou, Mali; Blantyre, Malawi; Kisumu, Kenya; Kumasi, Ghana; and Louga, Senegal. The MCI was launched in 2006 with the strong support of the governments of the participating countries, and it benefits from the partnership of the UN Development Programme, including its MDG Support Team, which helps African countries to develop MDG-based national development strategies. The MCI also partners with the Millennium Villages Project (MVP) to localize the MDGs and support the escape from extreme poverty in Africa.

In the broader context of City Development Strategies being prepared, the MCI's priority is to help create employment, stimulate enterprise development and foster economic growth in the seven cities, especially by attracting FDI. The latter effort rests on three pillars.

Analyses to inform foreign investors

► **The regulatory framework of FDI at the city level**, not only as it is "on the books", but also as it is in reality



The market in Mali's capital, Bamako, is a hive of activity.

and how it could be improved, so that investors know the framework within which they have to operate. These assessments are undertaken pro bono by lawyers from the legal practices of Carter, Ledyard & Milburn LLP; Cravath, Swaine & Moore LLP; and DLA Piper. They are dovetailed with the Organisation of Economic Co-operation and Development's Policy Framework for Investment.

► **The infrastructure** in each of the cities, a key FDI determinant.

► **Perhaps most importantly, analyses of commercially viable business opportunities**, i.e., sectors (and even concrete projects) in which the cities, together with the MVP villages, have a comparative advantage, be it in the provincial, country or international market. This effort is being undertaken by the UN Industrial Development Organization (UNIDO) and carried forward, on a pro bono basis, by KPMG in a major undertaking to

identify business opportunities. Products and sectors with potential identified so far include such agri- and aqua-cultural products as fruit juices, dried fruits and fish, and spiced groundnuts; chocolate, cocoa powder and soap, from cocoa, and starch from cassava; mineral products, such as glass and ceramics from silica; paint from kaolin, cement from limestone and bitumen; and cultural and eco-tourism.

Dissemination to potential investors

► **Investors' missions to the cities.** So far, the German and Finnish Governments have promised to support missions to bring investors to two MCI cities in order to explore in situ investment opportunities and conditions. We hope, of course, that eventually we will also be able to cover all of the cities.

► **Investors' round tables,** which allow a larger group of investors to familiarize themselves with the country's regulatory and policy framework, and more specific issues involved in regional development and especially the MCI cities. They also involve field trips to the cities for interested participants. The next round table is scheduled for 17–18 July 2007 in Kenya, made possible in part thanks to the support of the Government of Finland.

► **Millennium Cities Days** in strategic locations in North America, Europe and Asia, to bring representatives of the countries and cities to meet investors on their home ground. At the moment, we are still in the process of identifying cities in these regions to host a Millennium Cities Day.

► **Millennium Cities Investors' Guides** are concise, easily accessible manuals that can reach a much larger audience than can the activities described so far. In fact, these guides can potentially attain the universe of actual and potential foreign investors. They are, therefore, a powerful tool to put the MCI cities on the investment map.

Development of products for export

► Thanks to the cooperation of ITC, teams of experts will work with the MCI cities and MVP villages to identify, for each of them, one or two products that can be developed immediately for the international market, thus meeting the toughest competitiveness test in a globalizing world economy. In due course, and also by building on UNIDO's and KPMG's efforts, additional products will be identified.

► In a parallel but related endeavour, the Business Alliance Against Chronic Hunger, led by the World Economic Forum and involving major multinationals, seeks to develop business opportunities near Kisumu, building village-to-world market agriculture-based value chains for important products of the district.

These activities are concrete, practical and result-oriented, and they build on the new reality in Africa. They involve a broad spectrum of supporters. Apart from those already mentioned, the Bill & Melinda Gates Foundation, the Rockefeller Foundation and a few private donors are involved. In many ways, the MCI team in New York and its representatives in each of the seven cities are really a group of conceptualizers and connectors who help the cities and various organizations to stimulate economic growth in an urban context. In that spirit, the MCI will also develop a handbook to provide a framework for other cities in the developing world, based on its experience, so that this effort can be scaled up to contribute to the implementation of the MDGs.

So what does all of this add up to? In spite of all sorts of limitations, the climate for FDI in Africa, as well as its regulatory framework and institutional infrastructure, is better today than ever. This is reflected in the growth of FDI flows to Africa which reached some \$35 billion in 2006. They are expected to stay at this historically all-time high at least until 2010. To attract even more FDI, especially in manufacturing and services, countries will need to improve their infrastructure and identify and promote investment opportunities outside their capital cities.

In the end, all investment is local — hence local opportunities need to be brought to the attention of investors, and the local regulatory and business environment needs to be competitive. This also implies a broader lesson when it comes to Africa. Investors need to differentiate and look for investment opportunities country by country, city by city, sector by sector. Opportunities exist, and for all you know, your competitors are already taking advantage of them! ▶

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A more detailed exposition of Mr Sauvant's ideas is available on the *Trade Forum* web site under the title "Africa: the FDI Opportunities are Local".