

# South African IPAs Attracting FDI: Investment Promotion Strategies

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## ABSTRACT

*The provincial investment promotion agencies (IPAs) of South Africa play an important role to attract foreign direct investment (FDI) to the country. In order to do so, investment promotion strategies are developed and executed. This study investigates how the provincial IPAs of South Africa use their investment promotion strategies and points out the gaps in their strategies to attract FDI and improve on the approximate mean of 0.25%<sup>1</sup> of the total world investment inflows from abroad. This contributes to their mandate and goals, which are to enhance economic development and contribute to economic growth by attracting FDI and to assist domestic companies to invest abroad. Both primary and secondary data are used. The study highlights that the majority of the provincial IPAs operate under government direction and that there are significant differences in the investment promotion strategies used. The study finds that 21-40% of budgets allocated for investment promotion go towards perception building. Macroeconomic and industrial policies are the most relevant factors when attracting FDI by the IPAs. The investment promotion (IP) strategies used by the provincial IPAs differ in terms of the investors they focus, the incentives used to attract those investors and the preferred contact method with the targeted investors. IPAs indicated that they use more tax incentives along with tailor made industrial policies, focussed on the specific needs of the investors.*

**Keywords:** Investment Promotion (IP); Investment Promotion Agencies (IPAs); Foreign Direct Investment (FDI)

## 1. INTRODUCTION

Up to 2012 South Africa's institutional framework to attract foreign direct investment (FDI) at a provincial level consisted of nine provincial investment promotion agencies (IPAs)<sup>2</sup> that focussed on the promotion of investment and trade to and from the respective provinces. After 2012 most of these agencies were incorporated into the respective provinces' development agencies. This study relates to a survey of these agencies before amalgamation. This study provides a clear benchmark of the state of provincial investment promotion before this event and provides a foundation to compare the resulting changes in future. The role of IPAs is to gather and distribute information to investors in order to influence the investors' decision to invest in South Africa (SA). Providing relevant potential information<sup>3</sup> leaves the investor in more informed position regarding the decision to build a long-term relationship with South Africa (Lim, 2008; Charlton & Davis, 2007). The consequence of not investing in an appropriate location, due to inadequate information, can leave investors with high transport- and marketing costs (Charlton & Davis, 2007). Information on political stability, financial stability and the availability of a skilled labour force are all determinants that influence the investment decision. Governments have a propensity to intervene to support and contribute to the investment promotion (IP) strategy and IPAs are used to promote investment opportunities (normally by providing incentive packages to the investor) (Trnik 2007). By

<sup>1</sup> Calculated by author using FDI inflow data (1990-2012) from UNCTADstat database.

<sup>2</sup> These IPAs are: The Western Cape Investment and Trade Promotion Agency (WESGRO), Trade and Invest KwaZulu-Natal (TIKZN), Trade and Investment Limpopo (TIL), Mpumalanga Economic Growth Agency (MEGA), Northern Cape Economic Development Agency (NCEDA), Invest North West (INW), Eastern Cape Development Corporation (ECDC) Free State Development Corporation (FDC) and Gauteng Economic Development Agency (GEDA).

<sup>3</sup> Potential information refers to investment and export opportunities, economic indicators, as well as the condition of the infrastructure and business opportunities.

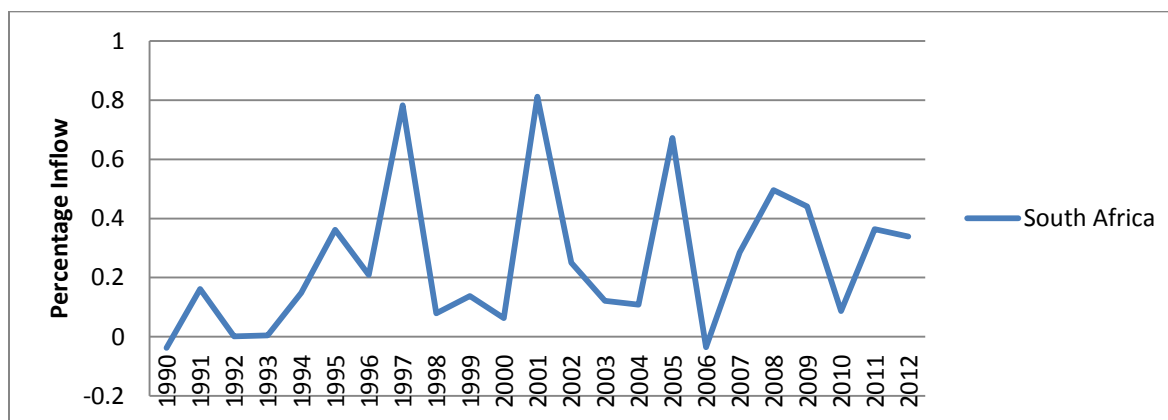
marketing the country (through perception building), IPAs are vessels used to positively influence FDI (Zanatta, 2004).

**Table 1.** Inward Investment Stock For South Africa Between 2000 And 2006 (Us Million Dollars)

Industry	2006	2005	2004	2003	2002	2001	2000
Total (merchandise & service)	87 765.0	77 362.4	63 070.7	45 714.6	29 610.8	30 569.0	43 451.0
Mining and quarrying	35 919.8	26 604.1	19 829.3	15 526.1	9 330.7	10 230.7	12 094.9
Unspecified secondary	23 734.9	21 506.4	19 778.7	11 359.5	7 783.3	7 375.8	11 466.3
Finance	23 317.2	24 915.4	17 800.2	13 062.2	9 448.4	10 766.7	17 065.7
Wholesale and retail trade	2 320.2	2 327.6	2 578.5	2 021.8	1 540.7	1 248.6	1 571.6
Transport, Storage And Communications	1 981.2	1 493.9	2 506.6	3 319.7	1 172.6	727.7	1 125.9

Source: Investment Map (2010)

Although South Africa indicates an increase in its inward investment stock since 2002-2006 (Table 1), the country’s performance in attracting foreign direct investment (FDI) is a matter of concern due to its low share in the world FDI flows and its clearly volatile character (Fig 1)<sup>4</sup>.(WIR, 2013). IPAs have to subsequently revise their IP strategies. According to the Presidency (2003), if FDI was to improve domestic conditions, implemented policies should provide a fertile ground for investments. They ask whether this really is the case?



Source: UNCTADstat (2014)

**Figure 1.**<sup>5</sup> South Africa’s Share Of The Total World Inward Investment

The present study endeavours to provide insight into the inward FDI promotion strategies used by the provincial IPAs of SA and to establish how these IPAs use these strategies. Perception building, the structure of the IPA, targeting investors as well as incentives and policies are the strategies investigated in this study. These strategies forms part of an IPA’s mandate and serve to increase FDI flows. In South Africa one of the primary aims are to drive growth on provincial level and address the unemployment rate. IPAs assist companies to access the local markets. This is aligned with the development of sectors in the economy as per government growth strategy (Wesgro, 2009; GEDA, 2010). An attempt is made here to establish whether the IPAs use these investment promotion (IP) strategies to achieve their goals within the same scope.

In this study primary and secondary data are used. Primary data were accumulated by conducting a survey for completion by the IPAs through scheduled interviews. Secondary data were accumulated using the following sources: United Nations Conference Trade and Development (UNCTAD), Financial Investment Advisory Service (FIAS), Department of Trade and Industry (DTI), Investment Map, Trade Map and World Association of Investment Promotion Agencies (WAIPA).

<sup>4</sup> Note: In 2006, Oil and Gas received no investment. The low investments in the Metals and Automotive could have also added to the low figure in 2006 (FDI Markets, 2014).

<sup>5</sup> This figure provides a background/overview to the investment climate South Africa. This is used to provide the reader with an overview of FDI in South Africa.

The study consists of four main sections, which are divided into the introduction, literature review, the research method and findings. This is subsequently followed by the final conclusions and recommendations.

## **2. FOREIGN DIRECT INVESTMENT PROMOTION: EVIDENCE FROM THE LITERATURE REVIEW**

### **2.1 Importance Of Investment Promotion Agencies**

Investment promotion is defined as activities that a government or institution uses to attract FDI (Wells&Wint, 1990). These include “advertising, direct mailing, investment seminars, investment missions, participating in trade shows and exhibitions, distribution of literature, one-on-one direct marketing efforts, preparation of itineraries for visits of prospective investors, matching prospective investors with local partners, acquiring permits and approval from various government departments, preparing project proposals, conducting feasibility studies and providing services to the investor after projects have become operational”(Wells *et al.*,1990:4). Trnik (2007) also defines investment promotion as an effort made by the government to communicate to foreign investors the nature of the country’s investment climate and to persuade and assist these investors to invest or reinvest in the country. In addition, international competition motivates governments to be proactive in their strategies used by the IPAs to market their location effectively (Kumar, 2003; Hampton, 2006).

The agencies responsible for the execution of the investment promotion activities are called Investment Promotion Agencies (IPAs) (Lim, 2008). The IPAs execute these activities by distributing information that prospective investors need to evaluate the attractiveness of a country for investment. IPAs therefore use their tools<sup>6</sup>(MIGA, 2005; Wells *et al.*, 1990) to influence an investor’s decision and to ensure that the established investors are well looked after. For this reason, the IPA implements monitoring and aftercare procedures to ensure that the investor is satisfied (Manasoe& Mears, 2011:3; Young & Hood, 1994:46).Three main roles of an IPA, as identified by Piontkivska and Seura (2003),are: to communicate and disseminate information about the business environment along with the investment opportunities. Secondly, IPAs should provide free access to information, as it is crucial for the investor’s decision and to coordinate investment promotion activities. Lastly, IPAs should focus on identifying potential investors and to target specific sectors and companies in order to create significant investment leads. An IPA can also influence the country’s FDI climate such that more FDI inflows are attracted (Lim, 2008:39-53).

### **2.2 Foreign Direct Investment**

In order to fully facilitate an understanding of the IPA’s role an understanding of the scope of FDI is required. For Bejorvatn (2000), FDI<sup>7</sup> is an investment made in the domestic that accomplishes a continuing relationship interest in foreign enterprises with the purpose of having an effective voice in the management, whereas Selby (1999) states that “FDI can be the purchase or construction of productive capacity in a country by an individual or company based outside the host country”. According to Arango (2010), investment by a foreign individual or company with the intention of contributing to the development of a firm’s long-term strategy, also describes the term FDI. In broad, FDI is an investment involving a long-term relationship that controls or significantly influences the resident enterprise of the host country by an enterprise resident in another economy (Asafo-Adjei, 2007).

Various studies have indicated the potential benefits that FDI brings for a country. These include: higher economic growth, more and better technology diffusion and the creation of human capital as the most important benefits (Bezuidenhout, 2007). Providing the host country with access to international markets through attracting FDI presents the opportunity for the IPA to discover new potential investors (Naudé&Krugell, 2007). Generating these benefits from FDI highly depends on the education level of the population and labour force (OECD, 2002);as

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<sup>6</sup> These tools include: Serving existing investors, solving the problems they encounter while operating within the country, conducting policy advocacy, encouraging government to make changes to increase a country’s attractiveness, helping to establish investment to the domestic economy through supply and sourcing relationships (MIGA, 2005; Wells *et al.*, 1990).

<sup>7</sup> Pugel (1999) indicates that FDI is the process whereby residents of one country acquire ownership of foreign assets for the purpose of controlling production distribution and other activities of a firm in the international market. According to IMF (1999), FDI also includes the flow, indirect or direct, reinvested earnings, net borrowing as well as equity capital.

well as the capacity and necessary technology that are available (Borenstein, Gregorio & Lee, 1998). FDI also benefits the host country through certain channels, which include foreign trade flows, spill-overs, externalities, and the direct impact that FDI has on the structural factor of the host country. OECD (2002) explains that the extent to which a country benefits from FDI depends on the development phase (whether developed or a developing country) of a country. This explains why some countries experience lower growth with FDI – assuming they lack the productivity and resources needed to attract relevant FDI. Berthélemy and Démurger (2000) complement the above benefits by indicating that the impact of FDI on a country has two positive effects on the economy, namely an extension effect<sup>8</sup> and an external effect.

CUTS (2002) identified three major types of FDI. These are market-seeking investments, resource-seeking investments and efficiency-seeking investment. Resources-seeking investments are motivated by the abundant availability of resources in international markets. This is a main source of FDI in developing countries. Efficiency-seeking investments are motivated through/by new sources of competitiveness. Efficiency-seeking investors' choice to invest is influenced by the cost difference between locations, quality of the infrastructure and business-related services. The ease of doing business and the availability of skills also contribute to this type of FDI. Market-seeking investments are motivated by large potential international markets with fewer trade restrictions. According to Dunning (2000), these types<sup>9</sup> of FDI are also identified as the main types of foreign-based Multinational Enterprise activity. In addition to the above, Dunning (1993) also identifies rent-seeking as a factor that motivates investment. This means that investors are seeking cheaper factors and inputs of production, resource-seeking (such as primary products), market seeking<sup>10</sup> (foreign firms exporting or opening new markets in host countries in order to boost their sales)<sup>11</sup>, efficiency-seeking (aims at using a few countries to serve a larger market) (Kandiero&Chitiga, 2006).

The three potential sources of advantage that may underline the decision of a firm to become a multinational can be explained by the OLI Model<sup>12</sup>. (O) Ownership advantages may declare why some investors go abroad and overcome the cost of operation in a foreign country. Location in the OLI model focuses on the (L) location where the investor wants to invest and lastly (I) internationalisation influences how a firm chooses to operate in the foreign market.

The following section will focus on a discussion of the variables affecting FDI.

### **3. VARIABLES AFFECTING FDI<sup>13</sup>**

#### **3.1 Perception-Building**

Perception-building activities can be classified into three categories, namely advertising, promotional material and participation in events. IPAs spend on average a quarter of their total expenditure on perception-building activities, which are viewed as an element of marketing communication (Morisset& Andrews-Johnson, 2004). As indicated by Clow and Baack (2007:28-60), marketing communication is based on a clearly defined corporate image. Communicating these marketing activities to an investor provides the investor with a summarised image and creating a stable impression in the mind of the investor.

Governments contribute to creating a positive perception, which includes political stability, economic development and confidence in the ability of the government. This is considered to be an on-going process, since the confidence the government establishes is hard to gain and easy to lose (Aharoni, 1966). Governments that do not

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<sup>8</sup> Extension effect: FDI contributes to the extension of the intermediate goods sector, which increases the specialisation of the producer's input. External effect: FDI allows the domestic firm to benefit from the knowledge gained (Berthélemy *et al.*, 2000).

<sup>9</sup> Strategic asset-seeking FDI is also considered to be one of the types of FDI identified by Dunning (2000). This type of investor tries to keep its firm's position and international competitiveness.

<sup>10</sup> Market seeking FDI is another form of FDI identified by Dunning (2000). The firm focusses on expanding its cleintsbase and market share.

<sup>11</sup> Market-seeking investors also try to get around trade restrictions when looking to invest in different markets. They seek to establish a firm internationally with the purposes of serving that country's domestic market.

<sup>12</sup> This model can assist IPAs to identify the type of investor they want to attract.

<sup>13</sup> The purpose of not discussing FDI determinants [e.g. low-cost unskilled labour, raw materials, strategic assets, economic growth, exchange rate, technology, market size etc. (Lim, 2008)], will take away the focus of the study and therefore will proceed to focus on the efforts IPAs can make to attract FDI given the fact that FDI determinants have a role play to attract FDI.

deliver to create a positive perception create the opportunity for investors to invest in another country and rule out their future investment considerations. Government's reliability is therefore crucially important for foreign investors (Trnik, 2007). The importance of perception-building lies in the assurance to the investor that the investment decision will contribute to the reduction of search times and provide social acceptance, as well as psychological reinforcement of the investment decision (Clow *et al.*, 2007).

A positive perception stimulates competition that in-turn can lead to a competitive advantage. This provides prior knowledge about the country and a lower risk when investing (Clow *et al.*, 2007; Trnik, 2007; Morisset & Johnson, 2004). Countries use this technique to influence investors' perceptions about them (Wells *et al.*, 1990). Perception-building can be executed is through a variety of sources, such as videos, newspapers and articles. It can also bring firms together through trade shows and trade missions to create positive perceptions (UNCTAD, 1997). Creating a positive perception can thus be used by IPAs as an additional incentive for investors to invest.

### **3.2 Targeting Investors**

Segmentation in IP is the distinction between specific purchasing groups. It is the process where an IPA identifies specific purchasing groups based on their needs, attitudes and interests (Clow *et al.*, 2007:109-120). The variety of multinational corporations makes it difficult to specifically serve every investor (Trnik, 2007). Targeting investors makes it possible for IPAs to serve the needs of investors effectively and making them more cost effective. It narrows the scope of promotional efforts by identifying the specific types of investment the investor are aiming at (Trnik, 2007), as well as the effective engagement of resources. Morisset and Andrew-Johnson (2003) complement Trnik (2007) by stating that the use of sector specialists are of great benefit to convince particular investors to invest. Business databases<sup>14</sup> are to be utilised in this respect, to keep track of targeted investors and to identify other investors (Moran, 1998; Loewendahl, 2001).

### **3.3 Structure Of An IPA**

Due to the size of countries and the difference in regional needs for inward FDI promotion, no single IPA structure fits all circumstances. This makes planning and implementation of investment promotion, by IPAs, more challenging (Loewendahl, 2001). Whether or not IPAs are operating at the national or provincial level, in order to enhance the creditability and flexibility of the agency, they should try to operate independently from their respective governments (Christodoulou, 1996). The organisational structure of the IPA therefore influences the probability of the IPA to attract potential investors (Loewendahl, 2001).

UNCTAD (1997) as a baseline for future work on IPAs, identified three organisational structures under which an IPA can operate, namely government, quasi-government and private agencies.

IPAs that operate under the government (government IPAs in short) benefit from easy access to other departments of the government bureaucracy. In order to be updated with investment projects, IPAs must keep regular contact with the private sector to maintain a long-term relationship with the investors. The disadvantage of these agencies is therefore that they often lack the management and marketing skills to operate effectively and have insufficient business experience. These deficiencies affect their effectiveness and functionality (UNCTAD, 1997). IPAs that function under the government capture two processes in one through screening and negotiation with foreign investors about the investment opportunities in the market (UNCTAD, 1997; Wells & Wint, 1992). In addition, quasi-private IPAs are less successful in having access to information in the government departments (UNCTAD, 1997).

Quasi-government IPAs have direct contact with the government and a close relationship with the public authorities to carry out efficient investment promotion and facilitation. In contrast with government staff, the staff of quasi-government IPAs are rewarded for their marketing expertise (UNCTAD, 1997).

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<sup>14</sup>Loewendahl (2001) indicates other strategies to identify potential investors, which include networking in businesses, organisations and at conferences, and the establishment of trade missions. Conferences should be scheduled to create the opportunity for IPAs to provide updates to investors to generate more investments.

Private IPAs are driven by their business interests and cannot carry out perception-building and project-generation activities, since they are non-profitable activities. The private sector therefore has less interest in operating such an agency. This increases the probability of all IPAs to be driven by the government, either directly or indirectly. Importantly, an IPA should still keep a link between its stakeholders(public- and private sector)<sup>15</sup>, since they are in-between enterprises (government and business) (Christodoulou, 1996).

### **3.4 Incentives And Policies**

Incentives are considered to be a strategic investment approach to persuade investors to invest. It is also designed to enhance the rate of return of a particular FDI and/or to reduce costs and risks (Cass, 2007; UNCTAD, 2000b).Incentives<sup>16</sup> are also considered one of the two policies identified by Cass (2007) to encourage FDI through IPAs in transitional countries. Implementing incentives is necessary, particularly in the early stages of an investment decision (Cass, 2007; Aharoni, 1996). It has a signalling effect that communicates the commitment of the government to stimulate FDI in the host country (Morisset & Pirnia, 2000) and “can attract a first mover investor who is followed by competitors and suppliers” if it is effectively implemented (UNCTAD, 2002).

The consistent implementation of policies over time can be very important because financial and fiscal incentives along with the upgrading of skills can help improve the investment climate for multinationals (Ruane&Gorg, 1999). Therefore, the potential and effectiveness of the implementation of the policies by IPAs depend on their organisational structure, size and budget (Morisset& Andrew-Johnson, 2003;TeVelde, 2001).

Easterly (2002) argues that incentives are not always effective. Political instability, corruption and the risk of exportation also influence the investment decision of the investor (Easterly, 2002). The reason that incentives do not always work is due to the inefficiency of the implementation of the FDI policy (Lim, 2005).

The process of policy advocacy includes: problem identification, effective policy remedy, monitoring the policy with the necessary support, and monitor and evaluate the policy (UNCTAD, 2008). Effective policies are necessary because they have the strongest association with FDI inflows, which reflect on average 5.5 percent of the budget being spent on policy advocacy (Morisset& Andrews-Johnson, 2003).Policies, laws and procedures have a significant effect on the attraction of investors (Morisset& Andrew-Johnson, 2003). Morisset and Pernia (2000)conclude that it does not matter if governments try to implement the best incentive packages but do not have the potential investment opportunities for investors.

TeVelde (2001) indicates two important policies that need to be in place for effective investment promotion. These policies are macro-economic and industrial policies<sup>17</sup>. Using these policies, IPAs can promote FDI and target multinationals abroad at national, sectored and even firm level that is done in the form of “matchmaking activities, providing general information, sector promotion, organising site visits supporting feasibility studies, project proposals and other activities” (TeVelde, 2001).

Since the investment promotion strategies differ between countries, it is essential for an IPA to implement the policies according their respective objectives to attract FDI (Lall, 2000; Borensztein, De Gregorio & Lee, 1999; TeVelde, 2001). If the IPAs want to achieve their objectives more effectively, it is essential to combine the implementation of macro-economic policies with industrial policies (Morisset and Andrew-Johnson, 2004; TeVelde, 2001; Borensztein *et al.*, 1999).

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<sup>15</sup> The term public-private partnership (PPP) can be used to describe a variety of arrangements involving the public and private sectors working together (World Bank, ICA & PPIAF, 2009).

<sup>16</sup> The use of incentives to attract FDI has increased since the mid-1990s (Cass, 2007).

<sup>17</sup> TeVelde (2001) also indicates other policies and factors that can influence the decisions of foreign and domestic investors. These policies include: global economic integration, transportation cost, regional, international and some extended bilateral agreements.

**4. INVESTMENT PROMOTION AGENCY: QUESTIONNAIRE**

**4.1 Research Method**

A lack of data in the field of investment promotion in South Africa forms the foundation of this study and the subsequent survey. In order to establish how the provincial IPAs of South Africa use their IP strategies to attract FDI, South Africa’s provincial IPAs were surveyed on their strategies. The following provincial IPAs of South Africa completed the questionnaire and were interviewed: NCEDA, INW, GEDA, FDC and TIKZN. MEGA and TIL did not participate in the research<sup>18</sup>. WESGRO and ECDC only completed the questionnaire<sup>19</sup>. Trade and Invest South Africa (TISA) of the Department of Trade and Industry were also included as a benchmark for the provincial IPAs

**4.2 The Questionnaire**

The findings of the study are based on the feedback received from the questionnaire. The theoretical guidelines provided were used as a parameter to structure the questions of the questionnaire. These questions are structured to provide insight into the investment promotion strategies used by the provincial IPAs of South Africa to attract FDI to establish whether there are any differences in the strategies used. The questionnaire was distributed to all the provincial IPAs in SA. Questions focused on how IPAs use the discussed investment promotion strategies to attract FDI. However, not all the IPAs were willing to complete the survey. The following section will discuss the findings of this study.

**4.3. Findings<sup>20</sup>**

The provincial<sup>21</sup> IPAs of SA all indicated a focus on investment promotion and export promotion. Table 1 shows some major characteristics of the provincial IPAs that are covered in the present research. Table 1 also indicates the number of years the provincial IPAs have been in operation. GEDA, INW and WESGRO indicated to have been in operation for 11-15 years. WESGRO indicated to being in operation for more than 15 years. Table 1 also shows that most of the provincial IPAs are small agencies that operate with full-time staff between 0 and 50.

**Table 2. IPA Information**

<b>Name Of IPA</b>	<b>Number Of Full-Time Staff</b>	<b>IPA Or IPA &amp; Trade</b>	<b>Number Of Years In Operation</b>	<b>Education Of Staff<sup>22</sup></b>
FDC	0-50 (small)	IPA & trade	0-4yrs	Skilled
GEDA	51-150 (medium)	IPA & trade	11-15 yrs	Skilled
INW	0-50 (small)	IPA & trade	11-15 yrs	Highly skilled
NCEDA <sup>23</sup>	0-50 (small)	IPA & trade	0-4 yrs	Intermediate
TIKZN	0-50 (small)	IPA & trade	5-10 yrs	Highly skilled
WESGRO	0-50 (small)	IPA & trade	15 yrs and more	Highly skilled
TISA	51-150 (medium)	IPA & trade	5-10 yrs	Intermediate-skilled

<sup>18</sup> The question of the future existence of MEGA is a concern and they did not participate in the study. TIL showed their interest to compete in the study, but did not, since the IPA is in a reconstruction phase.

<sup>19</sup> ECDC indicated that they wished for their results not to be published.

<sup>20</sup> Findings of the study are based on the feedback received from the questionnaire.

<sup>21</sup> Provincial IPAs: We refer to the IPAs that competed in the study.

<sup>22</sup> No previous information existed on the education level of the staff working in the IPAs; therefore, broad categories were given for the IPAs to provide their opinions as to which category they comply with.

<sup>23</sup> NCEDA indicated that they focus on economic development and EIA. They also help the community to take share-holding in projects and to ensure that the community is looked after. According to TISA (2011), NCEDA is not an official IPA and mostly focuses on economic development.

It is evident that there is a difference in the skills<sup>24</sup> level of the full-time staff between the agencies. Most of the agencies indicate to work with staff that are skilled. Other agencies indicate to work with staff that are intermediately skilled. The propensity of the IPAs in SA to effectively attract FDI is highly influenced by the education<sup>25</sup> level of the staff. Some of the agencies show that they work with staff whose education level varied between skilled and highly skilled. The findings from the survey show that the provincial IPAs operated with staff members whose education level varies between intermediate and skilled. TISA indicated to work with staff that are intermediate to skilled, whereas NCEDA<sup>26</sup> are operating with staff whose education is intermediate.

**Table 3. Structure Of The IPA**

IPA	Type Of IPA	Level of operation	IPAs In Competition <sup>27</sup>	Access To Info	Interaction With IPAs
FDC	Public	Regional	Yes	Strongly agree	Strongly agree
GEDA	Public	Regional	No	Strongly agree	Agree
INW	Public	Regional	Yes	Agree	Agree
NCEDA	Quasi Government	Regional and Local	No	Strongly agree	Strongly agree
TIKZN	Public	Regional	No	Strongly agree	Strongly agree
WESGRO	Public	Regional	Yes	Strongly agree	Agree
TISA	Public	National	No	Strongly agree	Agree

All the provincials IPAs in South Africa operate under the government, except for NCEDA (Table 3). Interaction between the IPAs to exchange knowledge and ideas does exist. What the study does not indicate is how regularly these IPAs interact to exchange knowledge and ideas. Three IPAs (FDC, INW and WESGRO) indicated that they do compete with other provincial IPAs to attract FDI<sup>28</sup>. All the IPAs have access to information<sup>29</sup> and focus on attracting FDI to their provinces.

**Table 4. Adequate Funds For Investment Promotion**

IPA	Adequate Funds	Budget For IP Per Annum (US Dollar)
FDC	No	500 001-1 000 000
GEDA	No	500 001-1 000 000
INW	No	0-500 000
NCEDA	Yes	0-500 000
TIKZN	Yes	0-500 000
WESGRO	No	1 000 001-5 000 000
TISA	Yes	10 000 001 And More

Table 4 indicate how much the respective IPA budgets for investment promotion per annum are in US dollars. It is evident that INW, NCEDA and TIKZN, have budgets of up to US\$500 000 for investment promotion; however, for some IPAs, this budget is not sufficient to operate effectively. NCEDA and TIKZN stated that these funds are sufficient. The provinces of South Africa in which these IPAs feature are responsible for the allocation of the necessary funds for their investment promotion activities. DC and GEDA indicated a budget of between US\$500 001 and US\$1 000 000 on investment promotion per annum, while WESGRO budgets between US\$1 000 001 and US\$5 000 000 for investment promotion. Most provincial IPAs have sufficient funding to operate effectively.

<sup>24</sup> Differentiation between skills: A highly skilled work employee is one who does the work that involves skills or competence of extra-ordinary degree and possesses supervisory ability. A skilled employee is one who is capable of working independently and efficiently and turning out accurate working. He must be capable of reading and working on simple drawing circuits and processes, if necessary. A semi-skilled employee is one who has sufficient knowledge of the particular trade or above to do respective work and a simple job with the help of simple tools and machines. An un-skilled employee is one who possesses no special training and whose work involves the performance of the simple duties, which require the exercise of little or no independent judgement or previous experience, although a familiarity with the occupational environment is necessary (Minimum Wage Act. 1948).

<sup>25</sup> NCEDA indicates that they are relatively new and that their staff still require the appropriate skills.

<sup>26</sup> NCEDA indicated being in a re-developing state and is in the process of training their staff.

<sup>27</sup> Unnecessary competition between regional agencies for the same investment project causes a waste of resources (Oman, 2000). This question is included in the study to find out whether or not this is also the case with the provincial IPAs.

<sup>28</sup> Literature indicates that competing with other IPAs for the same investor, is a waste of resources.

<sup>29</sup> Whether or not IPAs know how to interpret, analyse, understand or present the data, is not discussed in this study. However, it clearly depends on the skills of the staff working for the IPA.



**Table 5.** Importance Of Perception Building

<b>IPA</b>	<b>Importance Of Perception Building</b>	<b>Consider As More Important Under Perception Building.</b>	<b>% Budget For Perception Building</b>
FDC	More important	Economic and political stability	21-40
GEDA	Very important	Economic and political stability	0-20
INW	Less important	Economic and political stability	0-20
NCEDA	Very important	Economic and political stability	21-40
TIKZN	Very important	Economic and political stability	21-40
WESGRO	Very important	Economic and political stability	21-40
TISA	Less important	Economic and political stability <sup>30</sup>	21-40

According to Table 5, the majority of the provincial IPAs indicated spending between 21-40 percent of their annual budget on perception-building activities to attract FDI, and specified perception-building strategy as a very important investment promotion strategy. In contrast, TISA considered it as a less important strategy.

**Table 6.** Targeting Investors And Contact Method

<b>IPA</b>	<b>Cost Effective</b>	<b>Specialists Used</b>	<b>Prefer Criteria Used To Target Investor</b>	<b>Preferred Contact Method</b>
FDC	Agree	Yes	Ability	Telephone Email Embassies Exhibitions Trade missions
GEDA	Strongly agree	Yes	Ability, amount invested, their interest	Trade missions Email Embassies Exhibitions Telephone
INW	Agree	No	Ability	Exhibitions Email Embassies Telephone Trade missions
NCEDA	Agree	Yes	Their interest	Embassies Email Exhibitions Telephone Trade missions
TIKZN	Strongly agree	Yes	Experience Amount invested Interest	Trade missions Embassies Exhibitions Email Telephone
WESGRO	Agree	Yes	Their interest	Email Embassies Exhibitions Telephone Trade missions
TISA	Agree	Yes	Stability, experience and amount invested	Embassies Telephone Trade missions, Exhibitions, E-mail

<sup>30</sup> With TISA being the national IPA of South Africa, it is noticeable that they also consider economic and political stability at national level, as the other IPAs consider it at provincial level.

All of the provincial IPAs in SA indicated that targeting investors is a cost-effective<sup>31</sup> approach to attract FDI. With the exception of INW, they also used specialists from different sectors. It is evident that the IPAs have different criteria when targeting their investors. This varies between the investor’s ability to invest, the investor’s interest, the investor’s experience and the amount the investor wants to invest. Trade missions, embassies and exhibitions are selected to be the preferred contact methods that the provincial IPAs of South Africa use to interact or make contact with their targeted investors. TISA also indicated that their preferred contact method with targeted investors is through embassies. TIKZN and INW prefer the face-to-face contact method with the investor through trade missions and exhibitions.

**Table 7.** Targeted Countries For Investment Promotion

IPA	FDC	GEDA	INW	NCEDA	TIKZN	WESGRO
Countries	International regions <sup>32</sup>	China USA	China Germany UK	China Europe S. America & Africa	Germany India USA	Germany South Korea UK

It is evident that Germany and China are among two of the main countries considered for inward investment to SA. This can partially be explained based on South Africa’s relationship with the BRICS (Brazil, Russia, India, China and South Africa) and its good trade relationship with Europe. Although other countries from the EU and BRICS were also mentioned for inward investment, these two countries come forth repeatedly among the choices of the IPAs in South Africa’s.

**Table 8.** Targeting Investors

IPA	Target Investor	How To Target Investor	Target Type Of Investor	Main Focus
FDC	Agree	Industry	Market-seeking investor	Expand existing investor base
GEDA	Agree	Industry	Market-seeking investor	Both
INW	Strongly agree	Industry	Resource-seeking investor	Expand existing investor base
NCEDA	Agree	Industry &business	Market-seeking investor	Attract new foreign and domestic investors
TIKZN	Strongly agree	All of the above	All of the above	Expand existing investor base
TISA	Strongly agree	Business	Market-seeking investor	Both

All of the provincial IPAs have indicated to target their investors. The overall focus of the provincial IPAs of South Africa is to expand the existing investor base. South Africa has the opportunity to be exposed to new potential international investors when indicating that market-seeking investors are the type of investor mostly being targeted. This is the type of investor that FDC, GEDA, NCEDA, TISA and WESGRO want to attract. The main focus is to attract potential investors to the specific industries in South Africa.

<sup>31</sup> The table shows that the answers of the IPAs to this question vary between *strongly agree* and *agree*.

<sup>32</sup> FDC states that they do not focus on specific countries but indicates specific countries in international regions.

**Table 9.** Top Industries Attracting Investors To Different IPAs

IPA	FDC	GEDA	INW	NCEDA	TIKZN	WESGRO	TISA
<b>Industry</b>	Chemicals	Finance & Construction	Horticulture & Manufacturing	Agriculture & Mining	Automatic components & general manufacturing	Manufacturing & Automotive processing	Mining & Automotive Manufacturing
	Food Processing	Manufacturing		Tourism	Business process outsourcing		
	Service sector	Tourism & other services			Infrastructure		

The industries from the different provinces in SA that attract investors vary between mining, agriculture, tourism and manufacturing.

**Table 10.** Incentives And Policies

IPA	Incentives & Policies	% Of Budget For Incentives	Role Of Macro-& Industrial Policies	Consider As More Important
<b>FDC</b>	Yes	0-20	Very important	Industrial policies
<b>GEDA</b>	Yes	0-20	Very important	Industrial policies
<b>INW</b>	Yes	0-20	Very important	Industrial policies
<b>NCEDA</b>	Yes	0-20	More important	Industrial policies
<b>TIKZN</b>	Yes	0-20	Very important	Industrial policies
<b>WESGRO</b>	Yes	0-20	More important	Industrial policies
<b>TISA</b>	Yes	Different division	More important	Macro-economic policies

Incentives<sup>33</sup> are an investment promotion strategy used in the investment frameworks of the IPAs. Since IPAs only assist with the facilitation of the incentive packages, they have indicated to spend between 0 and 20 percent of their investment promotion budget on incentives. Table 10 specifies that the majority of the IPAs find macro-economic and industrial policies to be very important policies to attract FDI, and consider industrial policies to be more important than macro-economic policies. This relates to the fact that industrial policies are more focused on the need of the investor.

**Table 11.** Top Six Incentives Used To Attract Investors

	WESGRO	INW	TIKZN	FDC	GEDA	NCEDA
Top 3 incentives	Cash	Cash	Tax benefits	Subsidies	Tax benefits	Tax benefits
	Subsidies	Tax Benefits	Cash	Tax benefits	Subsidies	Training
	Tax benefits	R&D incentives	Training	R&D incentives	Cash	R&D incentives
	Profit dividends	Subsidies	R&D incentives	Profit dividends	R&D incentives	Subsidies
	Training	Training	Profit dividends	Cash	Profit dividends	Profit dividends
	R&D incentives	Profit dividends	Subsidies	Training	Training	Cash

It is evident that the provincial IPAs of South Africa consider tax benefits to be one of the most general and important incentive strategies used to attract FDI. Other incentives that the IPAs also use are cash and R&D incentives. The use of tax benefits seems to rank first with TIKZN, GEDA and NCEDA. Tax benefits seem to be the motive that all the IPAs use to attract their targeted investors. INW and FDC have tax benefits in their top three incentives used to attract FDI.

<sup>33</sup>One could also say that incentives are used as an instrument of an investment promotion strategy, but for the purpose of this study, incentives are referred to as an investment promotion strategy used to attract FDI.

#### **4.4 Summary of Findings**

It is evident from the findings that the provincial IPAs of South Africa focus on both trade and investment promotion. The findings of the study show that the size of most of the provincial agencies varies between 0 and 50 (small) full-time members of staff. There are also indications of IPAs working with staff that are moderately equipped to operate effectively in practice.

All the IPAs have indicated to operate under the government, except for NCEDA. These government agencies indicate that they interact<sup>34</sup> with each other to share knowledge and ideas on certain investment prospects. The benefit thereof is that these agencies have access to other government departments, but lack the competency to operate effectively (section 3.3).

Some of the agencies also indicate that they compete against other provincial IPAs. They also indicated that they have access to information provided by other government departments, but how this information is utilised, is an unanswered<sup>35</sup> question. Four of the IPAs indicate that they have insufficient funds to execute investment promotion effectively. It is evident that there is a difference between the IPAs' budgets for investment promotion. Some of the IPAs that budget more indicated that the funds are not enough, while other IPAs, such as NCEDA and TIKZN, who budget in the lowest category, indicate that they have sufficient funds. Can this suggest that there is a lack of financial management among these government IPAs?<sup>36</sup>

Most of the provincial IPAs indicate that they spend between 21 and 40 percent of their investment promotion budget on perception-building and also consider it as a more important to very important strategy to attract FDI. Targeting investors is a well-known phenomenon among these IPAs since it is considered to be a cost-effective strategy. The IPAs' resources are therefore focused on a specific segment of investors. Most of the provincial IPAs in South Africa's preferred contact method with the investors is via e-mail, telephone, trade missions and embassies. Face-to-face contact is mostly preferred in the finalising stage of a deal, but TISA<sup>37</sup> prefers face-to-face contact with the investor to be present from the start of the project. The provincial IPAs of South Africa firstly focus on attracting investors who have the ability to invest. The main focus of these IPAs is to expand their existing investor base. The type of investors that is mostly targeted for inward investment is the market-seeking investors, to gain access to other foreign countries. The attention of these investors is then centred on the different potential sectors in that province.

All these IPAs use incentives as part of their strategy to attract FDI. They do not have the authority to put together the incentive packages, but help to facilitate them. Using a combination of macro- and industrial policies as an investment promotion strategy to attract FDI is a vital concept for these IPAs to grasp. It is also evident that they consider industrial policies to be more important than macro-economic policies, since they are more specific to the investors' needs. Tax benefits are the most common incentive used to attract FDI to South Africa.

### **5. RECOMMENDATIONS**

This study recommends that, in order for the IPA to achieve more inward investment and increase South Africa's share in the percentage of the inward investment of the world, it is important that all provincial IPAs must invest in the advanced education of their staff to operate the agency more effectively. The study also recommends that it is important for the IPAs to have face-to-face contact with the investors through exhibitions and trade missions. This should not only be a preferred method of contact for some provincial IPAs in South Africa, but a preferred method of contact for all the provincial IPAs. The main focus of the provincial IPAs of South Africa is to keep the existing investors happy. The study recommends that their focus should be less on keeping the existing investors happy, and more on attracting new domestic and foreign investors.

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<sup>34</sup> One example of the interactions between these IPAs is the GM's Forum (General Manager Forum)

<sup>35</sup> How the IPAs use the information provided by the government departments is not covered by this study, but is a suggestion for further studies.

<sup>36</sup> Further studies are needed.

<sup>37</sup> Noted during the interview.

In order for the provincial IPAs of SA to ensure that their policies are well implemented, it is recommendable for the investment promotion agencies to have a good organisational structure to ensure that the agency consists of all the staff necessary to operate effectively, and to ensure that their annual budget provides sufficient funds to obtain the resources needed to attract potential FDI. In order to achieve the objective of the IPA more efficiently to fight unemployment, contribute to economic growth and development, it is recommended that the provincial IPAs of South Africa should consider combining macro-economic policies with industrial policies to attract potential FDI.

Lastly, incentives do not always work because of political instability, corruption, and the risk of expropriation that influence the investor's decision to invest. It is, however, still an effective tool to use as companies do take this into account. Tax benefits are mostly used as incentive to attract FDI to South Africa. The study suggests making use of education as an incentive to attract FDI with a focus on R&D and staff training and development. IPAs should therefore execute their perception-building activities more effectively. The proper implementation of policies should be considered as a starting point for a well-established investment climate to attract FDI to South Africa.

## **6. CONCLUSION**

The study investigates and provides insight into how the provincial IPAs of SA use their IP strategies to attract FDI in order to contribute to their mandate, which, in short, is to increase FDI, enhance economic development and contribute to economic growth. In order for the provincial IPAs to achieve their goals by recruiting and facilitating foreign and domestic direct investment, this the study discussed how they apply to the following variables: Perception-building, targeting investors, structure of the IPAs and incentives and policies to contribute to SA's share in the world FDI.

The study highlights that the IPAs in SA should proceed to establish a positive impression in the mind of the investor, since they consider perception-building to be more to very important. Helping to stabilise the mind of the investor assists them in their investment decision, less search time and lower risks. A major drawback to their effort is the fact that the majority of the IPAs operate with insufficient funds, as 21-40 percent of their IP budget goes towards perception-building. IPAs target investors to serve their need more effectively. This means that the IPAs focus their resources on specific investors, making it a cost-effective strategy. In contrast, the IPAs focus on expanding the existing investor base, where they also proceed to attract market-seeking investors, providing them the opportunity to gain access to the investor's domestic market.

The fact that these IPAs operate under government is a plus point, since they have easy access to potential information. This makes it ideal for the agency to be driven, either directly or indirectly, and either completely or partly, by government. However, a matter of concern is the lack of management skills to operate the agency effectively<sup>38</sup>. Levelling up the skill of the staff is a high priority that can lead to the better execution of their promotion activities to fulfil in the IPA's mandate. A good organisational structure in the IPAs can ensure that a combination of macro-policies and industrial policies is well implemented to attract FDI more successfully.

In order to encourage investment in the country, the IPAs use incentives to attract FDI. 0-20% of the IPA's budget is allocated for the use of incentives. Tax benefits and cash incentives feature mostly among the top three incentives used to attract FDI.

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<sup>38</sup> To provide a significant answer to this statement, further studies are necessary, which include a larger sample size in order to establish the relationship/effect between the independent variables (including staff and finance) affecting the ability of an IPA to attract potential investors.

### AUTHOR INFORMATION

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**NOTES**