The role of selected investment promotion agencies in South Africa to attract Foreign Direct Investment

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List of Acronyms

BIT	Bilateral Investment Treaties
BW-I	Baden-Württemberg International
DTI	Department of Trade and Industry
ECDC	Eastern Cape Development Corporation
ELR	Rural Developing Programme
FDC	Free State Development Corporation
FDI	Foreign Direct Investment
FFIO	Flanders Foreign Investment Office
FIAS	Financial Investment Advisory Service
FIT	Flanders Investment and Trade
GEDA	Gauteng Economic Development Agency
IDC	Industrial Development Corporation
ITED	International Trade and Economic Development Division
INW	Invest North West
IPA	Investment Promotion Agency
MEGA	Mpumalanga Economic Growth Agency
MNC	Multinational Corporation
NCEDA	Northern Cape Economic Development Agency
OIR	Oxford Investment Research
SA	South Africa
TIKZN	Trade and Investment KwaZulu-Natal
TIL	Trade and Invest Limpopo
TISA	Trade and Investment South Africa
UNCTAD	United Nations Conference Trade and Development
WAIPA	World Association of Investment Promotion Agencies
WESGRO	Western Cape Investment and Trade Promotion Agency

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Abstract

The strategies used by investment promotion agencies (IPAs) to attract foreign direct investment (FDI) differ between countries. This seems to be the case among the provincial IPAs of South Africa and the provincial IPAs of developed countries and their best practices. South Africa has a lower investment inflow than developed countries and this is unsurprising. It is pointed out that the goal of the study is to compare the investment promotion strategies used by the provincial IPAs of South Africa and compare them with best practices like BW-I and FIT. The results of this comparison will contribute to the improvement of the investment policy framework of South Africa.

One of the ways to improve our investment promotion strategies used to attract FDI is by learning from the best. It should be kept in mind that the goal of the investment promotion strategies is to market a country's investment opportunities and more importantly, of the province. By using the following variables: perception building, targeting investors, the structure of the IPA and incentive and policies; the study intends to point out the gaps in those strategies followed by provincial IPAs of South Africa.

It should also be taken into account that the study wants to establish the origin of certain gaps in the strategies followed by South Africa to improve investment inflow. In order to complete the goals of the study a questionnaire was conducted to gain the primary data from the IPAs needed for the comparison. The questionnaires were distributed to the different IPAs for purposes of comparison and where possible interviews were conducted. The following sources were used for secondary data: United Nations Conference Trade and Development (UNCTAD), Financial Investment Advisory Service (FIAS), Department of Trade and Industry (DTI), Investment Map and World Association of Investment Promotion Agencies (WAIPA).

The study finds that there are gaps like targeting the investor, the education level of the IPA staff and the annual budget (Table 28) in the investment promotion strategies used by the provincial IPAs of South Africa. The study could not fully answer one of the research questions because it was not possible to find out how regularly these IPAs were interacting with each other. Further studies are therefore necessary to establish how regularly the provincial IPAs of South Africa interact in terms of meetings and forums to determine whether these IPAs consider cooperation as a high priority rather than being in competition with each other.

Opsomming

Die strategieë wat deur beleggingsbevorderings agentskappe (BBA's) gebruik word om direkte buitelandse beleggings (DBB) te bevorder verskil tussen lande. Dit blyk ook die geval te wees tussen die provinsiale BBA's van Suid-Afrika en die BBA's van eerste-wêreldlande, sowel as hulle beste praktyke. Suid-Afrika het 'n laer beleggingsvloei as eerste-wêreldlande en dit is nie verbasend nie. Dit word uitgewys dat die doel van die studie was om die beleggingsbevorderingsstrategieë gebruik deur die provinsiale BBA's van Suid-Afrika te vergelyk met die beste praktyke soos BWI-I en FIT, en dat die resultate van hierdie vergelyking sal bydra tot die verbetering van die beleggingsbeleidsraamwerk van Suid-Afrika.

Een van die maniere waarop ons die beleggingsbevorderingstrategieë om direkte buitelandse belegging te bevorder kan verbeter is om by die bestes te leer. Dit moet in gedagte gehou word dat die doel van die beleggingsbevordering is om 'n land, en nog belangriker, van 'n provinsie, se beleggingsgeleenthede te verbeter. Deur die gebruik van die volgende veranderlikes, naamlik persepsiebou, die teiken van beleggers, die struktuur van die DBB en insentiewe en beleide mik die studie daarop om die gapings in die strategieë gevolg deur die provinsiale BBA's van Suid-Afrika uit te wys.

Daar moet ook rekening gehou word met die feit dat die studie wil kyk na die oorsprong van sekere gapings in die strategieë wat Suid-Afrika gebruik om beleggingsinvloei te verbeter. Om die doelwitte van die studie te bereik is 'n vraelys gebruik om die primêre data benodig vir die studie te bekom. Die vraelyste is uitgestuur na die verskillende BBA's en waar moontlik is onderhoude gevoer met die BBA's van Suid-Afrika en waar onderhoude nie gevoer kon word nie, is agentskappe gevra om slegs die vraelys te voltooi. Die volgende bronne is gebruik vir sekondêre data: United Nations Conference Trade and Development (UNCTAD), Financial Investment Advisory Service (FIAS), Department of Trade and Industry (DTI), Investment Map en die World Association of Investment Promotion Agencies (WAIPA).

Die studie bevind inderdaad dat daar inderdaad gapings is soos die teiken van beleggers, die opvoedingsvlak van die BBA-personeel en die jaarlikse begroting van die beleggingsbevorderingsstrategieë soos gebruik deur die provinsiale BBA's van Suid-Afrika.

Die studie kon nie ’n afdoende antwoord bied op een van die navorsingsvrae nie want dit was nie moontlik om vas te stel hoe dikwels hierdie strukture met mekaar interaksie het nie. Verdere studie is dus nodig om te bepaal hoe gereeld die provinsiale BBA’s met mekaar kommunikeer in terme van vergaderings en forums om te kan bepaal tot watter mate hierdie BBA’s samewerking sien as ’n hoë prioriteit eerder as bloot ’n kompetisie met ander.

Chapter 1: Overview of Foreign Direct Investment

1.1 Introduction

In every country investment plays an important role in that it contributes to the growth and development of an economy, to the starting of new business, to hiring capital goods for production or to expand an established business. Attracting investment from foreign sources in a region could contribute to creating business ventures in the long term. In other words, foreign direct investment (FDI) serves the business interest of the investor in the foreign country. The FDI relationship comprises a controlling share of a foreign MNC (Multinational Corporation) (Economic news, 2010). The ownership is equal or greater than 10 percent and this implies that the parent business exercises some control over the foreign affiliate. Investment promotion (IP) serves to attract investment that leads to the growth of a country (ITRISA, 2009). The benefit FDI brings to a country has a significant effect on an economy. This means that spill-over effects are created in the economy in backward or forward linkages. Therefore investment promotion can provide workers with expanded opportunities regarding their knowledge and skills that are related to the production system.

When investing in a country, investors have certain criteria/characteristics that countries must adhere to. Macro-economic factors give investors a good preview about the risk and stability of a country which can be generally explained as follows: a good macro-economic policy framework would indicate that the policymakers are keeping the inflation, price-stability and a stable exchange rate in place. A high inflation rate leads to high prices. This leads to a decrease in consumer expenditure. In the exporting sector, goods being exported go along with high prices to international countries. Importing of goods will also be expensive. A strong currency would trigger investors because it shows accountability. The importing of goods and services will be cheaper and could help satisfy the consumers' needs (Mohr and Fourie, 2004).

Investors intend to build long-term relationships, goods infrastructure and to have ownership within a centred location. Accessibility for the consumers is the reason for a centred location. The consequence of not investing in the right location can leave investors with high costs, like transport costs and marketing costs (Chalten & Davis, 2007).

For investment promotion to be effective in attracting MNCs, a country must focus on positive macro-economic activities. According to a survey done by Trnik (2007) investors are attracted by the main determinants of political stability, “significant domestic market, financial stability and a skilled labour force”. These determinants contribute to the establishment of a long term relationship between the investors and host country.

Investment promotion can be defined as efforts by the government to communicate to foreign investors the nature of the country’s investment climate and to persuade and assist investors to invest or reinvest in the country (Trnik, 2007). Investment promotion has a positive correlation with the level of FDI attracted to a country. One can conclude that the efforts made to attract FDI are significant. Investment promotion has become a distinctive strategy of the government that provides policy incentives services to attract FDI (Trnik, 2007).

For a country to attract investment from other countries, the host country has to make the investors aware of the investment opportunities in their domestic country. Information regarding investment opportunities therefore has to be advertised to make investors aware of the country's potential. IPAs (Investment Promotion Agency) serve this purpose. These agencies are responsible for investment promotion and coordination of the potential investment opportunities (Trnik, 2007).

1.2 Background

Foreign direct investment can also be classified into two categories: inward and outward investment. Inward investment can be describe as investment receive from other countries and when inward FDI occurs it can have a spill-over effect of foreign capital into local resources. The incentives behind the inward investment can be triggered from tax breaks, regulations, loans and specific grants. There are also restrictions like: the constraint of ownership and standards of performance. Outward investment is the expansion of the current production into another country (Economic news, 2010).

When describing FDI the following three components should be kept in mind: equity capital, reinvesting earnings and intra-company loans or departmental transactions (Dahl, 2002).

Equity capital refers to the acquisitions of shares by the foreign direct investor in an enterprise in a foreign country. Reinvested earnings are profits that are reinvested that have not been paid to the investor and intra-company loans or departmental transactions. This ranges from long and short-term borrowings and lending between parent companies and foreign subsidiary enterprises (Dahl, 2002). These components are also distinguished as equity FDI or non-equity FDI (UNCTAD, 2005).

There has been a growing trend to invest in developing countries rather than in developed countries. These inflows can have various effects on the economy in different sectors, like contributing to economic growth, economic development, technology improvement and human capital. FDI has a direct/indirect effect on growth. This happens through the increase of human capital and increases in capital flows. Through the promotion of FDI technology, transfers can take place across countries where they can help the economy to grow. By promoting FDI, spill-over can take place; therefore, human capital can be incorporated into the domestic market itself (Bezuidenhout, 2007; Lensink & Morrisey, 2001).

In order to make consumers aware of a product, it has to be marketed/advertised for purposes of raising consumer awareness of the product’s existence. This approach can be used by IPAs to sell their domestic markets to foreign investors (Morisset & Andrews-Johnson, 2004). The findings of Morisset and Andrew-Johnson (2004) indicate that on average 10 percent promotion expenditure seems to yield a 2,5 percent increase in FDI. The findings from their study indicate that a certain amount of expenditure below a certain annual threshold will leave the country or leave the IPA with a lower return.

Image-building as a tool to attract FDI seems to have a less significant effect. Although it has a less significant effect, other studies have found that its role in attracting potential investment was significant. A really important question Morisset and Andrew-Johnson (2004) ask is whether the promotion of investment increases the flow of foreign investment? Developing countries especially have to take note because most of the IPAs are functioning under the government and their expenditure strictly goes along with what has been budgeted for. In South Africa these IPAs are mostly driven by the government and should weight their expenditure on more promotion. For this reason the study will focus on the comparison of provincial IPAs in South Africa with other IPAs in developed countries like Germany and Belgium.

Five important questions that IPAs are concerned with and which Morisset and Andrew-Johnson (2004) addressed are: How does the amount of spending on investment promotion affect its effectiveness? To what extent does the IPA's environment or the country's characteristics affect the effectiveness of the investment promotion? Does the quality of the general IPA environment matter? Should an IPA devote more resources toward policy advocacy of image-building? Is the effectiveness of investment promotion influenced by the different agencies' characteristics, like structure, mandate, sources of funding and institutional relationship (Morisset and Andrew-Johnson, 2004)? In order to gain from investment promotion, the role of policy advocacy should also be interpreted, since their role is extremely important. Both Trnik and Morisset incorporated political stability and the private sector in their studies and believe that the success of an IPA include the variation and description of these two variables in attracting FDI.

The size of an IPA in relation with its budget and the importance of the expenditure can reflect on the investment attraction made. The average budget for FDI promotion in developing countries is about 1 million US dollars where the median budget for the same group is 430 500 US dollars (Morisset and Andrew-Johnson, 2004). Different IPA environments and the level of development have an influence on the level of FDI being attracted. The policy regarding the expenditure on investment promotion can have implications for the investment climate.

1.3 An overview of South Africa as an investment destination

South Africa has changed into a sophisticated investment destination (DTI, 2010a). The country provides highly developed economic infrastructure and markets for strong development of entrepreneurial and investment environment. South Africa has many global competitive advantages and opportunities. The low cost of living and the availability of healthcare, education, sporting and recreation facilities and other modern convenience and luxuries contribute in making the country an investment attraction to the world (DTI, 2010a).

The country provides a strong manufacturing base for consumer goods production (DTI, 2010a). Good infrastructure and logistics provide investors with transportation and telecommunication facilities. Mandate climate conditions and cultural possibilities are some of the factors South Africa has to offer to investors. Trade and industry policies are open towards international investors through tax and regulatory channels. It therefore represents a primary investment location to MNC in Africa. Consequently it is relevant to investigate IPAs in South Africa and compare them to other international IPAs.

1.4 Problem statement

The global financial crisis has severely affected the inflows of investment to both developed and developing countries in the world. UNCTAD (2010) has stated that there was a fall of 1,7 trillion US dollars to 1,2 trillion US dollars in FDI. However, the momentum should increase as the world economy has showed a slow recovery in 2010 (to a level of 1,4 trillion US dollars). The level for 2011 is an estimated 1,8 trillion US dollars (UNCTAD, 2010).

South Africa shows characteristics of both a developed and developing economy. The goal of every IPA of a country is to market their country in order to gain investment from abroad (Zanatta, 2004). According to UNCTAD (2010), South Africa has experienced a decrease in FDI inflow from 2008 to 2009 (Appendix Table 4). The cause behind this decrease can be ascribed to the world financial crisis. In that period South Africa experienced a decrease in their FDI inflows from 9 billion USD to 6,8 billion US dollars.

Recently the progress of attracting investment to South Africa has been relatively poor. South Africa needs to upgrade its strategies to achieve successful investment promotion. The role of the IPAs must be revised to offer a contribution to the country’s current investment policy to improve the attractiveness of South Africa to investors. According to Zanatta (2006), a country with one IPA is better off than a country with more than one IPA. The focus of the various IPAs in the country tends to be isolated and concentrated on a particular province/region within South Africa. This affects the performance of the IPAs in the country, meaning that there is competition between the IPAs instead of cooperation.

Effectiveness can be achieved when the individual IPAs of a country work together in solving investment related problems. South Africa has nine different investment promotion agencies namely: Western Cape Investment and Trade Promotion Agency (WESGRO), Trade and Investment KwaZulu-Natal (TIKZN), Trade and Investment Limpopo (TIL), Mpumalanga

Economic Growth Agency (MEGA), Northern Cape Economic Development Agency (NCEDA), Invest North West (INW), Free State Development Corporation (FDC) and Gauteng Economic Development Agency (GEDA). The national IPA of South Africa is Trade and Investment South Africa. To conclude from Zanatta (2006), more than one IPA in a country influences the effectiveness of a country's performance to attract investment because the whole focus of the IPA is isolated and concentrated on the IPA itself.

The research questions of the study are as follows:

- Do all IPAs use the same investment promotion strategies to attract FDI and execute them with the same level of importance?
- Does having more than one IPA have a negative effect on the performance of a country's FDI inflow?
- What role does the IPA play in contributing to FDI inflow to the country?

1.5 Aim of the study (Goals)

The study wants to examine the investment promotion strategies used by IPAs of South Africa and compare them with best practices like BW-I and FIT in order to establish if these IPAs use the same investment promotions strategies to attract FDI. The provincial IPAs of South Africa will be compared with IPAs of Germany (Baden-Württemberg International) and Belgium (Flanders Investment and Trade). Attracting FDI is only one of the functions IPAs perform and other functions will be elaborated on in the literature review. The study also aims to evaluate whether more than one IPA in a country is better than one. By comparing the provincial IPAs with those of best practices, the study also wants to establish and identify the gaps between the IPAs but also gain insight in and understanding of the ability of best practices to attract FDI. In doing so the gaps that exist between their investment promotion strategies used to attract FDI can be pointed out. The results of this comparison will contribute to the improvement of the investment policy framework of South Africa.

In order to achieve the goal of this study the role of FDI in the economy needs to be evaluated first. The next step will therefore be to conduct a survey to gain insight into and an understanding of the investment promotion strategies used to attract investors. The gaps between the strategies used by the different IPAs will be outlined in the results of this study. Recommendations on how South Africa could improve their strategies will be discussed afterwards.

Morisset and Andrew-Johnson (2004) stated that comparing two IPAs is a successful way to assess the gaps. A successful IPA can therefore give positive insights into other unsuccessful IPAs. By comparing these IPAs the study will then determine why South Africa is showing a low performance in terms of investment inflow (Table 1 in the Appendix). It is logical that South Africa would show lower performance than the developed countries (considering background factors), but what the study aim to establish is what they are doing, and how they are doing it. This will establish a guideline for South Africa to focus on how to improve in terms of their investment promotion strategies. The only way of doing this is by learning from the best.

1.6 Motivation

The motivation of the study is to identify the weaknesses in the investment promotion strategies used by the provincial IPAs of South Africa. The improvement in the investment promotion strategies will lead to increase the characteristics of a developing economy. When in comparison with other IPAs, it will be easier to sift out the weaknesses and strong points. IPAs in South Africa will be able to market their products better and give better solutions for problems related to investment promotion activities. These improvements will have an effect on the country's GDP and economic development. Inward investment will lead to spill-over effects in the industries of South Africa and can contribute to relief unemployment and further human capital. The study will show how these foreign IPAs are comparing with other IPAs in South Africa. As stated before, comparison will indicate the gaps and areas for improvement which IPAs could address in order to gain more investment promotion. Every attempt should be made to discover techniques for South Africa to improve the FDI inflow of the country – the study aim to contribute in fulfilling that need.

1.7 Method

The lack of data about investment promotion in South Africa affected the outcome of this study. Therefore the author found it appropriate to conduct a survey for empirical purposes. By conducting interviews[1], the intentions of these IPAs are revealed and how they currently execute their investment promotion strategies. Where interviews could not be conducted, the IPAs' contribution was still asked by completing the survey. It was not necessary to compile a large sample to do a comparison between the investment promotion strategies of the provincial IPAs of South Africa and best practices. A small sample would be enough to provide an insight into and understanding of the result arising from the survey (Malhorta, 2007).

The study uses both primary and secondary data. The accumulation of secondary data is done by using the following sources: UNCTAD, WAIPA, Investment Map, DTI and FIAS.

The study contains three sections:

- The first section builds a framework based on the theory of FDI, investment promotion and the role of IPAs.
- The second section contains the performance indicators of the economies of these IPAs. This will provide the reader with background information regarding the economy and FDI performance of the country.
- The last section contains the investment promotion agency survey, findings, conclusion and recommendations.

The empirical section contains primary and secondary data. The primary data is drawn from questionnaires and interviews. The questionnaire consists of open and closed questions. The results of the survey will be used to identify the gaps between the strategies used by the different IPAs to attract FDI.

[1] The study used respondent interviews where the interviewee responded to the questions of the researcher (Welman, Kruger & Mitchell, 2005).

1.8 Structure

The study began with Chapter one. This chapter elaborates on the goals of the study, the motivation of the study, the method of the study and the problem statement. Chapter Two contains the literature review. Chapter Three focuses on the comparison of international investment promotion agencies. Chapter Four centres on the performance of Trade and Investment South Africa. Chapter Five contains the investment promotion agency survey and findings. Chapter Six ends with the conclusion and recommendation.

Chapter 2: Literature review

2.1 Introduction

Foreign Direct Investment (FDI) is the acquisition of assets in one market by investors from another market (UNCTAD, 2006). It also implies the acquisition of assets by a foreigner to establish a long-term relationship with a domestic company. In recent years FDI inflows to countries have significantly declined as a result of the global financial crisis (UNCTAD, 2006). IPAs are faced with the challenge to attract FDI to the host country under very difficult circumstances. Therefore, investment promotion activities play an important role in the negotiation process where foreign investors are persuaded to invest. Competition in the market to attract investors should motivate governments to develop proactive investment strategies to attract potential investors (Wells & Wint, 1990; Kumar, 2003; Hampton, 2006; Pugel, 1999; Selby, 1999; IMF, 1995; Asafo-Adjei, 2007).

"[I]t is virtually impossible to find out at what point and by whom a decision to invest was made" (Aharoni, 1966: 122). This quote indicates the difficulty to determine at what stage an investing company becomes convinced about the appropriate investment. Even in the process of decision-making, the decision to invest is not the final step of an investor's investigation process. Still, for an IPA to attract the investor, the marketing strategies of the IPA play a significant role for activities to be executed effectively. When marketing a product, the strategy is to acquaint the consumer with the product; in terms of investment, it is to acquaint the investor with the specific relevant attributes of the designated foreign country (Aharoni, 1966). This aids the decision of the investor to invest abroad. The information distributed by the IPA should be accurate and adequate in order to eliminate uncertainties. Incorrect information could lead to biased decision-making of investors for certain transitional countries, where other countries are not even considered (Loewendahl, 2001; UNCTAD 1999; IFC, 1997). Providing investors with incorrect information causes potential investment locations not even to be considered in the investment decision-making process.

The decision-making process of an investor is very important as it may lead investment in a country, and this process can be influenced by the strategies IPAs use to attract investors. Therefore, it can be argued that the reason why many countries are not even considered for investments is because their IPAs are inefficient. When investors are at the final stage of their investment decision, they use the following criteria to choose the appropriate location: availability of potential sites, quality of business climates, incentives and also cost. At this stage, IPAs play a crucial role in providing information to assist investors through any bottleneck of information that may influence their will to invest abroad (Harding & Javorcikr, 2007).

In the second part of this chapter a variety of strategies will be discussed for IPAs to improve their performance to attract more FDI. Most of the strategies in this section form part of the functional structure of an IPA (Piontkivska & Seura, 2003; Wells and WInt, 1990). This section will present the potential elements that could play an important role in the investor's decision-making process. In this section a discussion about the variables IPAs should consider when drafting an investment promotion framework will also be outlined.

The next section builds an argumentative framework based on theory which is the approach of this study. First the Chapter will elaborate on the term FDI in section 2.2.1 where after a discussion on the importance and effects of FDI will be done in section 2.2.2. The Chapter continues with a discussion on the importance of investment promotion in section 2.2.3. The role and importance of an investment promotion agency will then be discussed in section 2.2.4.

2.2 Theoretical framework of investment promotion agencies and investment promotion

2.2.1 Foreign Direct Investment: A theoretical foundation

In this section a full discussion of Foreign Direct Investment (FDI) is not given because it is only important to understand the basic principles. When one succinctly describes the term FDI one can presume from the term that it deals with investment directly made in a foreign country (other than the host country). FDI can be defined as an investment made to the domestic or foreign country that accomplishes a continuing relationship interest in the foreign enterprise with the purpose of having an effective voice in the management (Bjorvatn, 2000). 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. “FDI can be the purchase or construction of productive capacity in a country by an individual or company based outside the host country” (Selby, 1999). According to the MF (1995), FDI also includes the flow, indirect or direct, reinvested earnings, net borrowing as well as equity capital.

According to Arango (2010), investment done by a foreign individual or company is done with the intention of contributing to the development of a firm’s long-term strategy. Investment can also be referred to as productive investment as it is done in companies that form part of productive sectors of a country. In a broader perspective Asafo-Adjei (2007) defines FDI as an investment involving a long-term relationship that controls or significantly influences the resident enterprise of one country in another enterprise resident in an economy other than that of the investor. FDI is therefore an investment that involves long-term relationships among transitional companies. These companies, however, consist of an ownership; the purpose of which is to control and divide assets of the other enterprise so that both companies can gain in terms of assets accumulated. The importance of FDI is clear from the main focuses of IPAs and therefore only a brief overview of FDI is given, while the manner in which IPAs attract this FDI is investigated in more depth.

The previous section has shed some light on the term FDI. The following section will now focus on the importance and effects of FDI.

2.2.2 The importance and effects of FDI

After establishing what FDI is by providing various descriptions of the term, the impact, along with its importance, will now be discussed. According to Bezuidenhout (2007), studies have considered economic growth, technology diffusion and human capital as being the three most important effects of FDI. The causes and economic relationship of FDI have made a popular appearance in today’s world. Many studies have indicated that FDI is providing a positive contribution to the economic and international market (Naudé & Krugell, 2007).

This contribution that FDI makes to the economy and international market can be explained by a factor productivity (the efficiency of resources in the recipient country) that works through a three-way channel (OECD, 2002). These channels include the linkage between

FDI, foreign trade flows, spill-over, externalities and the direct impact on structural factors in the host country. The effect FDI has through these channels may differ in terms of the development of the country. This could explain why some countries experience a smaller growth with FDI because, they lack the productivity needed to attract more FDI. Other countries may experience a larger effect of FDI that leads to growth since they are well known to a well-educated population and skilled labour (OECD, 2002). FDI is an important vehicle for transferring technology and contributing relatively more to economic growth than domestic investment. From the latter it can be concluded that a sufficient contribution to FDI can only be made when the capability and necessary technology are available (Borenstein, Gregorio & Lee, 1998).

With the necessary technology and capability, another important aspect of FDI is the importance of FDI as conduit for mediation of knowledge spill-overs (Branstetter, 2004). According to Branstetter's study, findings show evidence that FDI increases the flow of knowledge spill-overs both from and to investing firms. This explains the impact FDI has on a country in two ways, namely the extension effect and the external effect (Berthélemy & Démurger, 2000). The extension effect comes from FDI that contributes to the extension of the intermediate-good sector, and this ought to increase the specialisation of a producer's input. The external effect appears in the research activity because it assumes that a domestic firm can benefit from the knowledge gained (Berthélemy *et al.*, 2000).

FDI contributes to the development of human capital (OECD, 2002). This enables the host country's labour market to be more efficient and effective – influencing the standards of the labour market. The provision of education and training in unknown fields where investment occurs provides the worker with the motivation to learn more. This adds to the skills level of the employee. Therefore FDI provides the opportunity to advance the ability of a labour force by increasing human capital. Authorities in the host country are meeting the demand of providing education that is useful for the enterprises to attract investment. Therefore policies should also be in place to make this happen. Effectiveness can thus be gained when policies and educational improvement are jointly addressed (OECD, 2002).

The spill-over effects on domestic firms by the extension of the intermediate-good sector and knowledge gained could bring a statistically significant contribution to the BOP account (Asafo-Adjei, 2007). In this regard the term "trade" should also be kept in mind. Not only can FDI have an effect on the balance of payment, but it can lead to financial transfers, create employment, transfer of fixed assets, technology, and know-how and create the opportunity for international market access (Dutz *et al*., 2003). The possibility of a country connecting with best practices helps to improve the management and workforce to facilitate an increasing bond between domestic and international markets (Dutz *et al*., 2003). To ensure that the host country can contain the spill-over of FDI into the country, Kinishita and Lu (2006) indicate the importance of the absorptive capacity of the host country. This implies that the appropriate infrastructure needs to be in place to handle the amount of spill-overs entering the economy (Kinishita & Lu, 2006). Therefore to benefit from spill-over created by FDI it is advisable to have the necessary skills, opportunities and infrastructure.

The above section lays the basic foundation of FDI for contextual relevance regarding the role of an IPA. The above section would therefore be a primary outcome of what is accomplished by IPAs using effective investment promotion strategies, and this will be discussed in the next section.

2.2.3 Importance of investment promotion

Investment promotion can be defined as activities a government use to attract FDI (Wells and Wint 1990). This excludes granting of incentives, screening of foreign investment and the negotiation with foreign investors. According to Wells and Wint (1990:4), investment promotion includes the following:

> *"advertising, direct mailing, investment seminars, investment missions, participating in trade shows and exhibitions, distribution of literature, one to 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"*

Investment promotion can also be defined as a range of different activities which resemble marketing used by governments to attract FDI. Efforts should be made by government to communicate foreign investors the nature of the country's investment climate, and to persuade and assist these investors to invest or reinvest in the country (Trnik, 2007). Two basic approaches, the neoclassical view on investment promotion and the interventionist view to investment promotion are outlined as follows: yhe neoclassical view is to build on the premise that the host country secures good investment climates. The interventionist view concludes that neoclassicism is not enough because of the existence of market failure due to perception or information gaps. The intervention approach differs from the neoclassical approach in the sense that the neoclassical approach assumes that the investment promotion of the host country automatically yields positive results. This reflects a positive impact investment promotion has on attracting FDI. Although investment promotion can be seen as a marketing tool to attract investment, it is important to be aware of the information gaps as pointed out by the intervention approach (Trnik, 2007).

In order to close these gaps, several governments have gone beyond offering just a “passive open door” regime for FDI. Therefore the contribution of international competitiveness has motivated governments to be proactive in their strategies to market their location through investment promotion agencies (Kumar, 2003; Hampton, 2006). IPAs market these strategies in terms of investment promotion that can be defined as “activities that disseminate information about, or attempt to create an image of the investment site and provide investment services to prospective investors” (Wells & Wint, 2001; Piontkivska & Seura, 2003). According to Lim (2008), the two most important analytical justifications for IPAs can be encapsulated from the definition by Morissett and Andrew-Johnson (2004). First, its role is to communicate and disseminate information and secondly it is that IPAs should coordinate activities aimed at improving the business environment in the host country (Lim, 2008).

The government should have a strategy for developing a sound broad-based IPA environment where one of their roles should be to facilitate investment promotion measures that include: building a positive perception, targeting investors, providing suitable policies and incentives, and implementing effective distribution of information to investors (OECD, 2006). Investment promotion should also be extended so that international firms can be informed of the structure change, mission and legal status of the IPA. In order to have good performance when attracting investors, the government should have the necessary funds to do so; however, investment promotion can be accelerated by having the proper funds and delegating them in the necessary marketing strategies (OECD, 2006).

Targeted investment promotion activities that are implemented by governments are important in the attraction of FDI. Concluding from Trnik (2007), this contributes to the performance of an IPA to attract investors. Improvement in the domestic business environment has benefits in store for domestic and foreign entrepreneurs (Piontkivska & Seura, 2003). These benefits are complemented by a stable capital flow as they are invested in long-term assets Arango (2010). Competitiveness drives FDI to become more productive and to guard against competition from abroad. Productivity can contribute to the growth of a country's economy (advanced production and higher employment) which can have a positive effect on the decision-making process of the investor (perception building). Productivity can help to improve a country's competitiveness since production becomes more advanced. Attracting FDI will also enhance the entrance of new technology and the know-how to make the resources more productive. Local consumers can benefit from new goods and services entering the country. Attracting FDI through investment promotion activities would give investors access to good services and help them to discover new opportunities (Arango, 2010; Lim, 2008).

In summary, investment promotion is defined as the use of different activities and the efforts made by the government to communicate their activities to the investor. Investment promotion can be used as a marketing tool to attract FDI. Governments should take responsibility for their role in using investment promotion to attract FDI. International competition provides the government with the motivation to be more proactive in achieving their goals. By being more proactive they realise the importance of IPAs to communicate effectively with the investor.

Where the latter section has elaborated on investment promotion, the following section will discuss the role and importance of an investment promotion agency.

2.2.4 The role and importance of an investment promotion agency

Investment promotion agencies promote FDI through a combination of activities. The goal behind these activities is to gain economic growth and to create employment opportunities (MIGA, 2005). For this reason promotion tools are used by agencies to attract investors to the host country. These tools include the following: 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).

From the latter, one may assume that the role of an IPA is to gather and distribute information that prospective investors need to evaluate the attractiveness of a country (Lim, 2008). IPAs can therefore influence an investor's decision regarding FDI by compensating for market failure due to information or perception gaps about investment opportunities. According to Young *et al.,* (1994), IPAs have specific functions that they perform. These functions include: policy formulation, investment promotion and attraction, investment approvals, granting of incentives, providing assistance and monitoring clients through acting as a player in establishing FDI policy.

The role of an IPA emphasises policy-advising more than promotion activities (Lim, 2008; Wells *et al.*, 1990). Therefore, monitoring and aftercare are bound to grow substantially to ensure that investors were satisfied with previous policies. These activities can also provide the IPA with full market intelligence gained from monitoring and evaluating their investment promotion activities (Loewendahl, 2001). Monitoring and aftercare activities are necessary to aid the investor throughout the investment process. An IPA can also mediate between countries' FDI climate and FDI inflows. This means that the FDI climate influences FDI inflows through the IPAs activity (Lim, 2008: 39-53).

Piontkivska and Seura (2003) specify three main roles for an IPA that support the above. One is to communicate and disseminate information about the business environment along with the opportunities. Secondly, free access to information is crucial for investors' decisions. Coordinating activities (which ranges between providing assistance to potential and existing investor and lobbying policy and legal reforms) are also the responsibilities of an IPA. "IPAs fulfil an important matching function by linking foreign firms with potential local suppliers and joint venture partners" (Charlton & Davis, 2007). Investment generation, which aims to identify potential investors and to target specific sectors and companies in order to create investment leads, is the third role of an IPA. The effectiveness of an IPA can be explored by tracing and exploring data on FDI, but in-depth data is hard to come by (Piontkivska & Seura, 2003; Wells *et al.*, 1990).

In summary, the role of an IPA is to use a combination of activities to attract FDI. These activities can influence the decision of investors about foreign investments. The functions of an IPA contribute in communicating and coordinating the appropriate information to investors. By communicating and coordinating information to investors an IPA's effectiveness can be visible through the availability of its information. Contributing to answer research question three, literature has provided a platform indicating the importance of an IPA. The activities performed by the agency influence the decision of the investor to invest, which will determine whether or not a contribution to the FDI inflow to the country will be made.

The importance of the strategies needed to increase investment promotion that enhance inward investment is discussed. The next section will start by elaborating on the perception building of a country. Thereafter the chapter will focus on targeting investors and then discuss the structure of an IPA. The importance of incentives and policies is followed by the legal status of the IPA. The section will then discuss the importance of aftercare. The chapter will lastly focus on best practices and their principal components. A brief summary will then be given.

In the following section, the variables that are important to attract investment are elaborated on. This will help the examination of whether South Africa and its provincial IPAs are lagging behind other IPAs in first world countries that succeed in attracting new investors (UNCTAD, 2010).

2.3 Variables that affect the effectiveness of an IPA's promotion strategy

The following quote gives a foundation for the focus of this section:

> *"Establishing Foreign Direct Investment strategies is one of the ways countries may seek the way to break the cyclical pattern of the Gross Domestic Product growth and set their economies in a sustainable growth path" (Arango, 2010:11).*

2.3.1 Perception building

According to Morissett and Andrew-Johnson (2004) an IPA spends on average a quarter of its total expenditure on perception building activities. These activities are classified into three categories, namely advertising, production of promotional material and participation in events (conferences and fairs). Indirectly these activities are viewed as part of marketing communication.

"Effective marketing communication is based on a clearly defined corporative image" (Clow & Baack, 2007: 28-60). The image summarises what a company stands for and how well its position has been established. The role of image management in terms of IPAs is to create a stable impression in the minds of the investor that contains an image of both tangible and intangible elements. Tangible elements would include: goods and services sold, retail outlets where the product is sold, factories where the product is produced, advertising, promotion and other forms of communication, corporate names and logos, packaging and labels and employees (Clow *&* Baack*,* 2007: 28-60). The intangible elements include the corporate personnel, environmental policies, ideals and beliefs of the corporate personnel, culture of the country (region) and media reports. In summary, IPAs are responsible for elements that are applicable to create a good image for investors. Advertising, promotions and other forms of communication, business names (country name), employees, corporate personnel, policies, ideals and beliefs, the culture of a country and media reports are vital elements in the image-building process that can be used by IPAs to attract FDI.

Governments use tangible and intangible elements to create a positive investor perception. This emphasises the role of governments towards IPAs when attracting investors. The process of the government's contribution to the IPA involves building a positive perception, good stability, economic development and creating confidence in the ability of its government. This is not a once-off event, but an ongoing process as "[c]confidence is hard to gain and easy to lose" (Aharoni, 1966). Governments that fail to deliver will be considered as unreliable which could cause investors to retreat from investing in that country regardless of the future prospects. It is not only about the existing investors, but perception-building is also vital for countries that are seeking to attract new FDI. The unreliability of governments applies especially in cases where countries are experiencing political and economic reforms and are too small to receive international media coverage (Trnik, 2007).

A positive perception of a corporation gives assurance to the consumer that something is the best choice. In terms of investment, it is to guide the investor in the choice of a country when making a decision to invest by enhancing their accountability in that country. A positive perception can reduce the search time of an investor and provide psychological reinforcement and social acceptance of an investment (Clow & Baack, 2007). Therefore, creating a positive perception among investors can be seen as an incentive to invest.

A positive perception creates competition which can lead to the establishment of a competitive advantage. Investors are assured of lower risks when investing in a country with a more positive image (Clow & Baack, 2007; Trnik, 2007; Morissett & Johnson, 2004). When showing a good image, countries make it easier for investors who do not want to waste time on searching the right country. Investors would feel more secure when investing in countries abroad with a positive or established image. This reduces the risk and uncertainty because the investor has prior knowledge about the country of choice.

As mentioned above, a positive perception reduces risks and uncertainty but can also generate benefits. These benefits include the extension of positive feelings from the investor towards the country and the ability the country has to implement policies that favour both the investor and the country. The loyalty of the investor helps to obtain frequent investments through positive "word of mouth" and the attraction of quality investments (Clow & Baack, 2007).

Investment agencies use advertising in general financial media as a primary image-building technique (Wells & Wint, 1992). The use of image-building techniques is to change the perception of a country as a place for investment. Before the implementation of image-building techniques, countries did not seem to have many expectations that these activities would lead to direct investments. One of these image-building techniques is promotional campaigns. Countries use this technique to change the investor's perception about them. Despite the expectation from some IPAs that positive perception can attract investors; other IPAs were not very successful when using advertisements, missions and seminars as image-building techniques (Wells & Wint, 1992).

Promotional activities that increase image-building shift away from image-building to focus on investment generation. Programmes that attempted to build positive perception indiscriminately in less developed countries were found to be wasting resources (Wells & Wint, 1992).

The effectiveness of policies, laws and regulations of best practices, when attracting FDI, are comprehensive, clear and fair (UNCTAD, 1997). This provides investors with the opportunity to establish and operate their business without any unnecessary government intervention. Besides economic factors, a country should be able to demonstrate a positive political environment for foreign investments. When the legal, economic and political foundations have been laid, an IPA can actively promote the perception of a country as an attractive investment location (UNCTAD, 1997).

UNCTAD (1997) states that best practices use two main activities to create a positive perception. The first activity is the provision of accurate information through a variety of media which include videos, newspapers and articles. This provide investors (readers) with relevant topics about the country, market or sector data. The use of effective brochures and video tapes is the focus of IPAs (UNCTAD, 1997). The second activity of best practice to create a positive perception is to bring private firms into contact with each other. One of the ways to do so is through trade shows and trade missions.

From the section above it can be concluded that a good perception contributes to the accountability of the country to the investor. The role of perception-building as strategy to attract investment should not be overlooked because it entails different advertising strategies. It should be a high priority for South Africa to focus on building a positive perception among investors to attract more FDI. Advertising in financial media is considered to be one of the main strategies to enhance the perception of investors. This reduces the risks and uncertainty investors have about a country and will increase their motivation to invest. The advertising of information through a variety of media and bringing private firms together to build a positive perception should also be a guideline for TISA to attract FDI.

2.3.2 Targeting investors

In the consumer world, segmentation is the distinction between specific purchasing groups. Therefore market segmentation can be defined as the process of identifying specific purchasing groups based on their needs, attitudes and interest. It can also be a set of businesses or consumers with the same characteristics (Clow & Baack, 2007: 109-120).

Multi-national corporations are diverse in their investment requirements which make it impossible to serve the need of every investor (Trnik, 2007). Successful IPAs target market segments they can serve more effectively. Targeting investors is a cost-saving technique used by IPAs. However, this technique attracts investors in greater quantity and quality by narrowing their scope of promotional effort. This strategy includes the involvement of country selection, regions, sectors, industries and specific business. As a result the use of resources can thus be effectively engaged to focus their promotional efforts on the sectors that have been identified to have the most potential for the economy (Trnik, 2007).

Trnik (2007) uses the targeting strategy framework, developed by Oxford Investment Research (OIR). This framework indicates that the general trend to target industries is based on the consideration of their ability to attract (measuring the cost of attracting an industry to the country) and desirability (measuring the externalities and benefits of a given industry to a country). This can lead to a trade-off between objectives which can increase the flow of FDI and the contribution to a country's development goals. The final strategy to target investors includes the combination of both the criteria of the ability and desirability to attract investors (Trnik, 2007).

Specialists in sectors or enterprises are needed to convince particular investors to locate in their country (Morissett & Andrew-Johnson, 2004). Therefore the necessary time and money are needed to contact investors proactively to convince them to invest in their country. Investment-generating activities form an important part of any agency which can become a costly activity if the targeting of investors is not feasible (Morissett and Andrew Johnson, 2004).

Leading IPAs are using sophisticated proposition-based marketing to target individual companies that have business opportunities (Moran, 1998; Loewendahl, 2001). It is considered to be long-term processes which have two parts: identification of potential investors and relationship-building with target companies. Business databases including consultants are utilised to target and identify companies through evaluation criteria. These criteria are often supported by the size of the companies' research and development (R&D)

and the intensity of exportation to the host location. The focus is to concentrate on active investors with recent FDI projects along with international and globalisation strategies (Moran, 1998; Loewendahl, 2001).

A traditional targeting approach can be useful to develop a list of targeted countries to build or improve already established relationships for future investments with active investors. Many IPAs focus their increasing recourses on developing long-term relationships with existing investors. Several strategies are focused on in this manner which includes: “networking in business organisations and at conferences”. Another strategy to identify potential investors and projects is the establishment of investment and trade missions (Loewendahl, 2001).

To maintain a long-term relationship with the targeted investors it is important to update information regarding the investment location via the internet (UNCTAD, 2006). Events must be of regular instevals that allows for IPAs, targeted companies and their investor community to liaise. By identifying targeted investors through events, IPAs save costs by using their resources more efficiently. Therefore embassies and trade missions should also be used as a tool to focus the attention of the IPAs to attract certain investors. Regular conferences should be prescheduled to create the opportunity for IPAs to provide updates to investors to generate more investments (Loewendahl, 2000).

One can conclude that the targeting of investors can be a cost-saving strategy to attract investors. When targeting is not feasible, attracting random investors can become very costly. Therefore, by segmenting the investor group of choice an IPA can reduce cost on extra unnecessary resources. This is often experienced where IPAs have to keep constant contact with investors. It is advisable that IPAs identify and build a long relationship with the targeted companies, hence databases should be utilised to target and identify investors. It should also be noted that active investors who participate in recent projects, should be a starting point when segmenting.

2.3.3 The structure of investment promotion agencies to attract Foreign Direct Investment

"No single structure fits all countries" (Loewendahl, 2001). This is one of the key issues for investment promotion when developing an effective structure (Loewendahl, 2001). Due to the objectives in attracting inward investment, the size of countries and the difference in regional agencies, the structure of investment promotion differ. IPAs in developed countries are financed by the ministries of trade and industry. They have good relationships with the ministry of foreign affairs, which facilitates overseas investment promotion. Other countries have no investment promotion agencies at national level, which influences their probability to attract potential investors (Loewendahl, 2001). Whether operating at national or regional level, an IPA should be operating independently from its government to enhance the credibility and flexibility of the agency (Christodoulou, 1996). The organisational structure of an IPA influences the effectiveness of the investment programmes. The organisational structure of an IPA can be divided into three main categories, such as: government, quasi government and private agencies (UNCTAD, 1997)

In an IPA that is driven by a government, the ministry (e.g. Trade and Industry Ministry) mainly reports to a minister, or an agency organisation under a prime minister or president (Wells & Wint, 1992; UNCTAD, 1997). Ministers may also be used to visit existing and potential investors overseas. These agencies may also be organised under the prime minister or president's office. IPAs that are managed by the government ought to benefit from easy access to various other departments of the government bureaucracy. Ongoing contact with the private sector should be maintained to inform agencies about any adjustments to establish long-term relationships with investors. Lack of management, marketing skills and insufficient business background used to appear among the civil staff which influences the effectiveness and functional ability of these agencies (UNCTAD, 1997).

Agencies that function under the government tend to combine screening and negotiating with foreign investors about marketing functions (UNCTAD, 1997; Wells & Wint, 1992). The links of an IPA to its government show strong effects on the outcome of their performances to attract FDI. These outcomes may be less successful in the quasi-private IPAs where the access to information in government departments is not so easily accessible to them (Trnik, 2007). In the study of Wells and Wint (1992) one of the agencies responded that investment promotion agencies should function as a non-traditional function that requires non-traditional government. Private IPAs can easily fall into an investment promotion programme of which the purpose is only investment promotion. The fact remains that facilitation services, activities like perception building and project generation can only be non-profitable activities and this confines the probability of a private sector interest in such an agency. The funding from international agencies gives private agencies the possibility to carry out perception building and investment facilitation services. Government departments are not as accessible for private IPAs as for government and quasi-government promotion organisations (UNCTAD, 1997).

Quasi-government organisations have their own boards of directors that recruit outside civil services and report to the relevant ministry. Direct connection between these IPAs and the government is evident. They have a close relationship with public authorities and carry out efficient investment facilitation. Where the government's staff members lack the competency, the staff members of these agencies are rewarded for their marketing expertise. The efficiency in generating more investment contains the possibility to adapt easily to market demands (UNCTAD, 1997).

Foreign representatives can be seen as part of an important organisational structure. International and domestic foreign representatives can be used as vehicles to promote investments. The following table indicates some of the organisational structure that already exists.

Table 1: Foreign representatives in investment promotion

	Developing countries (as % of total developing countries)	**Developed countries (as % of total developed countries)**
IPAs have offices abroad	23	47
Embassies abroad are involved in investment promotion.	95	76

Source: UNCTAD (1997).

From the above table it can be seen that developed countries benefit more in terms of having a leading percentage of IPA offices abroad. The above table also indicates that developing countries (as percentage of total developing countries) have more embassies abroad that are involve in investment promotion than developed countries "Foreign representatives are more effective in project-generating activities" (UNCTAD, 1997). These activities include marketing efforts and also demand closer contact with investors. In these circumstances foreign affiliates are not necessary.

The term public-private partnership (PPP) can be used to describe a variety of arrangements involving the public and private sectors working together (ICA, PPIAF & World Bank, 2009)[2]. It is necessary for policy makers to be clear about why they are looking to partner with the private sector and what forms of PPP they have in mind and how they should articulate this concept. The term PPP is based on the privatisation (maximum involvement of private sector) and short-term services contracts (minimum involvement of the private sector). More importantly, under the two forms of PPPs, the public sector has ultimate accountability for the citizens in providing public services. Under privatisation, they are accountable for the delivery that is transferred to the private party. If the government seeks to engage in public understanding and identifying of skills and processes, PPPs can be a very important vehicle (ICA, PPIAF & World Bank, 2009).

According to Loewendahl (2001), one of the key issues for investment promotion is the type of structure. Some countries prefer to handle investment promotion as a primary matter at the regional level rather than the national level. At the regional level investment promotion agencies aim to promote their state and facilitate inward investment. Although trying to operate independently from its government, the links that IPAs should keep between stakeholder (public and private) are essential because they are in-between enterprises (government and business) (Christodoulou, 1996). Where major investment projects are executed, government ministers at high level need to mobilise policy certainty to attain the significance in which the project is viewed (Lowendahl, 2001).

The coordination of investment promotion between national and regional level is important. Unnecessary competition between regional agencies for the same investment project causes a waste of resources. A periodic rotation of staff in the UK (United Kingdom) was used to handle this problem (Loewendahl, 2001). This periodic rotation of staff between agencies "generates greater understanding and can facilitate personnel networks and co-operation between agencies" (Oman, 2000). Other agencies can buy in on the targeted

[2] ICA (The Infrastructure Consortium for Africa) and PPIA (Public-Private Infrastructure Advisory Facility)

sector so that investment promotion is nationally integrated. This means the cost are shared with the result of reducing the need to have a large amount of funds available for investment promotion. In this manner regions provide indirect marketing for future investments (Loewendahl, 2001; Oman, 2000). The regional agencies should still be strong enough to influence individual investment decisions and should have a voice in the policy making process with national investment promotion agencies (Loewendahl, 2001).

It is possible to conclude that the relevance behind the type of IPA would give an indication of the efficiency in the use of resources to succeed in their mission to attract quality FDI. Where government IPAs have a competitive advantage by having access to other government departments, private IPAs do not have that opportunity. It can also be stated that private IPAs have the necessary skills and knowledge that contribute to effectiveness in strategies to attract FDI. A suitable solution for the effectiveness of attracting FDI would be for these three organisational types to work in close cooperation with one another. IPAs can also consider working close with governments through a PPP. This can enhance employment in the public service and transfer delivery to the private parties. Government-driven IPAs can be given the opportunity to enhance the skills and management potential of the staff.

The structure under which the DTI operates is the government. From the above literature, government IPAs do not have the necessary skilled staff to operate an IPA effectively. The training of staff should be a priority in order to effectively execute investment promotion activities. Access to other government departments for investment information is one of the advantages the DTI has, but utilising that information to attract potential investors would mostly depend on the competency of the staff. Therefore it is advisable to see that the staff should meet the necessary requirements before being recruited and see to it that continued training is provided.

2.3.4 Incentives and policies

2.3.4.1 Incentives

The use of incentives to attract investment is a very strategic approach because of the persuasion effect it has on investors. Therefore, the use of incentives persuades investors to behave in a certain manner (Cass, 2007; UNCTAD, 2000b). The scope of the availability of investment incentives to foreign investors is often used as a tool to attract FDI, but the limit of the use of incentives as a tool to attract investment is unclear. Incentives are also designed to enhance the rate of return of a particular FDI to reduce its cost and risks. Governments should be very careful not to overstep their boundaries by implementing more incentives than necessary to attract FDI. It is recommended that incentives should be used alongside the fundamental features of the tax system (OECD, 2002). FDI incentives can be divided into fiscal and financial incentives (Cass, 2007; UNCTAD, 2000b and Lim, 2005).

Fiscal incentives include partial holidays from tax, a reduction in the standard rate of tax, tax reduction conditional on reinvestment of profits, investment allowances and investment tax credits, accelerated depreciation of assets, preferential treatment of profit on exports, tax reduction based on specific types of expenditure and exemptions from import duties on capital goods or other inputs (Cass, 2007; UNCTAD, 2000b; Lim, 2005).

Financial incentives include cash grants related to the value of assets that are invested or the number of employees or training costs, provision of subsidised facilities that include factories of sites, provision on infrastructure related to new facilities such as roads and links to utilities and direct subsidies (Cass, 2007; Lim 2005).

Investment incentives can furthermore be explained as compensation in favour of externalities by the host government to foster infant industries. Corporate investment activities generate return in the sales of produced goods which create a positive externality. This externality can result from factors such as economies of scale, diffusion of new knowledge or improvement in the skills of labour (Lim, 2005; UNCTAD, 1996). Though it can be argued that incentives to private investors are providing a quick fix, the principle can be applied to investment incentives for foreign investors.

According to Cass (2007), transitional countries have used two policy measures that aim to encourage FDI through IPAs. The study indicates that the use of incentives has increased from the mid-1990s. The fall in tax rates in some countries and accession to the EU is reversing this trend because the use of incentives is not to negatively affect the business environment but to influence active participation in international competition. IPAs are therefore used for this transition (Cass, 2007).

Entitlement to incentives is based on criteria such as scale of investment, number of employees, export orientation or sector/industry. Export Processing Zones, Special Economic Zones and Trade Zones are generally combining some of the above incentives (Cass, 2007). The interaction that occurs between FDI and the dynamics of the transitioning process suggests that incentives might be necessary particularly in the early stages of an investment decision (Cass, 2007; Aharoni, 1996). In the process of liberalisation and economic stabilisation, time is essential to create the legal, institutional and administrative framework that would attract international businesses. This is important because cost, uncertainty and risk would influence the decision of investors which influence their decision to invest in the transition country. According to Morisset and Pirnia (2000), incentives can have a signalling effect that communicates the commitment of the government to stimulate FDI in the host country. By putting the appropriate incentive policies in place, "...incentives can attract a first mover investor who is followed by competitors or suppliers" (UNCTAD, 2002: 204). Incentives as a standard approach in investment promotion have secure economic, environment and social benefits (Grieg-Gran & Edlund, 2008).

FDI entails more than just the flow of capital but also includes the internal utilisation of intangible assets (like technology and managerial expertise). If these assets are utilised internally, then the rate will fully capture the net benefits of an investment and no incentive will be required. However, the economic policy and its incentives used to attract FDI can be explained in terms of infant-industry protection (Lim, 2005). Since returns of an investment firm can be less than those in the protected infant industry, tax reductions and grants must be offered to those firms to compensate for the lack of returns due to the host country's industrial policy.

According to UNCTAD (2000b), investors go through processing stages when desiring to invest. The first stage is a screening process of the country the investor is determined to invest in. Investors who meet the criteria of the first stage go on to the second stage for evaluation. In this stage the investor evaluates incentive determinants such as tax rates, grants and other incentives that might become important. These incentives are well worked through before the investor chooses to invest in the potential location. Although incentives have a less important role in determining the FDI inflows, they still have a significant role in the investment policy (Lim, 2005; Cantwell & Mudambi, 2000). Experts complement the above statement by saying that incentives play an important role in the policy to attract more FDI for economic development (UNCTAD, 2000b).

Incentives do not always work or cannot be seen as an effective tool to attract investment. This is more evident in countries experiencing a disadvantage resembling political instability, corruption and the risk of expropriation. Incentives form part of elements that influence the decision of an investor to invest in a particular country (Easterly, 2002). According to Lim (2005) a government is obliged to employ investment incentives that will be precise and effective to achieve the economic goals. It can be concluded that the failure behind incentives is located in the inefficiency in the implementation of the FDI policy and distortion of the economic structure in the host country by not relating to specific FDI objectives. It is therefore important that the government should focus its attention to establish an incentive system that will relate to the specific FDI objectives (Lim, 2005).

It can be summarised that incentives have significant roles when attracting FDI. Although it might be seen as a well-known strategy that is not always sufficient, its role is still significant. Literature also states that incentives used to fail when FDI policies were not effectively implemented. Therefore governments should focus on establishing an incentive system that wants to achieve specific FDI objectives. Incentives indicate the commitment the government has to stimulate FDI in the host country. This standard approach to foster investment promotion holds secure economic, environmental and social benefits for the host country.

The following section will discuss the role of policy advocacies.

2.3.4.2 The role of policy advocacy

Policies, laws and procedures play an important role in attracting investors or to contain an attractive business environment (Trnik, 2007). This variable has a significant effect on the attraction of investors (Morissett & Andrew-Johnson, 2003). In contradiction, policy factors and tax policy appear to have insignificant effects on the location of an investor’s decision (Morissett & Pernia, 2000). It can be seen that investors have different theories about the role of policies because certain investors have the following to say: “Tax exemption is like dessert; it is good to have, but it does not help very much if the meal is not there” (Morissett & Pernia, 2000).

According to UNCTAD (2008), the process of policy advocacy can be broken down into four steps. Firstly, problem identification has to take place, where secondly an effective policy remedy must be developed. Thirdly, the policy needs to be monitored with the necessary support in place. In the fourth place the policy advocacy needs to be monitored and evaluated. Morissett and Andrew-Johnson (2004) indicate that policy advocacy has the strongest association with FDI inflows. Time, along with a higher percentage of the budget, needs to be spent on policy advocacy. According to Morissett and Andrew-Johnson (2004) high income countries spend on average 5,5 percent of their budget on policy advocacy.

Governments of developing countries are looking for best practice policies to increase inwards FDI (Te Velde, 2001). The positive effect of FDI will only occur if the necessary policies are in place. Certain policies are known as factors which can be divided into the following: specific industrial policies and macro-economic policies. The macro-economic policies are used to attract FDI, upgrade FDI or enhance the links and spill-over to domestic businesses. Industrial policies are used to promote targeted multinationals abroad at national, sectored and even firm level. The distribution of this spill-over is executed through the provision of information, advertising, undertaking matchmaking activities and sector promotion, organising site visits, supporting feasibility studies and project proposal along with other activities (Te Velde, 2001).

The objective to attract FDI differs significantly among IPAs. This signifies that the policies used to attract FDI, would also differ (Lall, 2000; Borensztein, De Gregorio & Lee, 1999; Te Velde, 2001). The result of this is that governments that use FDI to achieve development objectives will have to move towards policies that attract, upgrade or encourage links between foreign multinational and local firms. Therefore, to achieve their goals, governments should base the policies towards an industrial or a macro-economic perspective. This could lead to the implementation of combined macro-economic and industrial policies to attract FDI more effectively (Morissett & Andrew-Johnson; Te Velde, 2001; Borensztein *et al.*, 1999).

According to Te Velde (2001), it is useful to discuss best practice policies in terms of special emphasis, policies according to the type of country and specific circumstances. Comparing policies with those of best practise gives an indication of whether countries have adjusted their policies when undergoing a developmental state. “The transfer of resources to promote FDI should also be considered when the improvement on inward investment wants to be enhanced...” (Te Velde, 2001). Policy that supports the transfer of resources to improve inward investment has an effect on the investors’ uncertainty whether they are foreign investors or domestic investors. The potential for an investor to invest depends mostly on the outcome of the other investor’s decision. Once again the role of the government in this case is to enhance the country’s credibility with the appropriate policy measure in place. The enhancement in the credibility can be complemented by offering modest grants (incentives) and potential information to investors (UNCTAD, 2006; MIGA 2006; Te Velde, 2001).

Policies also need to address the divergence in interest between mobile investors and the host country because intervention in the market contributes to enhance skills and technology. These are steps that foster development in terms of skills and technology towards the needs of multinational affiliates (UNCTAD, 2006; MIGA, 2006).

According to Lall (1995), there is less agreement on the optimal degree of intervention. The four different approaches to these interventions are as follows: the first is a passive open door policy with limited policy intervention and no industrial policy; secondly, an open door policy with selected intervention to improve supply conditions; thirdly, strategies targeting FDI and then, lastly, restrictive policy. Options 1 and 4 are not sufficient to exploit opportunities for technological learning. Many countries will be near the second approach, but their capabilities to develop a more strategic and targeted approach to produce better results are questioned (Altenburg, 2000).

It can be concluded that there is no single best practice FDI policy or strategy. The implementation of all the possible policies is not uniquely outlined but has to depend on preconditions (Te Velde, 2001). In the following table an outline of the policies and factors affecting inward investment are summarised.

Table 2: Policies and factors influencing Foreign Direct Investment

	Economic policies under domestic control		**Other policies and factors**
	Industrialised policies	Macro-economic policies	
Affecting possible foreign investment ("Determinants")	Financial and fiscal incentives. Importance of administrative procedures and the rule of ownership. Investment promotion skills. Development of key and export sectors.	The necessary infrastructure and skilled labour force. The performance of the macro-economic performances. Privatisation opportunities. Extend the monetary market and liability position	Globalisation Multilateral and bilateral treaties (including WTO and BITs). Political and insurance risk rating (ICSID, MIGA, ECGD, OPIC). Location close to target markets. The availability of the necessary resources. The probability of corruption.
Affecting established foreign investors (Improvement)	Taxation performance requirements. Interaction with research institutions. Encouraging of R&D and the education of employees.	Labour market policies, International trade policies. Competition and the development of a stable financial market.	Regional and international investment treaties. Global integration and civil society.
Affecting the response of domestic firms (Linkages)	Improving the interaction of multinational firms. Importance of technology and human resources.	Education and skills. Competition and export promotion.	Global integration.

Source: Te Velde (2001).

Besides industrial and macro-economic policies, Te Velde (2001) 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. Agreements among countries may help IPAs to influence the decision of the investor to invest (UNCTAD, 2000a). The above indicates how industrial, macro-economic and other policies affect possible foreign investment, established investors and domestic firms. Te Velde (2006) indicates that the determinants for inward FDI can be divided into several categories that relate to the following: general policy factors consist of political stability and privatisation (where specific policies consist of incentives), performance requirement, investment promotion as well as international trade and investment treaties.

Macro-economic factors consist of human resources, infrastructure, market size and growth where firm specific factors would include technology that has a specialised production attraction to locations by offering the most competitive environment for given activities (Te Velde, 2001). Macro-economic policies also set a positive framework to attract FDI. These policies include liberal trade, payments regime and favourable tax regime where sending positive signals to investors through non-discrimination policies are important. Economic stability, inflation and country risks are essential for attracting inward investment (Loewendahl, 2001; Ertuagal-Loewendahl, 2000).

Policies can have a significant effect on FDI promotion. UNCTAD (1999) stated that IPAs will find it difficult to promote their location unless the basic policies to facilitate FDI are in place. Therefore a policy framework is a requirement and should include: macro-economic policies, degree of economic stability, supply side production policies, regional policies, and inward FDI policies (UNCTAD, 1999).

To provide essential investment in the physical, communications and human infrastructure, supply side production development polices should be carefully constructed (Loewendahl, 2001). The quality of investments can be negatively influenced if infrastructure, education and the training of labour are not at appropriate levels. Regional policies are necessary to encourage investment in specific parts of a country. Inward investment policies set to remove restrictions on FDI and create or support dedicated national and regional promotional organisations to attract inward FDI (Loewendahl, 2001).

As has been discussed in section 2.3.3, the structure of an IPA can be divided into three organisations. This means that there are three types of IPAs which include those ruled by the government, private IPAs and then quasi-government IPAs (UNCTAD, 2006; Wells & Wint, 1992 and Te Velde, 2001). The possibility of policies that are properly implemented by government IPAs can be questioned through their skills, knowledge and experience to facilitate FDI (Te Velde, 2001). Quasi-governments are more in touch with the business side which can be shown through their wages which are set according to business standards and their ability to attract people with the necessary business skills. These types of IPAs can assist in attaining business approvals and liaise with other government departments to recruit educated workers (university graduates). Training the existing staff is also possible (UNCTAD, 2006). IPAs that target FDI policies consistently, and respond in a flexible way to demand potential investors are often very successful.

Best practices are good examples of the latter because they provide the necessary information and obtain all permits within a limited time period. The flexibility that best practices show in their decision-making has a positive influence on investors' decisions to invest in a location (Lall, 2000; Spar, 1998). 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 and Gorg, 1999). Therefore the potential and effectiveness of the implementation of the policies by IPAs depend on its organisational structure, their size and their budget (Morissett & Andrew-Johnson 2003; Te Velde, 2001).

According to Te Velde (2001) and Oman (2000) good tax systems can influence the distortion in the allocation of resources. Governments should relax their dependency on taxes and reduce their trade barriers to allow more access to the country. OECD (Organisation for Economic Co-operation and Development) regulations indicate that incentives should be used to the minimum which indicates that the variation in taxes used as an incentive, should be reduced (CBI, 1999). Small and medium enterprises will have to face a variety of challenges to enter the formal economy, one of which is the incentives and policies of other economies. This is because "...foreign investors have different regulatory frameworks, cultures and administrative frameworks" that makes it difficult for other IPAs to compete with (OECD, 2006).

The above section gives a good indication to the policy maker that the importance of well-implemented policies can depend on among others the type of IPA in a country. The implementation of an effective policy by an IPA clearly depends on the structure of the IPA. Therefore, the role that the policies play in delivering the outcome investors expected to have on their investment is very important.

From the above section one can also conclude that the role of the government is very significant through its intervention by focusing on best practice policies to enhance their own. Therefore it should be a priority that governments should use policies to attract, encourage or upgrade links between firms to achieve their goals (attracting new and existing investors). This will contribute to enhancing the skills and technology of the multinational affiliates. The effect that policies have on attracting investments is significant because effective policies contribute to deliver a more macro-economic stabilised environment which also entails political stability.

2.3.5 The legal status of an IPA

According to Trnik (2007), the legal status of an IPA relates to the power of an IPA since it influences the capacity to attract FDI. The best practice in investment promotion recommends the establishment of an IPA with a clear legal structure to carry out its mandate. A legal framework is therefore crucial in specifying the responsibilities, functions, performance and independence regarding potential investors. In such cases, strong government support as well as a clear and coherent investment promotion strategy is important (Trnik, 2007).

The role of the legal system as a determinant to invest in a specific location has been documented and is a shortcoming in the field (Perry, 2000). Studies have shown that governments believe that FDI is an important source for technology and capital enhancement, and arguments have been centred on the importance of the legal system. Another area of interest in the relationship between law and development has been resurgence by the World Bank. Institutions and officials are mainly responsible for the construction and implementation of the law. This normally includes courts, judges, bureaucrats and politicians (Perry, 2000).

The manner, in which investment promotion is executed, is outlined by the rules in the practise. It generally contributes to the fact that "a pristine statute on investment that is unknown, un-administered and unenforced is ineffective" (Perry, 2000:781). One can assume that political stability, transparency and the reliability of the government along with the prevention of corruption are crucial elements that should be considered when constructing a legal framework for IPAs in terms of domestic investment (DfID, 1997). The appropriateness of a well-constructed legal framework is emphasised by the World Bank who views it as a fundamental variable for the basis of investment promotion (Shihata, 1995).

Perry (2000) also indicates that the effectiveness of a legal system can affect FDI flows that are based on the assumption that economic actors should structure their activities in order to reduce cost. However, the legal system contributes to the decrease of cost with regards to search time, information bargaining and enforcement but can also be considered unsuccessful because the framework itself revolves around higher cost.

The inefficiency of a legal system can lead to increase unnecessary cost (Sherwood *et al.*, 1994). Regular foreign investors prefer to structure and operate their investments with limited reference to the formal legal system of the host country and may be described as insensitive investors (Perry, 2000). The question in this regard remains: How does one go abroad and find out which investors are sensitive to legal systems and which are not? It will be also difficult to distinguish between different sensitivities to the legal system amongst competitors.

In summary, the legal status of an IPA relates to the power it has to influence the capacity to attract investors. It is recommended that the establishment of an IPA with a clear legal structure should carry out its mandate. The above section also indicates that a well constructed legal framework is a fundamental variable for the basis of investment promotion. The importance of the legal framework is also evident by decreasing the cost relating to search time, information and enforcement.

2.3.6 The importance of aftercare

Investment aftercare is defined as the assistance given to the investor to evaluate the investor's satisfaction regarding his/her investment decision in an investment project. This occurs in the start-up- and development phase of an investment project in order to contribute to economic development (Manasoe & Mears, 2011: 3; Young & Hood, 1994: 46). Aftercare influences the existing investor base to reinvest or expand their existing investment. While a large number of IPAs still give little attention to aftercare (Filippov & Guimón, 2009), the importance of this strategy happens to be very real to existing firms (Wessendorp, 2008). This will show whether or not the IPAs are interested in the process of the existing frim to survive during the investment project. The extent of the aftercare service is adapted according to the "investor's experience, policies, investor size and technology, development and nationality" (Ansoff, 1987: 23; Young & Hood, 1994: 56-57; Filippov & Guimón, 2009).

When a company becomes integrated with the region and focuses on other priorities, their requirement for aftercare service tends to be reduced. In certain conditions the requirements for aftercare services seem to be influenced by the nationality of the investor for example, "japanese investors appreciate a close key account relationship with FDI agencies at the time of search and investment decision-making" (Manasoe & Mears, 2011). The effect of investment aftercare is that it has the potential to assist local managers to upgrade particular establishments by strengthening their negotiation capabilities with the parent company. It is more focused to support region projects than national projects. The propensity therefore is that aftercare support to investors repeatedly leads to reinvestments which in turn enhance the development of the investment in the economy (Wessendorp, 2008; Economou, 2008). Ongoing aftercare has an important impact on the economy. Benefits and positive spill-over of existing firms are maximised which contribute to economic development (Economou, 2008). IPAs regularly use aftercare on existing investors because it satisfies existing businesses which are the best ambassadors for new firms entering the region. Aftercare on existing businesses is also cost effective (Young, 1994).

Managing aftercare is an important factor for an IPA. This investment strategy can help generate repeated investments and ensure that the benefits and positive spill-overs of existing firms are maximized (Economou, 2008), thereby contributing to economic development.

For example, the Asian financial crisis in 1997/98 has driven Korea to implement a well accommodative FDI policy in order to gain credit from the International Monetary Fund (IMF) (Ahn, 2008). Striving towards a new FDI policy regime has put Korea out in the global economy by welcoming greenfield[3] investment and Mergers and Acquisitions (M&A). The change in policies has led to new FDI strategies that include more effective aftercare services that resolve problems faced by companies that have invested in Korea (Ahn, 2008). Foreign investors in Korea have indicated a range of difficulties on how to take advantage of incentives. These difficulties have provided the opportunity to emphasise on how aftercare is measured (Ahn, 2008).

According to Ahn (2008), Korea has been able to attract an average of 10 million US dollars in a four-year period. 60 percent of the latter consisted of reinvestments made by established investors. The need for post-investment care in this regard indicates the significant importance and contribution to good return. The difficulties that were experienced by investors were handled by the IPA doing aftercare through site visits to certain firms (Ahn, 2008). By implementing aftercare, Korea has been able to gain from the loss experienced by the Asian financial crisis.

In summary, investment aftercare is defined as a continuous strategy to keep the investor satisfied throughout a project. The main goal of this strategy is to keep investors interested to reinvest which provide the opportunity to contribute to the development of the economy. The manner in which aftercare is executed mostly depends on the nature of the investor that will determine how close the relationship between the investor and the IPA will be.

2.4 The best practices of investment promotion agencies

2.4.1 Introduction

The formulation of the best practices was taken by the World Bank’s Multilateral Investment Guarantee Agency (MIGA), since their existence in the development of literature, toolkits and website design was done specifically for the assistance to IPAs for World Bank

[3] Greenfield investment means to invest in new assets where operational facilities are constructed from the start ((I) Investopedia, 2011).

members (Hampton, 2006; MIGA, 2006). It is evident in the study that BW-I and FIT is used as best practice for comparison. These best practices are evident in the Global Investment Benchmarking Report (2009), where the national IPAs of Belgium and Germany are ranked. However the provincial IPAs are not indicated in this report, the study used the status of the national IPAs as guideline for the provincial IPAs that are used for comparison in the study.

Multinational corporations have become more focused on evaluating and analysing competing investment locations before making investment decisions (MIGA, 2006). IPAs tend to fail in following up on potential investors' interests which cause them to lag behind in attracting FDI. Investors evaluate the environment and consider political, social and economic aspects as important influences of their investment decision. IPAs in locations with low stocks of FDI and small investment flows need to be more proactive in pursuing and convincing investors to choose their location. Basic challenges that IPAs face are the provision of relevant information to investors. This can be of essential importance in developing countries where limited information exist (MIGA, 2006). This section distinguishes between certain leading IPAs and how they approach the attracting of FDI.

2.4.2 Attributes of leading investment promotion agencies

Defining best practices has to be accompanied by some requirements. It can be identified as generally applicable to all countries because good practices in one country may not be necessarily good in another country. In order to differentiate between these best practices one has to take the following into account: the quality and availability of managerial and technology know-how and the specific resources endowment. Access to capital, geographical location and proximity to markets can also be included when distinguishing between best practices and ordinary practices (UNCTAD, 1997). Some of the above mentioned investment measures can be important for one investor but completely irrelevant for another. For example, the US income is taxed on a worldwide basis. The grand tax of a tax holiday to a US investor would not be attractive if the net result were to remove corresponding US tax credit. In effect it replaces the host country tax by equivalent home country tax (UNCTAD, 2006).

When differentiating between leading IPAs and weakly performing IPAs, one can assume that they are better at marketing their investment opportunities to investors. Considering the access to information, leading IPAs provide quality and useful information where the handling of enquiries is seen as a top priority (MIGA, 2006).

Governments have strategies to attract foreign direct investment. Some of these strategies include the supply of information about the economy and features of the location. This is a key component of an IPA to attract more FDI. However, this is to be important for countries where up-dated, reliable and detailed information is of great concern. Therefore IPAs must be sure to publish their information in various sources for greater accessibility and accuracy (MIGA, 2006).

2.4.3 Providing information

One can describe risk as the uncertainty about the unknown (Barry & Jennings, 1992). The risk regarding the uncertainty can thus be reduced if the necessary information about investment opportunities is accessible by the investor. The role of public information can lead to an agreement which will leave analysts with the appropriate knowledge of the scenario investors find themselves (Barry *et al.*, 1992; Barry & Brown, 1985). The availability of not just public information but also the convergence of private information will lead to a reduction of risk in decision-making. Therefore a combination of private and public information can then be used by IPAs for forecasting purposes.

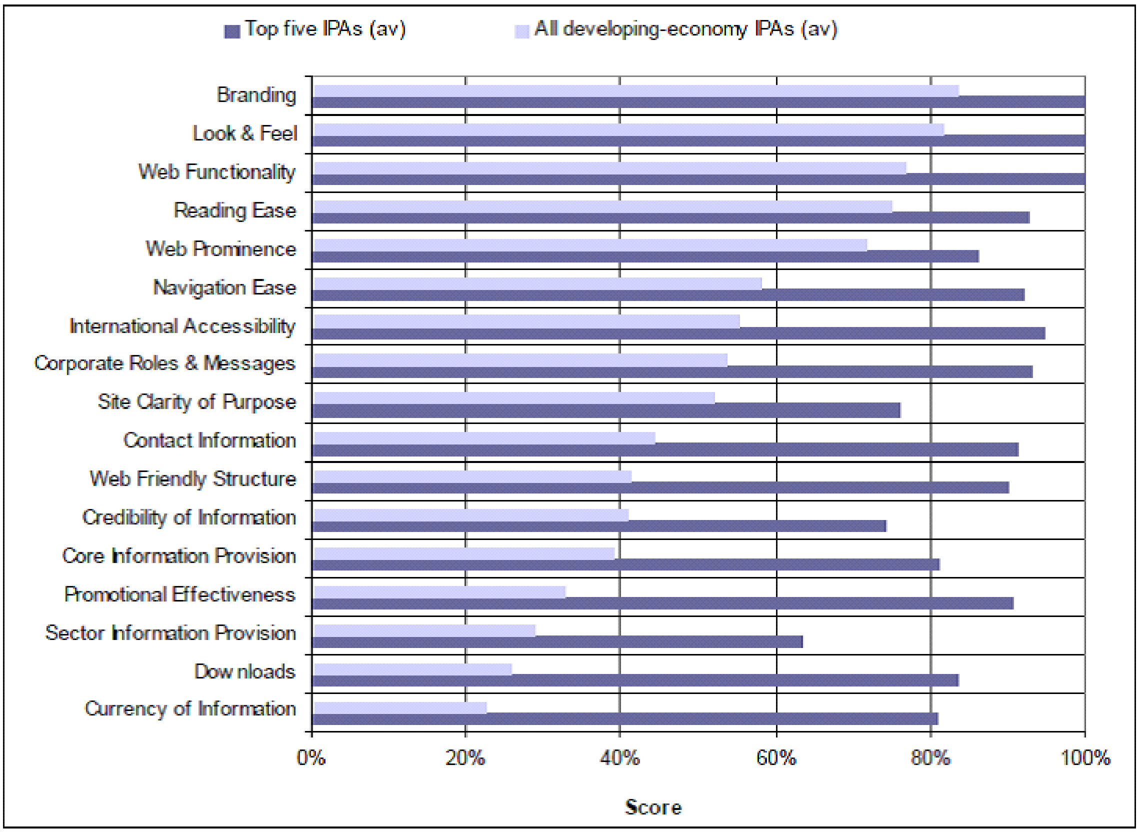
The increase in the availability of the information enhances the diversity of the investor's opinion, but the efficiency of distributing the information is the responsibility of the communicators in that market. Best practices can thus be characterised by the manner in which information for investors is published by IPAs. Worldwide accessibility to information should keep investors interested because they find it easy to locate their interest of investment (MIGA, 2006). The focus of the investor should be included in the response of the IPA in order to meet the investor's required needs. This emphasises on the provision of information, the inclusion of summaries and comparisons that should provide less complicated evaluation in the ability for key locations in comparison with others.

Countries in general fail to promote their location or state as an investment location. They fail to provide information that helps to convince investors to choose their specific location.

Therefore IPAs fail to sustain upgraded websites and other information, in comparison with the top IPAs who provide sectored and sub-sectored level information, including statistical information for evaluation purposes (MIGA, 2006).

The following figure indicates the web performance of the top five IPAs compared to developing economy's IPAs, by theme.

Figure 1: Web performance of the top five IPAs compared to developing economy IPAs



Source: MIGA (2006).

From the above figure it can be concluded how the top five IPAs compete with all the IPAs of developing economies in terms of web performance to promote investment. It is evident that the top five IPAs in the world scored more on all the aspects of their web, contributing to investment promotion. In terms of branding, look and feel and web functionality, the top five IPAs scored 100%. The IPAs in developing economies scored just over 80% in branding and look and feel while scoring just below 80% in the functionality of the web. The top five IPAs seem to be internationally more accessible via the web than the IPAs in developing economies. The top five IPAs scored higher than the IPAs in developing countries in the creditability of the information and provision of core and sector information. It can therefore be concluded that the top five IPAs provide investors with easier access to information through their websites than IPAs in developing countries.

Information can lead to a competitive advantage when it is correctly distributed by IPAs. This not only enhances the awareness of investors to more relevant opportunities in a specific location but also informs them about the implication regarding their decision (Ives & Learmonth, 1984). The external use of information is a consideration because it leads to the following: decline in cost of supporting information technologies, structural changes in the economy by global competitiveness; and the deregulation of industries along with transport and financial services.

It can be well understood that the provision of information by IPAs to investors will help investors reduce the risk of uncertainty. It is therefore important to make public and private information available to help investors in their decision-making process. Best practices provide worldwide access to information by potential investors. The availability of their investment information is complemented by well-summarised data which can be easily used for evaluation purposes. Where IPAs have not succeeded in providing the relevant information, investors are not convinced to invest. It can therefore be concluded that providing information to investors, plays an important role in influencing the potential investors' decision to invest in the host country.

2.4.4 Improvements in the distribution of information.

Marketing has been acknowledged as an internal component to develop an investment destination. There is confusion about marketing, growth and organisation marketing of the investment destination (Prideaux & Cooper, 2003). To minimise the confusion about marketing, the internet is considered to be one of the main channels to disseminate information. This facility is often used by IPAs to market their information regarding their investment opportunities to potential investors (UNCTAD, 2006).

Growing research has indicated that individuals do not make choices that best fit their needs in terms of investment decisions. The result of a bad decision taken by the investor can be explained by the role of the IPA. What lies behind an investor's behaviour to help alleviate problems is an issue of critical importance to IPAs (Agnew & Szykman, 2004). This means that IPAs should distribute relevant information to investors to understand their need.

The benefit of information marketing increases the creditability of investors to evaluate their choice more effectively to take informed decisions. The effect of too much information can also lead the investor to take inappropriate decisions because the presentation of information plays a big role when analysed by investors (Agnew & Szykman, 2004). Effective communication of information has been in the interest of public policy but, is not enough to help the investor take good decisions. Generally speaking, investors tend to use information more extensively because, it reduces the cost and time consumption that is incorporated (Stigler, 1961; Nelson, 1974; Agnew, 2004). The effort to obtain information can thus influence the consumer's decision when it is easier to accumulate.

UNCTAD (2006) has provided tips for IPAs to improve their strategies to attract more investors over the web. The importance for developing countries adapting these strategies is significant; therefore, to improve information architecture on websites UNCTAD provided the following guidelines to provide a better web-based service for many investors in terms of information architecture: An IPA's services are displayed to enable you to find your way on the website. Investors should experience a fast downloading time through the effective functioning of the website. IPAs should signpost commonly used topics on the web for a quick download (UNCTAD, 2006).

Providing information increases the probability of having a good relationship with an investor, which in turn focuses on maintaining and enhancing long-term associations (Srivastava, Shervani & Fahey, 1999). The design of the website plays an important role in attracting the attention of the investor (UNCTAD, 2006). However, it is important that the channel of communication between the IPA and the investor should be kept functional by sharing information (Jayachandran *et al.*, 2005). A relationship should be maintained by including the relevancy to shape the information that is appropriate for the investor. One can as a result conclude that information plays a vital role in building and maintaining a relationship between the potential investor and the IPA. When displaying information it is critical that IPAs focus on summaries, statistics, news, testimonials case studies that are of interest to the potential investor (UNCTAD, 2006).

The questions that IPAs should ask are: Is the structure and content of the website really designed for your choice of target? Is the content relevant to the key locations that the investors consider in their decision-making? According to UNCTAD (2006), best practices provide focused information on their priority sectors. They also show credibility of information by using information and statistics from trusted sources to support claims. Best practices show their currency of information by ensuring content, especially news with the release date of publications. The best practices provide investors with downloads of presentations and fact-sheets for later reading. They also have information available in at least two international business languages and ensure that key information is available in the languages of targeted investors (UNCTAD, 2006).

Promotion of investment opportunities is the key focus of this study, therefore effective promotion of information through channels is a priority for consideration (UNCTAD, 2006). In the study of Jayachandran *et al.,* (2005) the focus is on information processes, which systemises the capture and use of customer information with the intention that a firm's endeavour to build a relationship is not in vain. The key concepts of their study are customer retention and customer satisfaction which plays a big role in providing them with the necessary information. This is complemented by Oliver (1996) who stated that relational information processes are likely to enhance customer satisfaction by providing quick and effective response to customers. Information processes are there to provide guidelines to manage customer information and interact with customers on a regular basis (Jayachandran *et al.*, 2005).

IPAs should ensure that all relevant information is provided and is current so that an investor can reach the appropriate decision (MIGA, 2006). In this way IPAs can follow these guidelines to improve and build investors' confidence. These steps are outlined by UNCTAD, (2006) and MIGA (2006). When information is provided, IPAs will be faced by subsequent enquiries made by investors. It is therefore important to respond diligently and appropriately to the investor's enquiry. Adding additional information that is relevant to the investor can illustrate the necessary skill of the staff of an IPA to aid an investor. IPAs should ensure that all their resources are appropriately used and that investors should understand the role of the staff handling their questions. Best practices are set to always learn more about investment projects that are of interest to potential investors and to engage the necessary expertise to handle the investor's enquiry in a professional manner (MIGA, 2006).

Sound internal systems, processes and training are characteristics that contribute to improve the responsiveness and handling of an investor's enquiry. Project managers must have the skills and knowledge to allow them to discuss key sectors, addresses, solve problems, keep track of projects and follow up with their clients. The use of strategic communication would complement IPAs in their response and handling of information. Strategic communication can be defined as communication aligned with the company's overall strategy to enhance its strategic position (Arganti *et al.*, 2005). Best practices allow corporate strategy to drive communication strategies. It adapts, through equally tailoring communication activities to support existing strategy or drive new strategy.

Table 3: Drivers of strategic communication

Regulatory imperatives	**Increased creditability**	**Organisational complexity**
Regulations can drive companies to adjust their communication strategies.	Crises may drive companies to reconsider how they communicate.	As an organisation grows in size and complexity the need for consistent communication becomes more critical because it must communicate the diverse and rapidly expanding array of remaining relevant information.

Source: Jayachandran et al. (2005).

According to Jayachandran *et al.* (2005), the relevancy of lessons in strategic communications on IPA will indicate how they adhere to the needs of investors. These strategic communications help to deliver and give feedback to the investor's questions. The quality and professionalism regarding the response and handling enquiries on information given can provide for the establishment of long-term relationships between the investor and the IPA (Jayachandran *et al.*, 2005).

The quality of response to the investor's enquiry can benefit the investor's time to formulate a decision to invest in a shorter period of time. As previously mentioned, a summary highlights the facts why an investor wants to invest in specific location (MIGA, 2006). Best practices are well-organised to respond to an investor with the appropriate expertise and to help the investor to formulate a well-informed decision. To improve the quality of response MIGA (2006) has provided the guidelines to improve this characteristic. These guidelines include: Confirmation via email or telephone, there must be contact with the investor even if the IPA cannot help the investor. The IPA must contact the investor to find out why they have taken a particular decision. To find out why the investor has taken a certain decision can help the IPA to think like the investor to fulfil in the need of the investor in the near future so that the necessary action can be taken.

In summary, the above section has provided suggested improvements in the distribution of information and how to proceed in handling the enquiries of the investor. The role of marketing the distribution of information is significant for the response of the investors when receiving the information. Improvement on the distribution of information directly, benefits the investor's accountability. The following section will discuss the principle components of best practices.

2.5 Principal components of best practice

Principle components of best practice IPAs starts with the improvement of a country's image. The direct generation of investments and the provision of services to prospective investors, ensure the entry and expansion of FDI, significantly over time. UNCTAD (1997) describes it as follows: building a positive perception, pro-activeness in attracting FDI and facilitating the entry of new investment and the operations of established investors.

2.5.1 Building a positive perception

A first requirement for effective investment promotion is building a positive perception. This includes activities which are aimed at convincing the investor (UNCTAD, 1997; Wells & Wint, 1992). Increasing the number of investors to a country is part of every IPAs long term goal.. The role of perception is to state the representation of the business-enabling an environment that is a prerequisite for investors. “The effectiveness of policies, laws and regulations in attracting increased FDI requires that they be comprehensive, clear and fair...” (UNCTAD, 1997). This will enable the start of a new business free from undue government interference. A question to be asked in this regard is: How does an IPA proceed in implementing these policies to build a well-established image to investors?

The implementation of policies that best practices use to enhance the perception of a country take the following into consideration:

Law and regulations: Governing the establishment of a new business by investors’ specific requirements should be provided as the foundation stone of the investment framework. For example in a sector there might be specific requirements about petroleum and mining which are important considerations (UNCTAD, 1997). Regulations relating to land use, ownership, sale of property and infrastructure are issues that hinder investors.

Protecting investment: This takes into account the bilateral nature of multilateral treaties that are based on the discrimination and constitutional protection of government assistance. International arbitration, in the case of different opinions, is seen as protection for investments. Therefore general IPAs should take into consideration the protection provision that is needed to succeed. Constant provisions can protect the investor against unilateral fiscal changes or a minister’s right to terminate investment licence (UNCTAD, 1997).

The fiscal regime: the fiscal regime is a crucial factor for investors because it includes matters such as income tax, corporation tax, capital gains tax, customs duties, value added tax and sales tax (UNCTAD, 1997). Under a country’s investment framework, the fiscal regime has a significant influence on an investor.

2.5.2 Proactive attraction of Foreign Direct Investment

Most governments are still eager to incorporate their role “to channelling scarce capital into selected industries that stimulates and influence the acquisition of foreign technology and skills...” (UNCTAD, 1997). Challenging and exhorting industries are meant to improve employment protection, foster local technological bases and to not have an absolute laissezfaire approach to the functional market. The reason that policy makers are mostly interested in these policies is because similar policies have failed in some countries but have succeeded in others. Best practices in investment promotion would seem to have the guidelines to attract the required targeted approach. This leads to pro-activeness in targeting investments which provides the appropriate investment that is attracted to a country in the long term. Inactive IPAs will find it hard to develop their objectives and may receive disparate, non-complementary and "un-met" workable types of investments (UNCTAD, 1997). Some IPAs no longer focus to attract labour intensive industries to contain a fully employed and skilled labour force. However, higher value added skill-intensive activities are their main focus. For that reason an IPA can achieve its goals when a well-targeted promotion programme is included in a liberal framework. These programmes include: regional development programmes, labour production, size of the firm and the level of technology.

When targeting a specific investors group, IPAs need to focus on their promotional efforts in the investor's home country from which previous investments had come. The targeted firms should be the ones showing interest in locating abroad to find a particular investment climate (UNCTAD, 1997). A primary selection is useful before launching sector investments where it would require the monitoring of the international business environment when choosing the best investment climate and environment. Best practices IPAs have advantages that consist of access to electronic databases that is very expensive and unaffordable for smaller IPAs.

The following table indicates the percentage of available information databases to developing and developed countries.

Table 4: Availability of information databases

	Developing countries	**Developed countries**
Existence of a system for identifying investors	65%	94%
Computerised system, access to foreign databases.	41%	56%

Source: UNCTAD (1997).

Concluding from the above table, one can see that more than 90 percent of developed countries have a system for identifying investors in comparison to 65 percent of developing countries. In terms of a computerised system that provides access to foreign databases, developing countries show the least availability in this area.

Pro-activeness also represents the provision of incentives that forms a crucial part in an investment policy and framework. Incentives imply the provision of an advantage to the investor that motivates him/her to invest more in the country and adding value for his/her benefit. This can include a range of business activities such as revenue, capital, costs, equity, taxes, labour and land (UNCTAD, 1997).

2.5.3 Facilitating the entry of new investment and the operations of established investors

"Judging the attractiveness of an investment climate, foreign investors put much emphasis on the cost of doing business" (UNCTAD, 1997). Policy makers have to consider and ensure that no regulatory and institutional bottlenecks negates overall attractive policy and legislative initiatives. These can effectively equate policies with actual practices (UNCTAD, 1997).

However, a large percentage of IPAs are engaged in investment screening activities which investors use to determine best practices in investment promotion. In an open economy, market prices and market forces provide a more accurate assessment than an initial screening process. In situations where import protection, subsidies, price control and unrealistic exchanges rates are allowed to prevail, screening of non-viable investments may be required in order to limit the level of undesirable investment (UNCTAD, 1997). More relevant to investment promotion is the overall limitation on total investment freedom that may take a number of forms that blur the advantages of one approach against another.

2.6 Concluding remarks

It can be well understood that an investor's decision depends on the effort the IPAs make to attract the attention of the investor and therefore attracting FDI. Investment promotion is considered to be an effective way to attract the attention of investors. This indicates that

IPAs must use specific tools (perception building, FDI policies, legal systems, targeting, incentives and distribution of information) efficiently to attract FDI from abroad. The role of an IPA is very important and significant to attract FDI. This complements the effectiveness of distinguishing whether an IPA should be managed by the government or privately, which can be seen as a problem influencing the success of the outcome of their activities. Perception building also influences the decision of an investor to invest. A combination of variables specifically employed by IPAs can change the way the South African IPAs operate.

Aspects from the literature causing problems for IPAs to attract potential investors are attributed to uneducated and unskilled staff. This bottleneck mostly makes its appearance in IPAs that are driven by governments. The unavailability of the necessary funds suppresses the possibilities of IPAs to attract potential FDI. Literature also suggests that investment promotion is a cost-effective approach when targeting investors. By segmenting potential investors, resources are fully utilised.

With the latter in place the subsequent step is to convey these policies and incentives to the investor which implies that marketing of the information contributes the success of an IPA. If information is quickly distributed, investors can get quick feedback on their enquiries. The communication between the investor and the IPA will also provide the possibility of a long-term relationship, which will depend on the regularity of interaction between these two parties along with the professionalism that occurs. Therefore, according to the literature, the above variables contribute to providing guidelines IPAs can use to attract FDI.

Chapter 3: Comparison of international investment promotion agencies

3.1 Introduction

In Chapter 2 the importance of investment promotion was emphasised and especially the strategies used by IPAs. The conclusion was that these strategies play an important role in attracting investors from abroad. Chapter 2 provided a theoretical background regarding the effectiveness of investment promotion and the strategies used to achieve investor attraction. This background forms a guideline for practical issues to be addressed in Chapter 3 and 4. A basis is established as to how these IPAs use strategies to influence their possible performance. The effectiveness of the use of investment promotion strategies is theoretically evaluated to improve the performance of the investment promotion agency and to contribute to spill-over effects on the economy.

In Chapter 3 the focus is on the practical aspects of the study. In this chapter it is clarified how these investment promotion agencies are measured. This is illustrated by examining the performance of Flanders Investment and Trade and Baden-Württemberg International (3.3 and 3.4). Chapter 4 focuses on the performance of Trade and Investment South Africa (TISA) and illustrates the gaps (Table 28) between these agencies in Chapter 5.

In order to do a comparative analysis of these countries (Belgium, Germany and South Africa), the study uses the same instruments of measurement for each investment promotion agency. Therefore, the IPAs are evaluated in terms of the following aspects: their total investment inflow, economic statistics, policies and incentives. Secondary data is used to establish how these countries have been performing in the past. This forms a parameter for the empirical section in Chapters 3 and 4. In the empirical section for Chapter 3 and 4 the feedback from the agencies are analysed to establish their current performance. The data gathered in the survey will make it possible to evaluate the strategies used to attract FDI and provide possible answers why South Africa is lagging behind in terms of inward FDI.

To accomplish the goals of this study, the performance of TISA compared with the performance of its regional IPAs is outlined. By analysing their performances, the gaps between TISA and the best practices (Germany and Belgium) can be identified by looking at the strategies used by best practices to attract investors.

3.2 Measurement of best practices

In order to evaluate an IPA, it has to be kept in mind that most of the agencies are governmentally driven. This signifies that they are also funded by the government. These IPAs attract FDI to the host country by delivering a service to investors to achieve their goals. Their goals are achieved by the activities that they supply to the investor. Therefore a direct comparison is not easy[4]. Each agency uses a different set of investment promotion techniques to attract FDI (Gabriel, 2006: 74-80). Agencies then use their primary inputs to generate activities that can be seen as semi-finished products and serve themselves as inputs to generate FDI.

Measuring the performance of IPAs gives an indication whether they contribute to the economy (UNCTAD, 2008). These measurements of agencies can provide policy makers with the relevant information whether the IPA is effective[5] and whether the necessary activities are performed in the most effective way. Policy makers are provided with guidelines to establish relevant and appropriate policies. The use of a survey to evaluate IPAs highlights two objectives: The first is to obtain a better understanding of economic performances and the regulatory framework in which agencies seek to attract FDI and the second is to gain a better understanding of the role of an IPA in attracting FDI (UNCTAD, 2010).

IPAs find it difficult to measure their performance (UNCTAD, 2008). Resulting marketing strategies have provided IPA managers with knowledge and skills to effectively allocate their resources. This complements and helps IPAs in their struggle to improve their performance (UNCTAD, 2008). Generally there is a lack of staff with the necessary skills. Evaluating the performance of an IPA gives more accurate information to governments to meet their targets

4 Gabriel uses the DEA (Data Envelopment Analysis) to measure the performance of the IPA. This avoids the difficulty of measuring the exact price of public goods or service (Fried H. Lovell, C. & Schmidt, S. 1993.The measurement of productive efficiency. Techniques and applications. New York.

5 According to UNCTAD, (2008), the result of “return on investment” does not necessary imply that doing the thing right is doing the right thing.

(UNCTAD, 2008). Through evaluation, the first step towards transparency to measure their performance is addressed by finding ways in which the investor's needs are better understood with the appropriate response.

The possibility for a proper evaluation is also significant because it signifies how efficiently the agency uses its resources. Inadequate evaluation arises from a lack of a structured approach to data collection and the capacity to register all relevant factors. Other possibilities for inadequate evaluation may come from insufficient funding (UNCTAD, 2008). In terms of adequate evaluation, IPAs can face the following challenges: "Institutional factors, practical matters, organisational challenges and conceptual issues" (UNCTAD, 2008). It is therefore useful to keep the following key requirements in mind when evaluation takes place: Defining and stating the aims of the exercise must be as clear as possible, preparing the organisational and external partners for the coming evaluation, consulting with those who can give interesting and valuable inputs and strive for transparency with progress, methods and findings (UNCTAD, 2008).

This study will apply different tools to evaluate the performance of TISA (Trade and Investment South Africa, including: INW, TIL, MEGA, TIK, WESGRO, ECDC, NCEDA, FDC, and GEDA against BW-I and FIT. These tools include: literature reviews, press documents, reports and questionnaires of the mentioned IPAs. The focus will be on determinants such as budget, staff (size of the IPA), the organisational structure, policies and incentives and total FDI inflow.

3.3 Performance of an investment promotion agency: Flanders Investment and Trade

3.3.1 Background

In 1830, Belgium became independent from the Netherlands. In the one and a half centuries that followed, the country developed into a modern technologically advanced European state and it also became a member of NATO and the EU. Tension between the Dutch and the French contributed to granting a formal recognition of the regions and autonomy (CIA world Factbook, 2010).

In July 2005, Flanders Investment and Trade was created by the merger of the former Flanders Foreign Investment Office (FFIO) and Exported Vlaanderen. This agency aims to promote sustainable international business for both domestic and international companies through widening the networks and expertise by the merger of the two agencies.

The following section will provide statistical information about the performance of this agency.

3.3.2 Total investment inflow and other economic statistics

Since 2000, Belgium has experienced a slowdown in their total investment inflows. The share of total FDI decreased from 8.3 percent in 1995 to 6.3 percent of investment inflows in 2003 (Bulcke & Zhang, 2005), but since 2003 Belgium started to show increasing results in their total investment inflows. In 2003 Belgium took 5th place in the top ranking of FDI recipients. The reason for its good performance in 2003 was because 30 percent of the gross fixed top capital formation increased to 50 percent (Bulcke *et al.*, 2005). The following table indicates the total inward investment of Belgium for 2002-2006.

Table 5: Total inward investment flow of Belgium for 2002 - 2006 (Million US dollars)

	2002	**2003**	**2004**	**2005**	**2006**
Total merchandise and services	*16 249,8*	*33 476,1*	*43 557,9*	*34 373,0*	*47 606,40*

Source: Investment Map (2010b)

According to Investment Map (2010b), Belgium has shown an increasing performance in the total inward investment inflows between 2002 and 2006. Since 2003 Belgium has experienced an increasing trend of inward investments. Although it can be seen that in 2005 Belgium's inward investment flows decreased by 9 184,9 million US dollars, it increased again in 2006 by 13 233 4 million US dollars.

By the end of 2008, FDI was negatively affected. This effect can be viewed as the result of the world financial crisis that caused a decrease in the availability of the financial resources and market opportunities among countries that were dependent on their international investments to finance their growth and employment (WIPS, 2009). Resulting from this, Belgium had a total stock of 519 million US dollars in all industries in its market. Total of inward stock has changed by 11 percent since 2005 (Table 1). According to the UNCTAD survey of investment promotion agencies (2000), Western Europe is one of the important geographical areas for IPA promotional activities.

Industries such as basic manufacturing and advanced manufacturing were mostly targeted[6]. Belgium has gained a total of 19 858,5 million US dollars through business activities where the finance industry gave a negative contribution of minus 298 million US dollars to the economy in 2006 (Table 1).

Belgium is not only a good performer in employment but is also one of the countries that show good FDI inflows (among the top twenty countries in the world - Figure 1).

Table 6: Total inward stock inflow to Belgium in 2008 (Million US Dollars)

Industry	**Inflow 2006**	**Inward stock, 2008.**	**Annual average change in inward stock (%) since 2005**
Total (merchandise and services)	47 606,4	*518 939,6*	*11,1*
Business activities	19 858,5	*N/A*	*N/A*
Unspecified secondary	13 700,2	*N/A*	*N/A*
Electricity, gas and water	7 873,1	*N/A*	*N/A*
Hotels and restaurants	171,9	*N/A*	*N/A*
Mining and quarrying	168,1	*N/A*	*N/A*

6 These industries include: High technology, electronics biotechnology, opto-electronics, textiles, clothing and automotive.

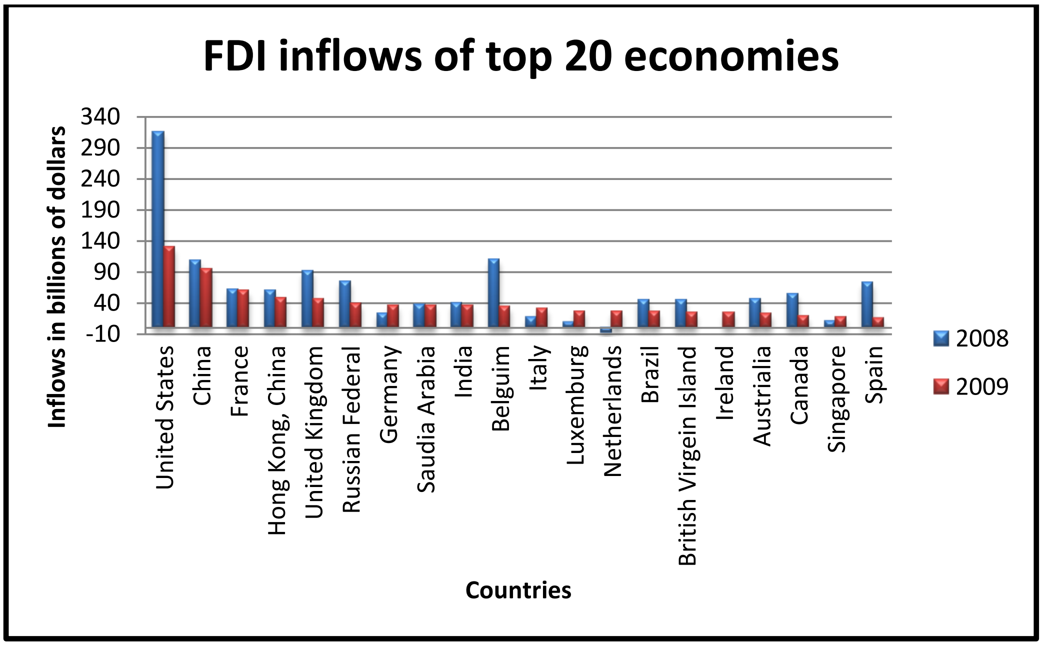
Construction	7,5	*N/A*	*N/A*
Agriculture and hunting	6,3	*N/A*	*N/A*
Finance	-298,6	*N/A*	*N/A*
Other services	-314,9	*N/A*	*N/A*
Transport, storage and communications	-1 543,0	*N/A*	*N/A*
Wholesale and retail trade	-2 350,9	*N/A*	*N/A*

*Source: Investment Map (2010*b*)*

As can be seen from the above table, Belgium showed an inward stock of 518 939,6 million US dollars in 2008. In 2006, Belgium experienced inflows of 47 606,4 million US dollars. Agriculture showed the weakest contribution to the economy in terms of inward stock in 2006 among the positive figures. The business activity industry was the leading industry to attract investment in 2006. This industry experienced inflows of 19 858,5 million US dollars in 2006. The second industry is the "unspecified secondary" with an inflow of 13 700,2 million US dollars in 2006, where the electronic, gas and water industry was third with an inflow of 7 873,1 million US dollars. Finance, other services, transport, storage and communication, as well as the wholesale and retail trade sector, showed negative figures in 2006.

In Figure 2, it can be seen that Belgium is one of the top 20 countries in the world attracting FDI.

Figure 2: FDI inflows of the Top 20 economies in US billion dollars



Source: World Investment Report (2010).

It is evident in the above figure that there were major differences in some countries between the year 2008 and 2009. FDI inflows are analysed according to the results of the World Investment Report (2010). The US FDI inflows had a decline from 316 billion US dollars to 130 billion US dollars. Belgium also took a knock from this world-wide crisis and has experienced a reduction from 110 US billion dollars to 34 US billion dollars (WIPS, 2010). It can also be seen that Germany's FDI inflows increased between 2008 and 2009. Under the top 20 countries, Spain is the country with the lowest investment inflows.

According to WIPS (2009), many transitional countries have experienced lower investment inflows than developing countries in terms of inward investment inflows. The advantage of most developed countries is that their market size can recover from losses experienced during the financial downturn. The effects of the financial downturn are also evident in Figure 1.

According to the World Fact Book (2005), Belgium is ranked 6th in the world for active patents per capita. The performance in its employment in Research and Development (R&D) shows that Belgium is ranked 13th. Employment in R&D of total employment is 1.173 percent with the EU average at 3.71. However, companies in Flanders are responsible for 73 percent of R&D. The implication is that universities in this region are rated relatively highly. The incentive for innovation and R&D is also considered as a priority for the government (Global Competitiveness Report, 2005).

Flanders is home to numerous world-leading enterprises operating in widely different sectors. Some of the big corporations have focused on the automotive industry. They have improved solutions that meet the high demands of automotive suppliers and their clients. One of the top producers and marketers of an extensive range of products, systems and services in Flanders is Berkaer, with its metal transformation and advanced coating technologies. This company has 18 500 people employed worldwide and generated 3,2 billion Euros in 2006 (FIT, 2006). Flanders (in Belgium) as a region has ranked second, ahead of neighbouring countries and the US according to FIT (2006).

Along with the IPAs' great performance in the motor industry, the Financial Times Group selected Flanders Investment and Trade as the Northern Europe Region of the future (2006-2007), in the Transport category. FIT is praised for its strong service delivery via air, sea, road and railway which provide investors with good connections to other markets (FIT, 2006). According to UNCTAD (2010), Belgium was considered to be the number one target nation in terms of cross-border M&As with a value of over 3 billion US dollars in the first quarter of 2010. Belgium's M&A deals were valued at 7 603 million US dollars where Germany's total was 5 195 million US dollars, exceeding that of the United States. The industry that was mostly targeted in Belgium was the pharmaceutical industry with the main company being Solvay Pharmaceuticals (UNCTAD, 2010).

According to FIT (2007), Flanders was ranked as the number one IPA in terms of FDI strategies (European cities and regional, 2010/2011). The countries that were surveyed were evaluated according to the following criteria:

- economic potential,
- cost effectiveness,
- human resources,
- quality of life,
- infrastructure,
- business friendliness and
- FDI promotion strategy.

In terms of the top regions of the future, Flanders took the 7th position that underlines its overall attractiveness for FDI. The capital of Flanders, Brussels is in the 9th place for the most attractive European city and in the small cities Antwerp ranked 7th (Flanders Investment and Trade, 2010). Flanders has always proved to be a region that exhibit new, ingenious ways of dealing with specific needs of foreign investors.

3.3.3 Policies and incentives used by Flanders Investment and Trade

The "Innovatie door Wetenschap en Technologie" (IWT) is an institute that promotes innovation by science and technology in Flanders. Many companies in the Flemish region and especially SMEs (Small and Medium Enterprises) may request IWT-Flanders assistance in their project which allows the companies to use the service of the IWT. One of the projects the IWT is assisting with is providing companies with R&D incentives. This relates to doing projects in Belgium or including personnel in research projects (Flanders Investment and Trade, 2010). In the following table companies can only qualify for R&D financial support when presenting the following technologically orientated projects:

Table 7: R&D incentives given to technologically orientated projects in Flanders

Projects	**Description**	**Accepted cost (%)**
Basic industrial research	Scientific–technological research that focuses on the generating of new knowledge.	50
Prototype or development activities	Transformation of technological knowledge into design of new, modifies of improved products, processes and services.	25
Mixed research	Mixed research includes a combination of basic industrial research as well as prototype or development activities.	38

Source: Flanders Investment and Trade (2005)

In the technologically orientated projects, R&D incentives are mostly given to basic industrial research. This research focuses on the generation of new knowledge in the industrial sector.

In these projects the investor carries only half of the cost. Other projects in technologically orientated projects include prototype or developmental activities and mixed research. Flanders accepted carrying less than 50 percent when investment is made into these projects.

The support to investors can be raised by 10 percent, where the overall total is limited to 80 percent of the project's cost. The decision regarding the admission of the project is made within 14 days after the file is submitted and the decision of the financial support takes 10 weeks (Flanders Investment and Trade, 2005).

The Flemish government has provided a financial incentive to businesses wanting to invest in the Flemish region. Depending on the size of the company, the company is eligible for a growth premium by means of a call system[7] or a growth premium for strategy projects[8] (FIT, 2008a**)**

In the following table a summary is given about all the training incentives the Flemish government gives.

7 "A growth premium is awarded on the basis of a call system ('call') whereby applications for support may be submitted during a fixed period". (Flanders Investment and Trade, 2008). Growth premiums for SMEs – Call http://www.investinflanders.com/en/doing%5Fbusiness/incentives/investment%5Fincentives%5Fcall/.

8 Is currently being reviewed (Flanders Investment and Trade, 2008a) Growth premium for strategic projects. http://www.investinflanders.com/en/doing%5Fbusiness/incentives/growth%5Fpremium%5Ffor%5Fstrategic%5Fprojects/

Table 8: Summary of training incentives provided by the Flemish Government

Type of training	Description	Duration	Benefits	% provided by Flemish government
Individual in-house training	A company provides job-related or company-related training on the company's responsibility. Job seeker must be recruited full time afterwards.	4-26 weeks	N/A	N/A
BEA (Budget for economical advice) "Entrepreneurial Dossier"	Enables the company to purchase entrepreneurial support services (advice, training, knowledge, and mentorship).	2 years	N/A	35
Mentorship guidance	Employees older than 50 years[a)] can share their experience with your company.	N/A	Train new recruiters. Supervise new recruiters and provide mentorship.	N/A
Ad hoc training aid[b)]	Support large enterprises with an important new employment in their training schedule.			50% or 25% 25% to large companies, outside the developing zone.

a) These employees work halftime and receive career break benefits.

b) Is under review

Source: FIT (2008b)

The above table indicates that the Flemish government provides incentives when investors train their personnel. This training varies from in-house training to ad hoc training. Individual in-house training is when a company provides job-related or company related training that the company is responsible for. In order to qualify for this training the worker must be a permanent worker. The Flemish government also provides incentives to the investor by providing BEA training to their workers. This training enables the company to purchase entrepreneurial support services that include advice, training, knowledge and mentorship. This training extends over two years and the Flemish government provides 35 percent support to the company. Other types of training the Flemish government supports are mentorship guidance and ad hoc training.

According to Flanders Investment and Trade (2008c), Flanders has different types of tax incentives that include the following:

The Notional Interest Deduction tax incentive, companies can reduce their taxable base when making investments from their own resources. This deductible amount equals the pretended interest cost on the adjusted equity capital.

The advantages of this tax incentive are that it reduces the taxable base of the company, which provides an attractive tax saving strategy. It also protects the capital of companies so that they can be stronger and more independent. The notional interest deduction provides the possibility to carry any unused amount of the deduction, making it flexible. The 5 percent registration fee on capital contribution is abolished in order to attract more investors and complies with EU regulation assuring legal certainty to companies (Flanders Investment and Trade, 2008c).

Under the *New Domestic Dividend Withholding Tax Exemption* this tax incentive the new domestic dividend withholding tax exemption extends the EU parent–subsidiary directive between the EU countries and Switzerland to all countries world-wide that have a double tax treaty with Belgium. This allows corporate investors from treaty countries to repatriate European profits without paying dividend withholding tax and without limitation on benefits. This incentive ensures that shareholders of a company in Flanders are enjoying their capital gains on shares without any exemption from corporate income tax. Therefore it makes Flanders an attractive holding company location (Flanders Investment and Trade, 2008c)

The Organisation for Financing Pensions (OFP) is a flexible legal and fiscal context that was created for pensioners in Belgium. The aim of this fund is to make Belgium an attractive location for pan-European funds.

The benefits of an OFP are that it is not subject to the social annual estate tax of 0.17 percent on the pension funds assets on January 1st of each year. This incentive is also subject to corporate tax on an alternative basis. The OFP credit interest and dividends that withhold tax against corporate tax due and excess withholdings taxes are refundable (Flanders Investment and Trade, 2008c).

*VAT Grouping is a*nother way of Flanders attracting investors through their tax incentives. Applying for this incentive would regard all the taxpaying entities applying in a group as a single entity according to the Belgian VAT Administration. All the Belgium companies from the different sectors and industries may apply for this tax incentive.

The advantage of the VAT Grouping is that it is a cost-saving approach. The companies in one group can save 21 percent VAT when they invoice another in the same group. Companies can choose if they want to adopt fiscal unity or if they want their part of their group to fall under another system. The VAT rules of Belgium are one of the strategies the country uses, making it an attractive location for inward investment (Flanders Investment and Trade, 2008c).

The *Hong Kong Treaty* also forms part of the tax incentive strategy that Belgium uses to attract investment from Hong Kong. This implies that companies in Belgium pay a dividend, interest and royalties under certain conditions to Hong Kong (with a low tax rate). The Belgium tax ruling implies that all taxpayers may request an advantage ruling where the Federal Public Department determines how the tax code shall be applied (Flanders Investment and Trade, 2008c). This ruling[9] can, however, be applied to “mergers, splits and related transactions, contributions, transfer pricing, absence of permanent establishment, participation exemption, regime, withholding taxes, depreciation, tax deductions, and capital gains” (Flanders Investment and Trade, 2008c). The Hong Kong treaty provides advantages

[9] This ruling does not only apply to the above mentioned circumstances.

to companies located in Hong Kong that are investing in Europe through the use of Belgian companies (Flanders Investment and Trade, 2008c).

Jeremy Rifkins[10] claims that the Flemish energy policy plan is a head start and that other countries and regions can learn from it (FIT, 2007). The main pillars that this Third Industrial Revolution is based on are: Production of renewable energy, adaptation of buildings to provide their own electricity, to limit CO^2 emission, energy storage to prevent sudden failures in the energy network, and energy distribution through smart grids whereby each becomes a supplier at the same time. These pillars were recognised in the future plan of the Flemish government and should contribute to improve the ranking of Flanders by 2020 to the top five countries in the region (FIT, 2007).

Fiscal incentives are seen as a priority policy strategy to attract investment in the EU. In Belgium and France the fiscal measures are based on the increase in R&D spending. The Flemish region uses specific measures to attract FDI in R&D, including good infrastructure, attractive recruitment of foreign firms and the promotion of national strength abroad. Brussels also uses good infrastructure, attractive recruitment of foreign firms and promotion of national strength abroad as measurement to attract FDI. Financial support for the establishment of new FDI in R&D activities is provided (Teirlinck, 2009).

In summary, the performances of Flanders Investment and Trade were discussed and the above section also covered the policies and incentives this IPA uses to attract FDI. It has been established that FIT was created by the merger of the former FFIO and Export Vlaanderen. This IPA aims to promote international business for Belgium for both domestic and international companies. Promotion of these businesses is done by widening the networks and expertise, which was possible after the merger of the two agencies. The policies and incentives provided by the Flemish government contribute to putting Belgium in the top 20 economies, resulting in good inward FDI inflow. The financial world crisis has had an impact on all countries worldwide, but Belgium has still survived and ranked in the top countries - a fact that shows good performance in inward FDI. Applying good FDI strategies, FIT ranked first based on criteria discussed above. Well-implemented policies and incentives

[10] Jeremy Rifkins is an American economist and expert in renewable energy sustainable economics and an architect of the Third Industrial Revolution.

by the Flemish government have created the opportunity for investors to enjoy good benefits when they made the decision to invest.

In the following section the study will explore the performance of Baden-Württemberg International along with the incentives used to attract investors.

3.4 Performance of an investment promotion agency: Baden-Württemberg International

3.4.1 Background

The state of Baden-Württemberg (region in Gemany) has existed since 1952[11] and began to partner with local authorities abroad. In the 1970s the government began to step up existing partnerships with neighbouring regions. This partnership has provided the opportunity for Baden-Württemberg to move closer and experience the European ideal (benefits to investment attraction and export) on a personal level to advocate and align subsidiary principles (Anon, 2010a; Anon, 2010c).

Baden-Württemberg is the second most important region in Germany, after Bavaria. This economy is one of the strongest in the EU (ACC10, 2008). Along with good economic performance, Baden-Württemberg is the overall number one high-tech location in Europe (ACC10, 2008).

The following table provides an economic overview of Baden-Württemberg:

Table 9: Economic overview of Baden-Württemberg (2008 statistics)

GDP per capita	€33 876
Land area (sq km)	35 751
% of Germany's GDP	14,8%

Source: Anon (2010d)

[11] Previously known as Baden.

According to Anon (2010d), Baden-Württemberg has a GDP per capita of 33 876 Euros. This economy has a land area of 35 751 square kilometres and contribute 14, 8 percent to Germany's economy.

Baden-Württemberg is the home to many leading manufacturing companies like Daimler, Bosch and Porsche. This region spends 4 percent of its annual GDP on R&D. Baden-Württemberg's economy shows low figures of unemployment along with high wealth levels. The stable fiscal and constitutional system in Germany contributes to consolidation-orientated fiscal policies that attract investors. Baden-Württemberg also shows excellent access to national and international capital markets (Anon, 2010d). However, Baden-Württemberg has started to experience an above average decline in economic output as well as in its budget performance. The tax revenue shortfall in Baden-Württemberg is not performing as it used to. The anticipation is that if the economic performanc do not stabilise against what is expected and continue to deteriorate, the economy could find itself in a deficit or debt because of over-expenditure of capital. The tax cuts at federal level are putting pressure on Baden-Württemberg's budgetary performance (indirectly) via the German taxing scheme (Anon, 2010d).

Baden-Württemberg is the second most important region in Germany, after Bavaria. This economy is one of the strongest in the EU (ACC10, 2008). Along with good economic performance, Baden-Württemberg is the overall number one high-tech location in Europe (ACC10, 2008).

The mission of Baden-Württemberg International is to be the leading centre for businesses. This IPA is committed to deliver quality services in order to enhance the economy of Baden-Württemberg by attracting new and existing FDI (ANON, 2010d). Attracting new FDI entails attracting new companies, inter-enterprise collaboration and joint ventures. Baden-Württemberg is working closely with industry associations and organisations to provide the investor with up-to-date information about the location of investment. This initiative of the IPA enhances its relationship with potential investors (Baden-Württemberg International, 2010).

The following tools and methodology are used by Baden-Württemberg International to attract new investors:

Firstly, the appropriate markets are identified and analysed according to the region and industry. Secondly, potential investors are contacted and identified, and thirdly they are presented with the strengths of industries and sectors in Baden-Württemberg. Lastly an individual programme is developed according to the needs of the investor and specific target groups (Baden-Württemberg International, 2009).

To attract investors, Baden-Württemberg's IPA provides services to investors in order to fulfil their needs. These services include: end-to-end investor support service for companies that are interested in locating to the region, promotion of international business cooperation and joint ventures, arrangement of visits for investors to meet with selected companies, industries and organisations, programme enabling and permitting companies to take part in industry specific presentations and exhibition stands at international trade shows. Baden-Württemberg International also provides support and services for local authorities and regions (Baden-Württemberg International, 2009).

To ensure long-term networking, the company establishes a regional and industry specific network that includes the correspondence of private and public sector organisations. Contacts with large numbers of opinion leaders are established. Networking with government authorities and the establishment of economic development agencies (national and abroad) is used as a tool to advance networking with investors.

3.4.2 Total investment inflows and other economic statistics

Baden-Württemberg is a good performer in attracting inward investment. Between 1995 and 2000 the country has shown a high increase in FDI. These investment inflows increased by 34 million Euros. Between 2000 and 2006, Baden-Württemberg showed an increase in their investment inflows of 26,8 million Euros. Many of the direct investment inflows were generated from the Netherlands, Switzerland, the United States of America and France (Baden-Württemberg, Wirtschaftsministerium, 2009). Along with the direct inward investment from the above mentioned countries, Baden-Württemberg additionally showed an increase in direct outward investment. In 1995 the direct outward investment of Baden-Württemberg was 26, 2 million Euros. The direct outward investment increased to 76, 3 million Euros where in 2006 it showed a total of 103,2 million Euros (Baden-Württemberg, Wirtschaftsministerium, 2009).

The positive inward and outward investment indicates that Baden-Württemberg is in strong relations with Central and Western Europe. It continues exchanges with commercial enterprises, universities and schools. The role of the association's municipalities and private level businesses is also considered in this process (Baden-Wurttemburg Home, 2010). Complementary to the national regions, Baden-Württemberg also keeps close contact with international countries such as the USA. The link between these economies is permanently kept in process by people residing in Baden-Württemberg. With funding support from the government, projects are kept in good condition with foreign relations (Anon, 2010c).

Baden-Württemberg made a 14.54 percent contribution to the economy in 2006. The region's contribution was the second highest after Bavaria's. Baden-Württemberg achieved a GDP per capita of 30 500 Euros, which is higher than the European average. Low unemployment rates resulted from this contribution to the economy (ACC10, 2008).

Baden-Württemberg's economy performs well. The outcome of this has a positive effect on job opportunities. These job opportunities are predominantly evident in the following sectors: engineering services, R&D, architecture and design, business consulting, market research and advertising, software databases, data processing, health and social services. 23 percent of the funds spent by Germany on R&D correspond to the region. Employees in science and technology accounted for 43.83 percent of the total active workforce in 2007. 25.77 percent of all the patents in Germany were from Baden-Württemberg (ACC10, 2008).

The region's capital, Stuttgart, is the economic heart of Baden-Württemberg. According to ACC10, (2008) the Manager-Magazine indicates that the capital is the best place to invest in Germany. The main reason is the high concentration of high technology according to European standards. The 2006 study by the OECD entitled "Competitive Cities in the Global Economy" reached a similar conclusion, putting the capital in the sixth place among the most competitive cities in Europe (ACC10, 2008).

According to the data of the Baden-Württemberg Statistisches Landesamt, in 2007, the export quota for Baden-Württemberg compared to GDP was 44.60 percent. The following capital goods were exported: cars and parts, machinery, chemical products and electrical engineering. The main destinations of these products were France, Italy, the UK (within EU) and North America and Asia (China and Japan). As for imports, in 2007 a total of 123 878 million Euros were imported, mainly coming from the EU (57 percent) (Baden-Württemberg, Wirtschaftsministerium, 2009).

In comparison with other regions in Europe, Baden-Württemberg's economic performance in 2003 exceeded those of Sweden (256 billion Euros), Austria (218 billion Euros) and Belgium (260 billion Euros), showing an economic output of 307 billion Euros. According to a survey run by the Bertelsmann Foundation, Baden-Württemberg has been confirmed as a top business location in Germany (Baden-Württemberg International, 2010).

The following table indicates the direct investment inflows into Baden-Württemberg for the years 1995, 2000 and 2008.

Table 10: Direct investment inflow in million Euros into Baden-Württemberg

	1995	**2000**	**2008**
Direct investment Inflow	18,9	52,9	84,4
Direct investment outflow	26,2	76,3	113

Source: Baden-Württemberg, Wirtschaftsministerium (2009)

The above table shows that Baden-Württemberg had an increase in direct investment inflow of 65,5 million Euros between 1995 and 2008. The direct investment outflow has increased by 86,8 million Euros. The directed investment inflow of Baden-Württemberg in 2008 was 84,4 million Euros and the direct investment outflows were 113 million Euros.

According to *Facts about Germany* (2010), Baden-Württemberg is the number one for high-tech patent registration in Germany. This state has attracted investors such as "*Gottlieb Daimler, Carl Benz and Robert Bosch*". In the expansion of their effectiveness, this region has also attracted companies like Porsche and Bosch (Facts about Germany, 2010).

Baden-Württemberg is Germany's number one exporter. This region shows the best concentration of industries and the lowest rate of insolvencies. SMEs in Baden-Württemberg have generated approximately 40 percent of the state's total sales and provide for more than half of all jobs in Germany (Guido & Preußer, 2006). The highly qualified workforce contributes to the attraction of international companies. Contributing to this statement is the fact that the state is giving more preference to R&D investment than any other federal state. Other federal states are profiting from Baden-Württemberg’s innovative strength as well. This means that this region provides shortcuts to high-tech alliances where linkages between companies and research institutes (from Baden-Württemberg and other regions in Germany) are significant. However, the interaction between development, research and marketing provides the key to basis of Baden-Württemberg’s success (Guido *et al.*, 2006).

Table 11: Main industrial sector in Baden-Württemberg (a)

Industrial sectors	**% employment of the national workforce**	**Number of job opportunities created**	**Information and communication technology, media**	**% employment of the national workforce**	**Number of job opportunities created**	**Service sector**	**% employment of the national workforce**	**Number of job opportunities created**
Automotive industry	N/A	242 000	Software	N/A	70 000	Transport and logistics	N/A	N/A
Mechanical engineering	N/A	268 000	System integration/e-business:	N/A	N/A	Tourism	N/A	N/A
Electronics and electrical engineering	23	N/A	Internet and multimedia	N/A	N/A	Health and social services	10, 5	393 000
Metal industry	N/A	143 000	Hardware	N/A	N/A			
Biotechnology	N/A	3 700	TIME sector	N/A	N/A			
Chemical industry	N/A	59 000	Telecommunications	300 000	N/A			
Pharmaceutical industry	N/A	N/A	Media and publishers	N/A				
Environmental engineering	N/A	N/A						

a) *These figures are statistics from 2004.*

Source: Guido and Preuβer (2006)

In the above table, the automotive sector is shown as a leading industry in Baden-Württemberg. Other leading industries such as the mechanical engineering and electronics and electrical engineering are among the top three leading industries in the industrial sector. The automotive sector and the mechanical industry together created 510 000 job opportunities in 2004. Approximately 23 percent of the national labour force is in the electronic and electrical industry. According to Guido and Preuβer (2006), more than a quarter of the automotive sales in Germany come from Baden-Württemberg and has contributed 68 billion Euros to Germany's economy. It is also evident from Table 11 that the metal industry has created 143 000 job opportunities in the economy of Baden-Württemberg.

In the information and communication technology, media sector, the software industry has created 70 000 job opportunities to the industry. More than 300 000 individuals have been employed in the telecommunication sector of Baden-Württemberg. This number of employees were recorder in 22 000 companies (Guido and Preuβer, 2006). In the service sector, heath and social services have employed 393 000 people into this sector which is approximately 10.5 percent of Baden-Württemberg's workforce.

The second largest tourist destination in Germany is Baden-Württemberg (Guido and Preuβer, 2006). In 2004 foreign guests increased by 7 percent and produced 8 percent of the GDP in Baden-Württemberg (Guido and Preuβer, 2006).

The Internet and multimedia sector[12] hosts numerous web designers, content providers, developers of online shops, e-learning applications, info brokers, providers, hosts and full services agencies. The total sale of the 1 500 companies in this sector produced an estimated sale of 2.7 billion Euros in 2001 (Guido and Preuβer, 2006).

Baden-Württemberg is one of Europe's leading locations for the so-called TIME sector. The TIME sector includes: telecommunication, information technology, media and electronics/electronic engineering. The TIME sector produced sales of around 31 billion Euros in 2004. The 13 billion Euros generated through foreign sales gives an indication of the global nature of this industry in Baden-Württemberg (Guido and Preuβer, 2006).

[12] The city of Karlsruhe is considered the internet capital of Germany (Guido & Preußer, 2006).

The telecommunication sector in Baden-Württemberg is well-developed. This sector has accounted for 850 million Euros of annual sales in Baden-Württemberg. The fast growing mobile communication system has provided Baden-Württemberg with the opportunity to enhance their sales.

Baden-Württemberg is Germany's most important location for printing and publishing. In Germany alone the 2004 statistics indicated that there were 4 400 publishers nationwide of which 730 were situated in Baden-Württemberg. GFT Technologies, the second largest media provider in Germany, is also hosted in Baden-Württemberg.

In 2007 the industrial sector as a whole contributed 34.8 percent to the region's GDP where the manufacturing sector contributed 32.9 percent. The automotive, mechanical and electronic engineering sectors definitely play an important role in the economy's success (ACC10, 2008). The ICT sector is the second-most important and this competitive sector contains 16 percent of the country's employees. The service sector also grew tremendously (50 percent) between 1998 and 2006.

3.4.3 Policies and incentives used by Baden-Württemberg International

According to Iris and Kirsch (2010), Germany was funded with 26 billion Euros by the EU to enhance R&D investments. Benefiting from the income; Germany made provision to spend 3 percent of its income on R&D, which is approximately 70 billion Euros on an annual basis (Iris & Kirsch, 2010).

The policy measures of FDI in R&D are primarily the responsibility of the EU member states (Teirlinck, 2009). Policies that encourage FDI in R&D should be seen in the context of the broader policy towards the internationalisation of research. Therefore it is very vulnerable to general political framework conditions and broader policies such as trade taxes and general subsidies along with international regulation policies. A multinational policy approach is a need according to Edler (as cited by Teirlinck, 2007). Many countries in the EU emphasise the promotion of favourable conditions for R&D. Only a few mention attracting foreign R&D investment as a strategy objective in this manner (Teirlinck, 2009). It can be concluded that many countries focus on promoting R&D where only a few countries want to attract R&D

investment. The policy measure to attract inward FDI is to pursue an active policy towards inwards FDI in R&D. According to Teirlinck (2009:37), a mixture of the following policy measures can be applied to attract inward FDI in R&D:

> *"promotion of national strength abroad, cluster policies towards the attraction of FDI in R&D, administrative, provision of infrastructure, active recruitment, direct financial support and fiscal incentives".*

The role of a common investment policy is to strengthen market access and investment protection for EU countries. Good investment policies also create levelled playing fields for foreign investors in the EU (Hjälmroth & Westerberg, 2009). A common investment policy would also give the EU possibilities to conclude international investment agreements where the most important agreements are: the General Agreement on Trade and Services (GATS); Agreement on Trade-Related Investment Measures (TRIMs); the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) and the Agreement on Subsidies and Countervailing Measures (ASCM) (Hjälmroth *et al.*, 2009).

Baden-Württemberg provides a variety of investment incentives to investors. Among these incentives are low-interest loans, grants, financial guarantees and equity capital (Anon, 2010b). In order to attract investors using these incentives, different institutions have specialised in different areas for instance; the L-Bank is responsible for support programmes that involve the financing of debts of newly-founded businesses. It also supports financing programmes for small and medium-sized enterprises with support from the Burgschaftsbank Baden-Württemberg. A standardised programme (Business Start-up and Growth Financing Programme) for potential investors who want to establish a medium- or long-term outside financing is also provided from the L-Bank.

Complementary support includes the Rural Development Programme (ELR) and regional and technology support programmes. The ELR is a programme that offers high investment grants to all investment programmes. This mostly occurs in rural areas of Baden-Württemberg to help and protects local jobs (Guido and Preuβer, 2006; Anon, 2010b). The Liquidity Assistance Programme is a flexible tool that finances investors looking for short- to medium–term debt capital. An alternative to this programme is the "*mezzanine financing*" (Anon, 2010b**)**.

Incentives in Germany can be divided into the following categories:

- Cash incentives;
- Interest-reduced loans;
- Public guarantees;
- Labour-related incentives and R&D incentives.

The *cash incentive*[13] is an effective cost reduction strategy Germany uses to attract local and foreign investors. This incentive is one of the main instruments provided in grant forms. (Germany Trade and Invest, 2009). The joint task and the special cash incentive programme are the two programmes Germany follows under the cash incentive programme. The joint task programme regulates the distribution of non-repayable grants for investment cost throughout Germany. The amount granted to investors is calculated by either the investment costs or assumed wage cost and varies from region to region (Kirsch & Henly, 2010). The region with the highest incentives rate offers 30 percent to large enterprises, 40 percent to medium enterprises and up to 50 percent to small enterprises. In the western part of Germany large companies can receive up to 15 percent of grants, 25 percent for medium sized companies and 35 percent for small companies. Regions can determine their own ceiling of cash incentive but must adhere to the maximum level prescribed by its respective location and the funds provided before the investment project begins.

The interest reduced loans entail the financing of an investment project through interest loans. Investors have access to the public subsidised loan programme in Germany which means that loans are offered below current market value interest rates. Banks that exist at national and regional level are normally the main source making these loans to investors. Investors will profit from this incentive by acquiring capital in a cost-effective way that eases the financial long-term planning. SMEs are in the fortunate position to profit from these loans (Kirsch & Henly, 2010). According to Germany Trade and Invest (2009) this incentive also provides the following programmes: First is the European Investment Bank (EIB) Loan Programmes that finance projects in cooperation with the private bank. These loans are made below the market conditions. This bank finances projects that contribute to the

[13] Different types of medium to long term financing can be viewed in Baden-Wurttemberg, 2010.

development and integration of economically weaker regions, in order to improve the structure of the EU business location (Germany Trade and Invest, 2009).

Secondly, the KfW (Kreditanstalt für Wiederaufbau) is the national operating development bank that uses a variety of tools to promote loan programmes. These tools include Mezzanine financing and private equity. The Entrepreneur Loan ("*Unternehmerkredit*") is the most prominent loan tool under the KfW programme for investment projects[14] (Kirsch & Henly, 2010).

The public guarantee incentive package of Germany provides financing to investment projects in different states. This programme is mostly applicable to companies that start up and that are in a growth phase. The emphasis of the public guarantee programme is to meet specific requirement of SMEs[15]. This programme[16] can be integrated with another programme but runs the risk of a deduction in cash incentives when combined. The bank loan made to the investor does not need any security because it is substituted by the public guarantees that are normally subject to intensive examination by evaluators (Kirsch & Henly, 2010).

Labour related and R&D incentives fall under the operational incentive package of Germany. This incentive has a significant role in reducing the operational cost acquires by new businesses (German Trade and Invest, 2009). By contributing to low operational cost this incentive (R&D) is one of the key concepts that present the character of Baden-Württemberg (Landesamt, 2008).

The labour related programme offers the following to the investor: Firstly it provides recruitment support which entails the support of recruitment processes by local job centres. Secondly the programme provides pre-hiring support that provides training courses for unemployed candidates that are in close cooperation with investors. The third programme under the labour-related incentive is wage subsidies (Germany Trade and Invest, 2009). This programme involves long-term employee candidates in the company who are under the age of 35 or above 50 who have a working contract of a 15 hours' working a week. The last

14 During the financial crisis this programme contributed to the existence of the Special Programme 2009.

15 This requirement must be according to the European Commission's definition of an SME.

16 Types and conditions of the public guarantee programmes can be viewed in (Kirsch & Henly, 2010).

programme under this incentive is the on-the-job training programme that is for all employees and is financed by the European Social Fund (ESF)[17] (Kirsch & Henly, 2010; Germany Trade and Invest, 2009). The labour related incentive can vary from municipality to municipality.

The main goal behind the fiscal and financial policy of Baden-Württemberg is to lower the total burden on citizens and companies. Through the implementation of this policy more freedom is created for private consumption and investments. The tax reform of Germany was completed in 2005. The cost regarding this tax relief on citizens and companies has been calculated to be 7 billion Euros. The federal government has remained faithful to the European pact for stability and growth because a sustainable reorganisation of public finance was the only way to create new possibilities to promote growth, employment, education and research (Guido and Preuβer, 2006).

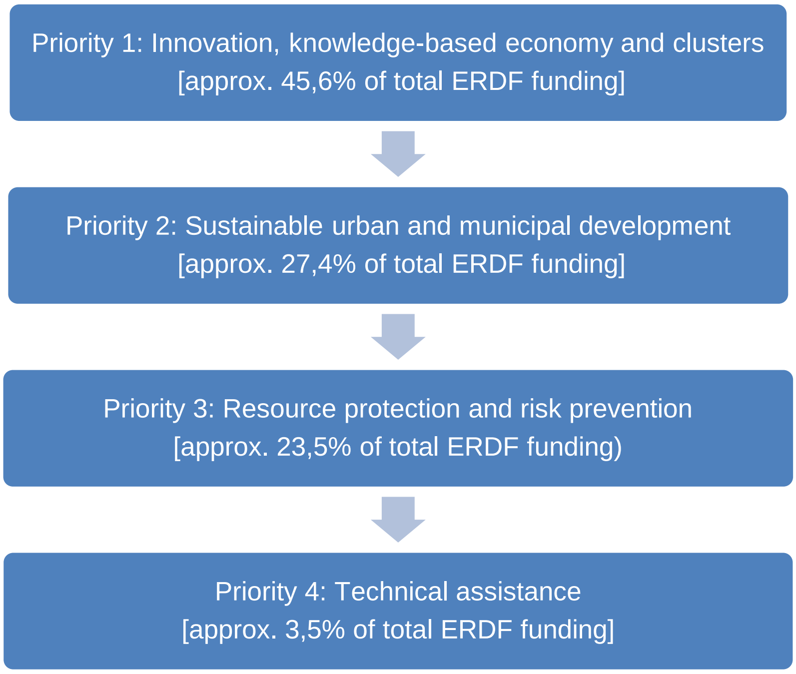
The tax on profits was at the maximum tax rate of 42 percent with a taxable income of 52 152 Euros. Since then the minimum tax rate has been 15 percent that begins with a taxable income of 7 664 Euros. The taxable income was subjected to a standard corporate tax rate of 25 percent where capital gains of 20 percent on dividends paid to domestic stockholders is to be withheld. Since 1998 the solidarity surcharges have been 5.5 percent (Guido and Preuβer, 2006). Tax on assets (with property tax in mind) started when the value of a piece of property starts on the calendar year that forms the assessment base for this tax. It is then multiplied by the federal base of 0.35 percent. On estate and gifts, depending on the size of the inheritance, a tax of 7 percent to a maximum of 50 percent is applied after various exemptions are taken into consideration. Sales tax of 16 percent is applied where a reduced tax rate of 7 percent is applied to sales of certain goods. The real estate transfer tax is 3.5 percent (Guido and Preuβer, 2006).

In 2007 the European Commission approved an Operational Programme for Baden-Württemberg for 2001-2013. The aim of this programme is to strengthen regional competitiveness and to create and secure permanent jobs through economic development (European Union, 2010). The expected impact that this programme intends to have on investments is to grant direct investment aid to 385 new SMEs and support 120 projects in research and technological development. It is estimated that the programme will support

[17] When a company wants to exceed the maximum amount of 2 million Euros, EU notification is required.

approximately 854 projects related to environmentally friendly products or production processes. Sustainable urban development and employment are also outcomes the programme is providing for.

Figure 3: The operational programme



Source: European Union (2010)

The financing of this programme is estimated at 277 million Euros where more than half of the finances focus on innovation, knowledge-based economy and cluster where technical assistance seems to be the least of their concern (European Union, 2010).

3.4.4 Concluding remarks

In summary, the above section has indicated the total investment inflow of Baden-Württemberg and other economic statistics of the country. The partnership of Baden-Württemberg with neighbouring countries has provided the opportunity for Baden-Württemberg to use the benefits (to attract new and existing investment and export agreements) of the European federal government to attract investors. Identifying markets that are analysed according to industry, potential investors and the strengths of the industries – these are some of the strategies used by Baden-Württemberg to attract new investors. The influence of the financial crisis can also be seen in the figures reflecting the performances of these IPAs. The above section has also outlined policies and incentives used to attract investors. The focus of Chapter 3 was to emphasise the performance of FIT and Baden-Württemberg International by investigating their investment inflow, policy and incentives used to attract potential investment. It is also evident from the above section that good investment inflows of Baden-Württemberg are supported by the exportation of capital goods. A constructive use of incentives to attract investors is complemented by the following programmes: cash incentives, interest-reduced incentives, public guarantees, labour-related and R&D incentives. This has lead to potential investment inflow in Baden-Württemberg.

Chapter 4: Performance of Trade and Investment South Africa

4.1 Introduction

Trade and Investment South Africa (TISA)[18] is a division of the Department of Trade and Industry (DTI). The mission of TISA is to increase the capability and capacity to promote exports to potential target markets. In addition to promoting exports, the IPA not only retains but also increases the level of foreign and domestic direct investment by managing IPA networks through foreign offices. The interaction of TISA with various forums, advisory bodies, stakeholder meetings, conferences, exhibitions and business missions assists to develop and promote the country. To communicate its message of investment opportunities to other countries, TISA uses a variety of activities that ranges from negotiations to exhibitions (South Africa, 2011). With its focus on investment promotion and facilitation, the main focus of TISA is to contribute to the development and promotion of South Africa as a potential investment destination for investors (South Africa, 2011).

FDI plays an important role in the development of industries. One of the sectors showing good progress to attract potential investors in South Africa is the mining sector (CUTS, 2003). Another industry in South Africa that plays a large role in attracting investments is the financial sector. The sophisticated banking systems and capital flow of the financial sector have good spill-over effects on African countries. These spill-overs are possible through the financial linkage South Africa has with sub-Saharan countries (Arora & Vamvakidis, 2010).

FDI by Europe, Britain, and the United States (US) was identified as foreign investment that contributed substantially to the development and economic growth of South Africa (Gelb, 2002). The regulatory framework of the regime for investment in South Africa showed progressive transformation and liberalisation in the early 1990s. The change in the regulatory framework was to stimulate high level of public and private economic activities (CUTS, 2003). Although these changes occurred, higher levels of investment appeared but were still below the expectation of the country (CUTS, 2003). The next section will elaborate on the performance of TISA.

[18] See appendix Table 5 for list of provincial IPAs in South Africa.

4.2 Total investment Inflows and other economic statistics

Since 2000, South Africa has improved the quantity of net FDI that includes Greenfield[19] investment by foreign investors. Expectations that the inward FDI will continue to improve are positive if domestic conditions and implemented policies continue to provide the fertile ground for investments (Presidency, 2003). In contrast to the high expectations, South Africa experienced a decrease in M&A's type of transactions but this has been offset by an increase in new investment and the expansion of productive activities.

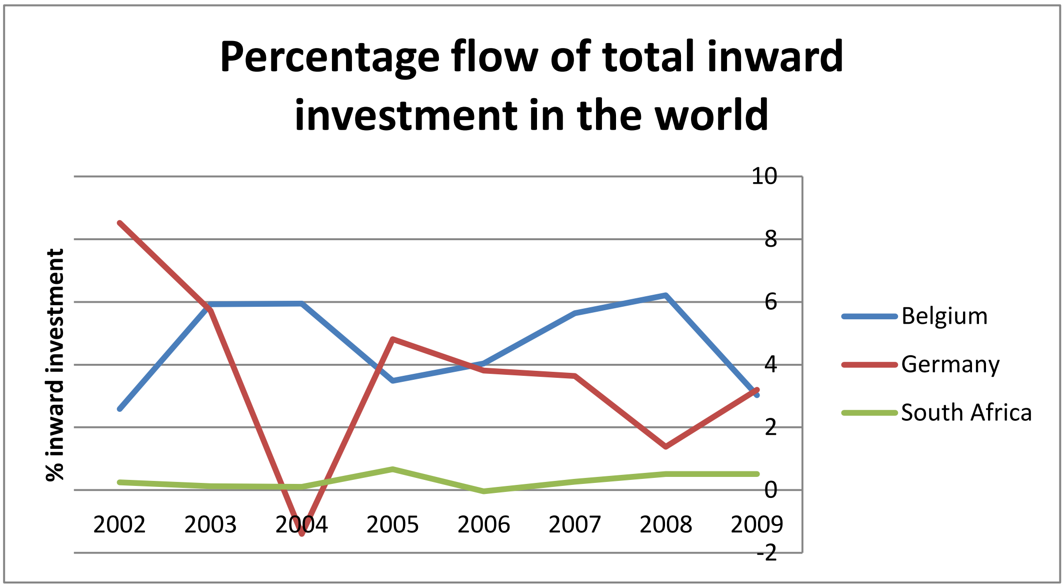
The downturn on the FDI inflows into South Africa between 1980 and 1990 was a result of the sanctions that were levied against the country. From the mid-1990s inward investment increased again, where most of the FDI originated from the US[20] (CUTS, 2003). The presence of the European market increased after US investments had diminished by 1999. Politic and economic liberalisation with the European markets has been the result of the increase in many outward investments of South Africa (CUTS, 2003). One of the inward investments that South Africa has received from the UK was the biodiesel operations in different Southern African countries but with the operation centre base in South Africa (Vorley, 2008). The relationship of South Africa with African countries has grown substantially. This association has been evident since 2000. The stock of direct and portfolio investment of South Africa in the African countries was 3 percent of the African GDP (Arora & Vamvakidis, 2010; DTI, 2009).

The percentage flow of total world inward investments in South Africa, Belgium and Germany are shown in the figure below.

19 Defining Greenfield investment: Is a form of FDI where the parent enterprise extends its business and opens another business in a foreign country by constructing new operational facilities from the beginning. New companies in foreign countries create the opportunity for new jobs ((I)Investopedia, 2011).

20 Most of these companies left SA because of Apartheid but returned after 1994 (CUTS, 2003).

Figure 4: Percentage flow of Total World Inward Investment



Source: World Investment Report (2010)

Although having a smaller percentage of the world inward investment, South Africa showed a more constant percentage than Germany and Belgium[21] between 2002 and 2009. After showing an increase of more than 0,5 percent in 2005, the percentage of the total world inward investment of South Africa decreased again between 2005 and 2006. After 2006 the share in the total inward investment showed an increased figure. The percentage share in total inward investment is lower than those of Germany and Belgium.

Belgium on the other hand is showing a more stable slope than Germany. In 2002 Belgium showed a lower inward investment percentage than Germany. Stabilising at approximately 6 percent between 2003 and 2004, Belgium began to show a decrease between 2004 and 2005 but showed an increasing share from 2005 until 2008 by just more than 6 percent. This dropped below 4 percent in 2009. It can be concluded that Belgium's share in the total world inward investment varies between approximately 3 percent and 6 percent and Germany's total world inward investment varies between approximately 8 percent and 3 percent.

According to the World Investment Report (2010), Germany's percentage of the total inward investment in the world is showing fluctuating figures. Starting with more than 8 percent, this percentage decreased between 2002 and 2004. In 2004 a structural break caused

[21] . Also see appendix Table 1 for table format of the figures.

Germany's percentage in the total inward investment to show a negative figure[22]. Between 2004 and 2005 their share in the total inward investment increased again. The figure also shows that Germany had a decreasing trend in the share of total inward investment in the world between the period of 2002 and 2009

In the following table a brief summary is given about the performance of the inward investment stock of South Africa between 1997 and 2006.

Table 12: Table 8: Inward investment stock for South Africa between 2002 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

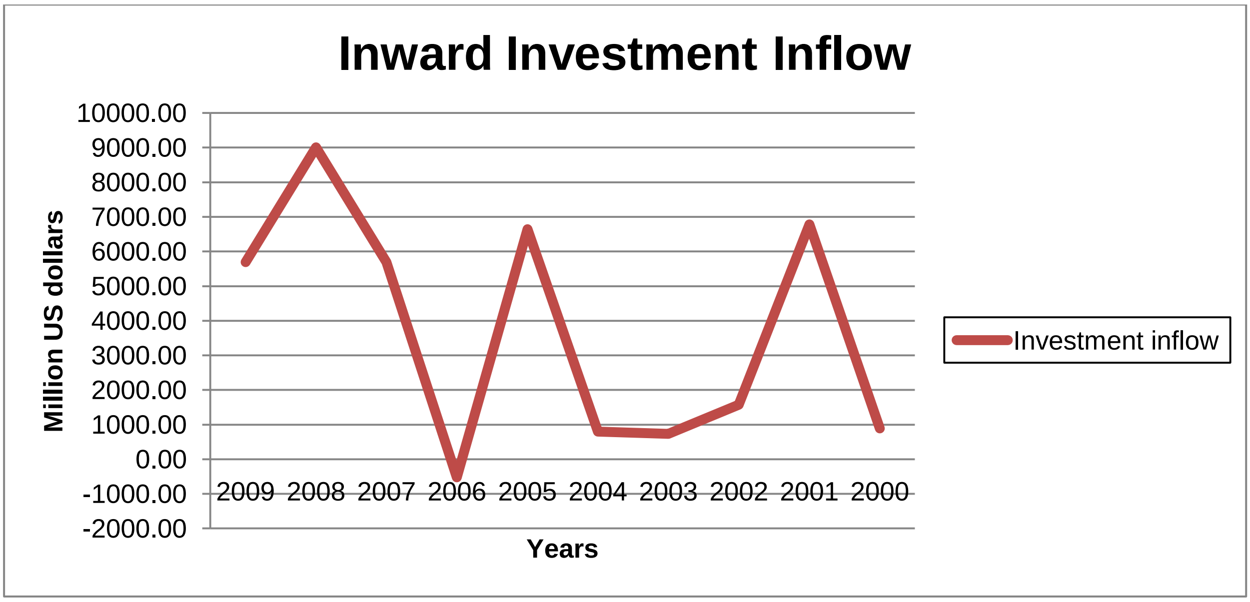
Source: Investment Map (2010a)

Drawn from Investment Map (2010a) the above table shows the top five industries of South Africa according to inward investment stock. The above table shows that South Africa's inward investment stock for the total merchandise and services was 87 765 million US dollars in 2006. The leading industry, mining and quarrying, showed an inward investment stock of 35,919 million US dollars in 2006. From 2000 this industry's inward investment stock has increased with 23 824,9 million US dollars. The transport storage and communication industry showed the lowest inward investment stock between 2000 and 2006 with an inward investment stock of 1,981 million US dollars in 2006. It can also be concluded that mining

22 One of the reasons that contributed to this negative figure was the large drop in equity capital components of FDI and the net repayments of cross-border intra-companies loans by foreign affiliates in Germany (UNCTAD, 2005. Germany: FDI inflows reach a low EBB in 2004).

and quarrying is the leading inward investment stock industry in South Africa with a total of 12,094 million US dollars in 2000 and 35,919.8 million US dollars in 2006. According to the World Investment Report (2009), South Africa showed an FDI stock of 119 392 million US dollars in 2008. This was 43 percent of the gross domestic product. Approximately 60 percent of the investors in South Africa operate in the service sector (Henley, Kratzsch, Külür & Tamer, 2008). These operations are largely from trading companies in the north South Africa. “Most (80 percent) of the companies from South Africa operating in sub-Saharan Africa are formal subsidiary of a parent company” (Henley *et al.*, 2008).

Figure 5: Inward investment flow of South Africa (Million US Dollars)



Source: Investment Map (2010a)

Between 2000 and 2009 South Africa showed fluctuating figures in its inward investment inflows. The question remains whether or not the world financial crisis had an impact on the inward investment inflow. From 2001 until 2004 there was a downward trend in the inward investment flow. Between 2006 and 2008, South Africa experienced an increase in the inward investment inflow. In 2008 South Africa experienced a FDI inflow of 9 009 million US dollars, sharing a 14 percent in the gross capital formation (WIR, 2009). Negative inward flow can also be concluded from the above table.

Between 1995 and 2002 South Africa experienced a 2 percent increase in skilled and semi-skilled labour. In the manufacturing sector the demand for skilled labour was an important factor as the demand increased by 4 percent. The demand for unskilled labour also decreased by 4 percent between 1995 and 2002. Approximately one million jobs were created between 2001 and 2005. Trade (51 percent), finance (23 percent) and the construction (27 percent) gained largely from the job opportunities that were created, but the agriculture sector suffered severely (Luiz, 2007).

4.3 Policies and incentives used by Trade and Investment South Africa

In March 1998 the Reserve Bank implemented a new monetary system. This system ought to move towards a "market-orientated" monetary policy system where the interest rates are determined by the market forces (Ndikumana, 2005). The monetary policy has a direct influence on private investment by affecting cost of credit. The bilateral investment treaty[23] commenced by South Africa in 1994 helps to assist the policy and legal consideration to protect and promote decisions of potential investors (DTI, 2009).

The initiative undertaken by Bilateral Investment Treaties (BITs) to conduct interviews at management level in many sectors in the International Trade and Economic Development Division (ITED) indicates that South Africa's investment approach to inward and outward FDI is a patchwork of general policies. Policy interventions are not always successfully coordinated, meaning that there is no legal base for inward and outward FDI in place (DTI, 2009). According to DTI (2009) it is suggested that investment promotion activities, industrial and trade policy should be closely linked to successfully attract inward FDI[24].

One of the investment policies in South Africa is the competition policy. This policy came into being on 1 September 1999 (CUTS, 2003). The mission of the competition policy is to address anti- competitive behaviour in the market that guarantees investors equal competition. This policy ensures that efficiency, adaptability and development in the economy are established when consumers face competitive prices. The DTI is the leading department that is responsible for a large percentage of marketing South Africa as a potential investment country. These marketing activities include the enhancement of international competitiveness, imaging and branding, attracting FDI inflows and increasing

23 The name of the bilateral treaty is Reciprocal Promotion and Protection of Investment Agreements.

24 The investment framework FIP between SADC countries only caters for inward investment.

the trade network of South Africa. In coordination with provincial governments the DTI has developed an investment promotion strategy that focuses on the need of international companies that search for profitable markets (CUTS, 2003).

Investment in South Africa and every other country can be used as a robust determinant for economic growth. The reason for this is that low investment is one of the leading causes for slow growth in any economy (Ndikumana, 2005). Attention must be given to investment in South Africa because it shows the confidence of the private sector in the public sector. Another reason to sustain investment is to increase efficiency of public investment with the goal to reduce the cost of the private investment. Attracting FDI to South Africa will bring high returns to investment and build the perception of the country – reducing investment risks (Ndikumana, 2005).

The investment climate changes that occurred in South Africa were caused by an economic policy instrument, namely the Investment Facilitation and Promotion Policy (CUTS, 2003). This instrument contains the following components: Trade and Investment South Africa, Provincial Investment Promotion Agencies and International Marketing Councils. Another component, the presidential working groups, includes: Trade Unions, Big Business, Black Business, Commercial Agriculture and Presidential International Advisory Structures[25]. These instruments assisted South Africa in its investment climate changes to attract prospective FDI. According to CUTS (2003), South Africa faces challenges[26] to develop an effective social agreement between the government, business, labour and civil society that establishes an investor-friendly framework to increase FDI inflows.

One of the policy strategies the government of South Africa uses to attract FDI is by lowering the standard rate of the tax system, rather than selective tax incentives. This strategy erodes the tax base, distorts investment choices and compromises the equity of the tax system. The Secondary Tax on Companies (STC) was reduced in 1996 from 25 percent to 12,5 percent. Changes in the Tax Holiday (35 percent to 30 percent) have led to a combined tax reduction from 48 percent to 39 percent since 1996 (CUTS, 2003). According to Ndikumana (2005), a 10 percent increase in corporate tax causes a 2 percent reduction in investment. Reducing the tax rate on corporate tax will have a positive effect on the profitability of the capital flow

25 International Investment Councils and International Task Force on Information Society and Development are components under the Commercial Agriculture and Presidential International Advisory Structures.

26 See (CUTS, 2003) for support in developmental areas to increase FDI inflows.

of the company. These tax reductions are part of the strategies used by South Africa to attract investment (Ndikumana, 2005).

The incentive programmes in South Africa are administered by the DTI where they are managed by TISA and the National Export Advisory Council (NEAC). The goal behind the incentives of South Africa is to boost investment and fully integrate South Africa with the competitive global investment market. The comprehensive incentive programme that TISA offers to investors (and exporters) provides them with the opportunity to establish a long-term relationship with the domestic industries. In general, the incentive programme aims to boost South Africa's manufacturing industry and encourage personal economic empowerment through the promotion of SMEs (CUTS, 2003).

Table 13: Incentive programmes in South Africa

Incentive programme	**Description**
Regional Industrial Development Programme (RIDP)	Is a short-term measure to attract investment in non-urban under-developed areas
The Small and Medium Manufacturing Development Programme (SMMDP)	Encourages investment in manufacturing by secondary manufacturing entities qualifying for assets up to 0,42 million US dollars. Qualified projects receive an annual cash grant of 10 percent of qualifying investment cost that is paid over two or three years which is tax free.
The Foreign Investment Grant (FIG)	This cash incentive assists with the transfer of new machinery, equipment and technology[27] to South Africa. The FIG covers up to 15 percent of the cost of bringing these assets to South Africa.
The Strategic Industrial Project (SIP)	Is an industrial investment allowance in the form of tax relief on industry sectors. Under this programme certain performance requirements have to be met.
Section 12i Tax Allowance Incentives	Is based on new manufacturing assets and training. The purpose of the tax allowance incentive is to accelerate economic growth in the industrial sector in terms of the creation of jobs, training and energy

[27] The transfer of this machinery excludes automobiles.

	efficiency. An investment allowance of R900 million is given and a training allowance of R30 million per project where both these allowance are deductable from the income tax.
Clothing and Textile Competitiveness Improvement Programme (CTCIP)	Aims to address issues such as cost, quality, flexibility, reliability, adaptability and capability to innovate when dealing with investments. By addressing these issues, manufacturers are more productive which make clothing companies more effective when competing globally and when they distribute clothing products to their customers. Along with the CTCIP incentive is the Productive Incentive (PI) that enables companies to present their business cases to the Industrial Development Corporation.
The Automotive Investment Scheme (AIS)	Is an incentive design to enhance the automotive sector through investing in new and/or replacement models and components that helps to increase plant production. The goal of this incentive is to sustain employment in the automotive industry.

Source: CUTS (2003) and DTI (2006)

Other investment incentive programmes in South Africa include the Enterprise Investment Programme (EIP), Black Business Supplier Development Programme (BBSDP), Critical Infrastructure Programme (CIP), Business Process Service (BPS) Incentive Programme, Sector Specified Assistance Scheme (SSAS), the Co-operative Incentive Scheme (CIS) and the Film Production Incentive (FPI).

The IDC (Industrial Development Corporation) functions as an assistant to the secondary sector, providing incentives to help with development. In order to do so the IDC must have the following industrial financing incentives in place: the Employment Promotion Scheme that provides a three-year loan to companies providing ten new jobs where the capital of providing the job is less than R50 000 and the total assets of the company are less than R100 million. Loans are provided for two to ten years when capital goods are exported along with service schemes. Importers of capital goods and services provide access to credit and guarantee facilities. The Economic Empowerment Scheme provides preferential treatment to previously disadvantaged communities in terms of project financing. Under industrial incentives, loans are available for entrepreneurs starting up a high-technology business through venture capital finance. Other schemes under the industrial financing incentives include: Eco-tourism scheme, general tourism scheme, orchards scheme and the Multi-shift Employment Creation Scheme (DPRU, 2001). The International Competitiveness Financial Scheme helps industrialists who were adversely affected by tariff reduction when capital goods were imported. The Bank Indemnity Scheme and Standard Leased Factory Building Scheme are also some of the incentives provided under the industrial financing incentives.

Investments made in R&D[28] can receive an incentive from the Support Programme for Industrial Innovation (SPII). Investors can receive up to 50 percent of funding of the direct cost and a 5 percent funding for the feasibility study that is undertaken. Under the Partnership in Industry Innovation (PII), tax-free loans are awarded to developmental projects. The innovation fund allows investors to get funding between R1 and R5 million over a three-year period when R&D is done on information society, generic biotechnology and contributions are made to protect the natural fauna and flora (DPRU, 2001).

The following table outlines incentives provided for SMEs.

Table 14: Incentives provided for SMEs in South Africa.

Strategic Investment Programme (SIP)	**Foreign Investment Grant (FIG)**
An investment grant is awarded for two years of qualifying assets with a remuneration of 30%.	This scheme provides sponsors for imported plants and equipment provided by foreign investors. These grants are limited to 150 000 US dollars. The value of the grant depends on whether it is a new or an expansion project.

Source: DPRU (2001)

Other incentive programmes in South Africa include the Skills Support Programme (SSP) that provides a three-year cash grant to assist in the training of new skills required for new or expansion jobs. In this programme investors will be subsidised with 50 percent of the training

28 Also see appendix Table 4.

cost. Capital grants for training equipment are also provided (DPRU, 2001). The Critical Infrastructure Facility (CIF) supports economically robust and competitive investments that create jobs and aim to improve environmental performance. Grants are provided for economical infrastructure projects over the value of R100 million. Grants between 10 percent and 30 percent of the capital cost may be made to municipalities and the private sector (DPRU, 2001).

4.4 Concluding remarks

In summary, the mission of TISA is to establish a potential export market and to assist South Africa to develop into a potential investment market for investors. One of the main sectors showing good investment performance is the mining sector. Unspecified secondary, finance, wholesale and retail trade are follow-up sectors with good investment figures. One of the reasons behind the potential investment figures of South Africa is the incentive programmes implemented by TISA. These incentives help to boost and integrate South Africa with the international investment market. One of the policy strategies used by South Africa is to attract FDI by lowering taxes in the existing tax system rather than using selective tax systems. The implementation of the competition policy helps investors to enter a market with anti-competitive behaviour that guarantees equal competition. The effects of this competitive policy create the opportunity for the economy to develop and perform efficiently.

Chapter five will focus on the research method of the study. The chapter will also discuss the findings of the study. It will contribute to answer research question one, that is to establish how the investment promotion agencies differ in their strategies used to attract investment.

Chapter 5: Investment promotion agency survey

5.1 Introduction

The aim of this chapter is to discuss the research method used for the study. After the discussion of the research method, there will be looked at the compilation of the questionnaire. Thereafter the chapter will discuss the findings of the study which is the highlight of this chapter and will end with the conclusion. The findings of Chapter 5 are based on the following IPAs: TISA, WESGRO, TIKZN, GEDA, NCEDA, FDC, INW, and the international IPAs: BW-I and FIT. It is evident that both primary and secondary data was used to complete this study, where the secondary data was used in Chapter 3 and 4 and the primary data in Chapter 5. This chapter will attempt to answer research question one and that is how the investment promotion agencies differ in their strategies used to attract investment.

5.2 Research method

The use of a questionnaire to evaluate IPAs has two objectives Chapter 3 (section 3.2). These objectives include a better understanding of the economic performance and regulatory framework in which IPAs seek to attract FDI. The other objective is to better understand the role of an IPA when attracting FDI. The purpose for the collection of this data was encouraged by the shortage of data available in the field of this study. This data was used to do a comparison between the provincial IPAs of South Africa and those of best practices in terms of their investment promotion strategies. The primary data of the provincial IPAs and the national IPA of South Africa was collected via interviews. An interview was also arranged and conducted with FIT in South Africa. Contact with Baden-Württemberg International was made via the Chamber of Commerce of Germany in South Africa. In this case the IPA Baden-Württemberg was contacted via e-mail and respondents were asked to complete the survey.

Using a survey indicates that the author collected primary data to address the research problem directly (Malhotra, 2007: 106). Welman, Kruger and Mitchell (2005), In this case a large population was not necessary to indicate whether the results would be significant. It is rather important to provide the reader with possible gaps that exist between the strategies used by these IPAs to attract potential investment. One of the important aspects is that the research leans towards a qualitative study. The reason therefore is that the study is based on a small specific sample to provide insight and understanding into the results arising from the study (Welman, Kruger & Mitchell, 2005; Malhotra, 2007).

Not all the IPAs[29] of South Africa responded with the completed survey. Interviews were not conducted with the following provincial IPAs of South Africa: MEGA[30], ECDC and TIL.

To complete the study, secondary data was also used to compile a statistical overview of the FDI and economic performance of South Africa, Germany and Belgium. UNCTAD, Investment Map, DTI and WIAPA were sources used to conduct a performance overview of the countries. This data was used in Chapter 3 (section 3.4.2 and section 3.3.2) and Chapter 4 (section4.2) along with the economic performance that provided statistics on the investment inflow of the different countries contributing to answer research question 3. The results of the economic performance and the investment inflow had to result from the investment strategies used by the IPAs to attract investment to gain an investment inflow figure. Primary data was accumulated through conducted interviews with an investment facilitator of the selected IPAs. These investment facilitators gave permission for the interview to be recorded and the results to be published. The IPAs who only completed the survey also indicated on the cover letter that their results might be published. Not all the IPAs indicated that their result of the survey might be published. Although the purpose of the study was discussed with the respondents, one of the IPA's still did not want their results be made available. The A summative analysis of the findings is provided in the next section according to the information given during the interviews. These findings are structured according to the layout of the questionnaire.

5.3 The questionnaire

[29] ECDC indicated that their results must be kept anonymous and therefore are not discussed in the findings but did participate in the study.

[30] The question of the future existence of MEGA is a concern and they did not participate in the study. TIL showed their interest to participate in the study but did not since the IPA is in a reconstruction phase.

Due to a deficiency of investment promotion data in South Africa, the study was motivated to use primary data to answer the research questions of the study. The accumulation of the primary data led to the compilation of a questionnaire that was distributed to the provincial IPAs of South Africa and the two best practice IPAs, BW-I and FIT. As indicated in Chapter 3 (section 3.2), the use of a survey is to evaluate the strategies use by the IPAs to attract investors had two objectives: firstly to gain a better understanding of the economic performance and the regulatory framework in which the agency seeks to attract FDI and secondly to gain a better understanding of the role of an IPA in attracting FDI.

The questions used in the questionnaire were mainly structured according to literature reviews. Since the focus of the study was to evaluate certain investment promotion strategies (perception building, targeting investor, structure of the IPA and the policies and incentives used) the questions were based on the IPAs to collaborate on these investment promotion strategies. Due to the aim of the study, the goals of the questionnaire were just to establish a base for the study and did not provide a detailed analysis of how these IPAs function, but it was just to establish how the investment promotion strategies differ in a broader spectrum.

5.4 Findings[31]

It is evident from the questionnaire[32] that investment and trade go hand in hand. All of the IPAs indicated that they do not only focus on the investment prospects but also provide assistance to companies who are exporting and wanting to export (Table 15). From the above-mentioned it can be concluded that several investors have the intention to export their products after the investment deal is through. FIT who is already established in the international market helps other Flemish companies to invest abroad. BW-I also indicates to not only focus to promote investment but also promote exports as well.

31 It should be kept in mind that these findings came from a small sample of IPAs (11 provincial IPAs) to gain better information about their investment promotion strategies used to attract FDI.

32 The interviewees at the IPAs ask to stay anonymous.

Table 15: IPA information

Name of IPA	Number of full-time staff	IPA or IPA & trade	Number of years in operation
FDC	0-50 (small)	IPA & trade	0-4yrs
BW-I	51-150 (medium)	IPA & trade	15 yrs and more
GEDA	51-150 (medium)	IPA & trade	11-15 yrs
INW	0-50 (small)	IPA & trade	11-15 yrs
NCEDA[33]	0-50 (small)	IPA & trade	0-4 yrs
TIKZN	0-50 (small)	IPA & trade	5-10 yrs
TISA	51-150 (medium)	IPA & trade	5-10 yrs
FIT	0-50 (small)	IPA & trade	N/A
WESGRO	0-50 (small)	IPA & trade	15 yrs and more

Table 15 indicates that the number of years that most of the provincial IPAs of South Africa have been in operation varies proximately between 0-15 years. The research found that most of these IPAs work with staff of less than 50, which implies that it is a small company. One of the provincial IPAs in South Africa (WESGRO) indicated that they had been in operation for more than 15 years. TISA, the national IPA of South Africa, is also operating on both investment and trade. This IPA has been in operation between 5-10 years and is operated by staff varying between 51-150 (medium company). WESGRO and BW-I is the only two IPAs in the comparison who indicate to have been in operation for more than 15 years. It is therefore possible to assume that these IPAs (WESGRO and BW-I) that have been in operation for more than 15 years, are well established with the necessary skill to operate effectively. In comparison with other provincial IPAs of South Africa, the results indicate that the provincial IPAs of South Africa lack the necessary expertise that has been build up by BW-I over the years to operate effectively. The medium number of staff employed with TISA lacks the necessary education and skill to operate effectively (Table 16).

[33] NCEDA indicated that they focus on economic development and EIA. They also help the community to take share-holding in projects and ensure that the community is looked after. According TISA, (2011) NCEDA is not an official IPA and is mostly focusing on economic development.

According to the IPAs in South Africa the following were the most important deals since 2008:

Table 16: Most important investment deals since 2008

Name of IPA[(a)]	Investors	Year invest	Description
FDC	Frankfurt Craft	2010-2013	Manufacturing of craft, paper and recycle stock
	UNICO - Free State	2009	Medical components
GEDA	Heineken	2009/2010	Beer
	Procter and Gamble	2010	Baby products
	Toyota	2010	Expansion project
INW	Choppies Retail	2008	Retail outlet
	International Ferro Metals	2007	Ferrochrome mining and smelting
	Sephaku Cement	2008	Cement manufacturing
	Wesizwe Platinum	2008	Platinum mining
NCEDA	China	2010/2011	Mining, iron ore, diamonds, semi-precious stones
	Republic of Armenia	2010	Investment in diamonds & jewellery manufacturing
WESGRO	Amazon		Establishing one of four Amazon PBO centres throughout the globe
	Kimberley-Clark	2011	Expansion of high tech diaper manufacturing facility
	General Electric	2010	The retention of GE high tech manufacturing facility
	NGK	2008	Establishment of a world class Japanese Automotive component facility
TISA	Heineken	N/A	N/A
	Procter and Gamble	N/A	N/A
	TATA Automotive	N/A	N/A
	General Motors	N/A	N/A

(a) Did not receive feedback from FIT on this question.

From Table 16 it can be concluded that the majority of the investment projects in South Africa vary between the mining and the manufacturing industry. This indicates that South Africa is well known for its raw materials which attract most investors to the country. The manufacturing sector is also attracting investors to South Africa. GEDA, FDC and WESGRO indicated that one of their most important investment deals since 2008 included attracting investors to the manufacturing sector and mining sector. These investors vary from Toyota, Wesiswe Platinum, Heineken, Procter and Gamble, Kimberley Clark ,NGK, China, etc. It can be distinguished that there are differences between the investment projects indicated by the IPAs located on the coast of South Africa and those located in the inland. Findings also indicate that although investors are attracted to the Northern Cape, Free State and North West, most of the income will go to the Gauteng Province. The reason is that most of the head offices of the companies begun by the investors are situated in Gauteng.

Before the IPAs of South Africa became government driven they were Section 21 companies[34]. NCEDA calls itself a quasi government organisation. All provincial IPAs indicate that they are operating at regional level, meaning that they attract FDI to their provinces and certain regions in the province. Depending on the resources of the provinces, IPAs will assist investors by showing them preferable province for their type of investment.

The following table indicates the industry that attracts the most investors to the country/province/state.

Table 17: Top industries attracting investors to different IPAs

IPA	**Top industries**		
FDC	Chemicals	**FIT**	Biotech and pharma
	Food processing		Logistics
	Service sector	**BW-I**	Industry processing (cars, machines etc.
GEDA	Finance & construction		Medical technology
	Manufacturing		Environmental technology
	Tourism & other services		

34 Section 21 companies: Companies whose main goal is not to make a profit.

INW	Horticulture
	Manufacturing
	Mining
NCEDA	Agriculture
	Mining
	Tourism
TIKZN	Automatic components & general manufacturing
	Business process outsourcing
	Infrastructure
TISA	Mining
	Automotive
	Manufacturing
WESGRO	Manufacturing
	Automotive
	Agro-processing

Table 17 indicates the top industries that attract investors to the province/state/country. The industries from the different provinces in South Africa that attract investors vary between mining, agriculture, tourism and manufacturing. It is also evident from Table 19 that the automotive sector is also considered to be one of the sectors that attract investors to South Africa. The industries that attract most investors to FIT are the biotech, pharma and logistic sectors. The difference in the industries that attract potential investment between South Africa and the international provincial IPAs in comparison is significantly evident. BW-I along with FIT confirms that the industries that attract investors to their provinces tend to be value added sectors or sectors containing value added products. BW-I indicates that their industries that attract most investors to their country/province/state is: industry processing, medical technology and the environmental technology sector.

Table 18: The structure of the IPA

IPA	Type of IPA	Level of operation.	Education of staff[35]	IPAs In competition	Access to info	Interaction with IPAs
FDC	Public	Regional	Skilled	Yes	Strongly agree	Strongly agree
BW-I	Quasi Government	International	Highly skilled	Yes	Agree	Agree
FIT	Public	Regional	Skilled	No	Strongly agree	No, only agency
GEDA	Public	Regional	Skilled	No	Strongly agree	Agree
INW	Public	Regional	Highly skilled	Yes	Agree	Agree
NCEDA	Quasi Government	Regional and Local	Intermediate	No	Strongly agree	Strongly agree
TIKZN	Public	Regional	Highly skilled	No	Strongly agree	Strongly agree
TISA	Public	National	Intermediate-skilled	No	Strongly agree	Strongly agree
WESGRO	Public	Regional	Highly skilled	Yes	Strongly agree	Agree

From the table above the findings indicate that all the provincial IPAs in South Africa are operated by the government except for NCEDA and BW-I. The IPAs indicate that they do interact with other domestic IPAs where knowledge and ideas are discussed to attract potential investors. It is also evident that the IPAs are part of a national forum where certain problems and ideas are discussed, indicating that there is a level of interaction between the IPAs. These answers of the IPAs all vary between agree and strongly agree.

However, it is noted that FIT is the only IPA in Belgium and therefore has no other provincial IPAs to interact with. BW-I indicates to be in competition with other provincial IPAs in Germany. According to an IPA Information sharing session[36] it is suggested that the provincial IPAs of South Africa should do a joint marketing initiative in order to attract potential investors. This initiative would offer competitive advantage to provincial IPAs where

[35] No previous information existed on the education level of the staff working in the IPAs, therefore broad categories were given for the IPA provide their opinion with which category they comply with.

[36] ANON, 2011. Investment promotion information sharing session, 2011. Held on 15 September 2011 at the Trade and Investment Limpopo offices, second floor, Sandton Towers.

challenges and opportunities are continuously communicated. The provincial IPAs of South Africa indicate that the education levels of their staff vary between skilled and highly skilled.[37] INW, TIKZN, WESGRO and BW-I indicate that their staff members are highly skilled. The projects of investors are influenced by the availability of the educated staff at the IPA. According to TIKZN, investors are looking for a stable economic policy and whether there is available and affordable labour with the necessary skills.

All the IPAs in the study have admitted having access to information. Whether or not the databases used to retrieve potential information from are up to date is a question unanswered. It is also evident from Table 16 that all the IPAs strongly agree to have access to information provided by other government departments. How this information is utilised is a question not answered in this study. During the IPA information-sharing session, IPAs mentioned not having access to up-dated data since the costs involved in having access to certain databases are too high. The effectiveness of an IPA to keep up with potential investment projects and investment opportunity is therefore influenced by the access to good databases. BW-I agree where FIT strongly agree to have access to information provided by other government departments. The study therefore concluded from the above that: access to information influences the effectiveness of IPAs to keep track of possible investment projects, keeping track of investment opportunities, investors' records etc. The initiative needs to be taken to share databases with other IPAs so that all of the IPAs can have access to appropriate information.

NCEDA is in the process of appointing more skilled to highly-skilled staff. In terms of employing the workers for investment projects, this process tends to influence the workers investors used from the domestic market. Although training can be provided for uneducated staff; it takes time for staff to get well enough educated to operate sophisticated equipment. Investors see it as a time-consuming process for employees to get educated. This process brings a delay in the execution of the investment project. The result of uneducated staff in South Africa leads to the employment of staff coming from other provinces and abroad. This situation normally occurs where investors want to invest and therefore they use other employees that are not citizens of the local or national market. It is very important that local employees should have the technical skills needed by investors to produce the potential outcome. It is therefore essential that IPAs know what their strong and weak sectors are to

[37] From the IPAs in SA only NCEDA indicated that their staff's skills are intermediate because the company is still young (2nd year of operation) and is in the process to employ skilled staff.

educate people to become potential employees when attracting investors. The problem though – once the people are educated[38] they tend to utilise their skills somewhere else where more return for their production can be received. The education levels in provinces influence the investor's decision to use local employees. The low education of staff lead to the absence to add value to the products produced. This provides the opportunity to export raw material. It leads to the creation of employment in another country that has the skilled labour to add value to the primary product produced in South Africa. Staff working at the IPAs also needs to be educated.

Saldana Steel in the Northern Cape with ESCOR as the main investor employed approximately 5 000 people and employees came from all over the country. Approximately 20 percent of the permanent staff originated from Saldana, where the rest of the skilled employees came from the Western Province, and many of the management from Gauteng.

It is noted from NCEDA that it is very important to stipulate policies that should be in place before ending a deal. The reason is that investors do not take away the benefits from the locals. Although investors provide the opportunity for investment inflow, it is not sure what percentage of their investment project attributes to economic development. There might be the possibility to create employment in linkages created from this investment project.

The IPAs in South Africa have mostly focused on attracting investment to their province[39]. It can also be concluded from the structure of the IPA that they do not compete against each other to attract investors. If a provincial IPA cannot assist the investor, this IPA would recommend or indicate the appropriate IPA that would be able help the investor with the appropriate opportunities the investor is looking for[40]. The provincial IPAs competing for investment are also the IPAs that struggle to attract potential investors because they lack the necessary infrastructure and resources needed that other provinces have. IPAs intervene in the investor's current decision by also providing the investor with the opportunity to see what

38 The interview with NCEDA indicates the possibility to establish a university in 2012 and 2013 that will only focus on giving training in the sectors that will drive the Northern Cape. The same questionnaire was used during the interview with NCEDA. This is additional information was noted during the interview. Interview with NCEDA was held on 29 July 2011 between 09:00am and 09:45am.

39 BW-I indicates to operate mostly on an international level.

40 This statement is not applicable to FIT, since it is the only provincial IPA in Belgium.

the IPA has to offer[41]. The readiness[42] of an IPA in this matter to attract the potential investor plays an important role when competing against other regional or international IPAs. It can be concluded that if an IPA wants to attract potential investors it needs to be ready at all times. This means that the IPA must be sure that the adequate infrastructure is in place for the investor.

Table 19 specifies that four out of the IPAs that have completed the questionnaire do not have enough funds to effectively execute investment promotion in their province. FDC and GEDA indicate that they budget between 500 001–1 000 000 US dollars per annum for investment promotion and stated to have insufficient funds. INW, NCEDA and TIKZN budget between 0–500 000 US dollars and indicate that they have sufficient funds for investment promotion[43]. FIT indicates budgeting between 5–10 million US dollars per annum for investment promotion indicating to have enough funds for investment promotion. TISA (national IPA of South Africa) budgets between 10 million US dollars and more for investment promotion and has sufficient funds. It can be seen that FIT, a smaller IPA than certain provincial IPAs in South Africa budget more for investment promotion than medium IPAs in South Africa. BW-I on the other hand budgets between 0-500 000 US dollars for investment promotion and confess to have sufficient funds to execute their investment promotion strategies.

Table 19: Adequate funds for investment promotion

IPA	Adequate funds	Budget for IP per annum (US dollar)
FDC	No	500 001 - 1 000 000
BW-I	Yes	0 - 500 000
FIT	Yes	5 000 001 - 10 000 000
GEDA	No	500 001-1 000 000
INW	No	0-500 000
NCEDA	Yes	0-500 000

41 An incentive offered by another IPA or municipality in the region/province the IPA is operating in, tends to influence the investors original investments decision.

42 The amount of years that the provincial IPAs of SA is in operation influences their ability to operate on the same level as BW-I since the readiness to operate effectively (to attract potential investment) is be affected.

43 The question was strictly asked to indicate how much the agency budget on an annual basis for investment promotion alone and not investment promotion and export promotion.

TIKZN	Yes	0-500 000
TISA	Yes	10 000 001 and more
WESGRO	No	1 000 001-5 000 000

TIKZN indicates that the funding of a specific project will in some cases depend on the projects being addressed. Support from different development banks plays an important role in supporting an investment project. It is also noted that companies applying for a specific investment project agree with development banks to share the cost for the implementation of the investment project. WESGRO budgets between 1 000 001 and 5 000 000 US dollars for investment promotion and specifies that these funds are not enough for investment promotion[44].

The table below shows how important IPAs consider perception building to attract investors.

Table 20: Importance of perception building

IPA	Importance	Important aspect under perception building.	% budget for perception building
FDC	More important	Economic and Political Stability	21-40
BW-I	More important	Economic and Political Stability	21-40
FIT	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
TISA	Less important	Economic and Political Stability	21-40
WESGRO	Very important	Economic and Political Stability	21-40

44 It should be noted that the study does not specifically indicate how these funds are allocated. The narrative is just to state whether or not the provincial IPAs have enough funds for IP in comparison with FIT and Baden-Württemberg.

In the above table, the IPAs indicate whether or not they experience the investors' perception about the province as important and whether the IPAs see perception building as an important strategy for investment promotion. The findings show that four of the provincial IPAs in South Africa (TIKZN, NCEDA, GEDA and WESGRO) consider perception building as a very important investment promotion strategy. GEDA indicates to find perception building as a very important investment promotion strategy but their percentage spend on perception building does not agree with their answer. Three of the IPAs that consider perception building as a very important strategy for investment promotion spend between 21-40 percent of their budget on perception building. FIT and FDC also budget between 21-40 percent of their annual budget on perception building with FDC budgeting approximately R4 million for perception building[45]. INW was the only IPA considering perception building as a less important investment promotion strategy. BW-I also points out to spend between 21-40 percent on perception building, while considering it as a more important investment promotion strategy to attract investors. All IPAs chose economic and political stability as the number one important factor to be important under perception building (Table 19). this factor was chosen above the importance of corporate personnel, environmental policies and ideal and beliefs of the investor.

The following table indicates how the IPAs perceive attracting FDI through targeting their investors. The table also illustrates whether or not the IPAs consider targeting the investor as a cost-effective strategy and if specialists in certain industries are used to attract investors to that specific industry. Furthermore the table indicates the criteria used by the IPAs to attract investors and also specifies what the IPAs consider as their preferred contact method with their targeted investors.

Table 21: Targeting investors and contact method

IPA	Cost effective.	Specialists used.	Prefer criteria used to target investor.	Preferred contact method.
FDC	Agree	Yes	Ability	Telephone
				Email
				Embassies
				Exhibitions

45 Noted during the interview with FDC on 4 July 2011 between 09:00am and 9:45am.

				Trade missions
BW-I	Agree	Yes	Ability	Exhibitions
				Trade missions
				E-mail
				Embassies
				Telephone
FIT	Strongly agree	Yes	Size, experience	Embassies
				Email
				Exhibitions
				Telephone
				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	Trade missions
			Amount invested	Embassies
			Interest	Exhibitions
				Email
				Telephone
TISA	Agree	Yes	Stability, experience and amount invested	Embassies,
				Telephone
				Trade missions,

				Exhibitions,
				Email
WESGRO	Agree	Yes	Their interest	Email
				Embassies
				Exhibitions
				Telephone
				Trade missions

Table 21 states that all the IPAs find targeting the investors a cost-effective strategy for investment promotion. All the national IPAs, including FIT and BW-I, indicate that they use specialists from the potential sectors to attract targeted investors. The IPAs focus to target investors who have the ability to invest. It is evident that IPAs not only focus on the ability of the investors to invest but also indicate that they consider other criteria as well[46]. IPAs also target investors according to the amount the investors want to invest, the interest of the investors and also the experience of the investors. FIT indicates to also focus on the size[47] of the investor. They prefer to keep contact with investors via the embassies. This IPA tends to move away from contacting via email and mostly have direct contact with the investors.

Although not indicated in Table 21, FIT and the provincial IPAs tend to find the experience of the investor an important criterion. When it comes to the contact method with the targeted investors, IPAs prefer to have face-to-face[48] contact with the investor. This is especially important when an investment project is in the process of being finalised. TISA indicates that face-to-face contact with the investor is important throughout investment projects and not only when deals needs to be finalised. Trade missions and embassies are the first two preferable contact methods for TIKZN, GEDA, FIT and NCEDA with the target investor. During some investment projects contact between the investor and the provincial IPAs in South Africa does not occur.

46 Although the questionnaire asks for one option, some IPAs marked the options in order of importance because they also use the other options when targeting investors.

47 This was not an option provided in the survey.

48 TISA indicated that whenever a lead is established regarding an investor who wants to invest, they have face-to-face contact from the beginning.

The relationship between the investor and the private sector tends to influence this communication gap. To respond directly to an investor's enquiry, the provincial IPAs in South Africa use specialists from sectors to broaden the investor's perspective about a certain industry. The international IPAs also indicate to use specialist to attract FDI to a specific sector. BW-I also prefer to have direct contact with the investor since their first two choices of contact with the investor is exhibitions and trade missions.

Table 22: Targeted countries for inwards investment

IPA	Three targeted countries for inward investment
FDC	International regions[49]
BW-I	European Union
	North America (USA)
	Asia
FIT	Germany
	India
	USA
GEDA	China
	USA
INW	China
	Germany
	United Kingdom
NCEDA	China
	Europe
	South America and Africa
TIKZN	Germany
	India
	USA
WESGRO	Germany
	South Korea
	United Kingdom

49 FDC states that they do not focus on specific countries but indicates specific countries in international regions.

Table 22 shows the countries that IPAs target for inward investment. China and USA are chosen three times by different IPAs as countries targeted for inward investment. FDC states that they do not focus on specific countries but indicates which countries they would prefer inward investment from in the different international regions. FDC indicated that they focus on the following countries in the following international regions: Europe – Netherlands, Germany and Spain/Italy. In the Middle East they focus on Saudi Arabia, Singapore, Malaysia and the United Arab Emirates. China, India and Indonesia are the targeted countries in Asia and in South America it would be Brazil and Argentina. Germany is also one of the countries that are targeted by IPAs for investment. South Africa IPAs also state that they use Germany as a target country for investment. FIT also indicates that they mostly target Germany, China and USA for inward investment into Belgium. The European Union, North America and Asia are countries mostly targeted for inward investments by BW-I. Cross-border M&As is a very important consideration for BW-I when attracting FDI and it is indicated by the European Union being their first choice. It is also evident that Germany is chosen to be one of the target countries for inward investment from TIKZN, WESGRO, and INW.

Table 23 indicates how the IPAs targeted their investors while Table 21 indicates the preferred contact method with the targeted investors.

Table 23: How IPAs target investors

IPA	**Target investor**	**How to target investor**	**Target type of investor**	**Main focus**
FDC	Agree	Industry	Market-seeking investor	Expand existing investors base
FIT	Strongly agree	Direct contact	Market-seeking investor	Attract new foreign and domestic investors
BW-I	Agree	Industry	Market-seeking Investor	Attract new foreign and domestic investors
GEDA	Agree	Industry	Market-seeking investor	Both
INW	Strongly agree	Industry	Resource-seeking investor	Expand existing investors’ 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 investors’ base
TISA	Strongly agree	Business	Market-seeking investor	Both
WESGRO	Strongly agree	Lead generation tools	Market-seeking investor	Expand existing investors’ base

In Table 23 all IPAs agree to strongly agree that they target their investors. Five of the provincial IPAs in South Africa report attracting the targeted investor's attention to specific industries and not focus their attention on the region or business. Six out of the eight IPAs report targeting market-seeking investors. TIKZN reports targeting investors who are market-seeking investors, resource-seeking investors and efficiency-seeking investors[50]. FIT uses a mixture between their region, industry and business to target their investor. They also keep direct contact with companies in 10 different countries. These countries include the USA, India and Germany (top three countries the IPAs target for inward investment). BW-I states to focus on specific industries when attracting FDI.

When IPAs target their investors they have the option to work through the embassies. Once the information regarding investment opportunities is provided via the embassies, the IPA will have direct contact with the investor. Only two of the provincial IPAs of South Africa focus to attract new foreign and domestic investors where the others specify to focus on expanding the existing investor base. It is evident that the main focus of FIT and BW-I is to attract new foreign and domestic investors. Both these two international IPAs focus to attract new FDI where the focus of the provincial IPAs of South Africa is to focus on the existing IPAs.

Table 24: Aftercare and targeting investors

IPA	Use aftercare	Importance of aftercare	Main focus
FDC	Yes	Very important	Expand existing investors' base
FIT	Yes	More important	Attract new foreign and domestic investors
BW-I	Yes	More important	Attract new foreign and domestic investors
GEDA	Yes	Very important	Both
INW	Yes	Very important	Expand existing investors' base
NCEDA	Yes	More important	Attract new foreign and domestic investors
TIKZN	Yes	Very important	Expand existing investors' base
TISA	Yes	Very important	Both
WESGRO	Yes	Very important	Expand existing investors' base

[50] TIKZN indicated all three although they were asked to choose one option of the types of investors.

It is clear from Table 24 that there is a difference between the IPAs that report finding aftercare more important and those who find it very important. BW-I and FIT report finding aftercare more important and also report focusing more on attracting new foreign and domestic investors whereas most of the provincial IPAs that report finding aftercare very important report focusing more on expanding existing investors' bases. WESGRO, TIKZN, INW and FDC who report that aftercare is more important rather than very important, also focus more on expanding the existing investors' base rather than to attract new foreign and domestic investors.

Table 25: Incentives and policies

IPA	Incentives & policies	% of budget for incentives	Use aftercare	Importance of aftercare	Role of macro & industrial policies	Consider as more important
FDC	Yes	0-20	Yes	Very important	Very important	Industrial policies
FIT	Yes	0-20	Yes	More important	More important	Industrial policies
BW-I	No	N/A[51]	Yes	More important	More important	Industrial policies
GEDA	Yes	0-20	Yes	Very important	Very important	Industrial policies
INW	Yes	0-20	Yes	Very important	Very important	Industrial policies
NCEDA	Yes	0-20	Yes	More important	More important	Industrial policies
TIKZN	Yes	0-20	Yes	Very important	Very important	Industrial policies
TISA	Yes	Different division	Yes	Very important	More important	Macro-economic policies
WESGRO	Yes	0-20	Yes	Very important	More important	Industrial policies

Incentives and policies are used by most of the IPAs as part of their investment promotion strategy to attract potential investors. Approximately 0-20 percent of their annual budget for investment promotion is used for incentives. Actually, incentive packages are compiled by the national IPA of the country and facilitated by the IPA to the investor. Provincial IPAs use these incentives but also negotiate incentives provided by the municipality to the investor. It is noted by the IPAs that the municipalities contribute to investment projects whether it is to provide the necessary infrastructure or to construct a building for the investment project. IPAs also indicate to only do the promotion of the incentives but are not compiling it. Table 24 shows that all the provincial IPAs of South Africa including BW-I and FIT consider industrial policies more important than macro-economic policies. This does not seem to be

[51] BW-I indicates to only consult and provide investors advice on the available incentives.

the case for TISA. TISA (national IPA of South Africa) considers macro-economic policies more important than industrial policies, signifying that the image of the country is the first impression an investor obtain. They believe that the investor first looks at the whole image of the country before evaluating the different sectors offered by the host country. Industrial policies are a modern feature that was not a very important factor that investors considered in the past (Table 25).

A problem indicated by NCEDA is that they lack the means to provide investors with potential incentive packages. A lot of the municipalities are treating it on an ad hoc basis. Some municipalities have draft incentives (still in draft stage) but these are not yet ready to be implemented. The expectations of the provincial IPAs to meet the investors needs differ. This means that some provinces cannot contribute the same percentage to a specific investment project. Meaning that the investor will change its investment decision or influence the terms made by the province. This only varies between the incentives provided by the local municipality.

It is also evident that IPAs use investment aftercare as part of their investment promotion strategy. Two of the provincial IPAs of South Africa reported using the strategy for investment promotion, report it as more important where the other four IPAs also reporting using the strategy, tend to find it very important.

The role of macro-economic and industrial policies tends to be an important aspect for IPAs, as it provides a framework that drives the economy of the country and provides specific benefits (industrial policies) the investors can obtain from investing in specific industries. Choosing what is more important between macro-economic policies and industrial policies, IPAs point out that industrial policies tend to be more important. The reason is that industrial policies are focused on the need of the investor when investing in a specific industry. Macro-economic policies are also important as they provide the investors with a framework of the whole economy. Incentives are mainly formulated according to these two policies.

Table 26: Top six incentives used for attracting investors(a)

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

a) BW-I did not answer this question.

Table 26 indicates that the provincial IPAs of South Africa consider tax benefits (see examples of the tax incentives provided by South Africa in the appendix, Table 2) to be one of their top choices for incentives used to attract investors. This is also evident from FIT. FIT considers R&D incentives and profit dividends also to be in their top three choices of incentives used to attract inward investment. INW, FDC and NCEDA report having tax benefits incentives in their top three incentives used for investment promotion. The table also indicates that two provincial IPAs of South Africa, WESGRO and GEDA provide the investors with subsidies[52] as part of their incentives to attract FDI. It can therefore be concluded that the provincial IPAs of South Africa consider different incentives to be important than those indicated by FIT. Could this also be a difference between the best practices and the provincial IPAs of South Africa that determines their successes of attracting FDI? In Chapter 3, Table 7 indicates the percentage of the cost Flanders is willing to carry in the type of R&D investment project the investor is interested in. The assistance for these R&D incentives comes from the IWT.

The following table states the importance of the investment promotion strategies indicated by the provincial IPAs of South Africa and FIT.

[52] Table three in the appendix provides financing incetives.

Table 27: Importance of investment promotion strategies

	Perception building	Targeting investors	Structure of the IPA	Incentives(a)	Policy framework	Aftercare	Legal status(a)
Strongly disagree			WESGRO INW FDC				INW
Disagree				BW-I			
Agree	WESGRO GEDA FIT BW-I INW FDC	FDC NCEDA BW-I	GEDA FIT NCEDA BW-I	WESGRO FIT INW NCEDA	WESGRO FIT INW NCEDA BW-I	NCEDA BW-I	WESGRO FIT FDC NCEDA BW-I
Strongly agree	TIKZN NCEDA	WESGRO GEDA FIT INW TIKZN	TIKZN	GEDA FDC	GEDA FDC TIKZN	WESGRO GEDA FIT INW FDC TIKZN	GEDA

a) TIKZN does not indicate in the above table whether they consider incentives and legal status as important strategies for investment promotion and does not indicate whether the legal status is important.

In Table 27 it is evident that the IPAs agree to strongly agree on the importance of the above mentioned investment promotion strategies. In terms of the structure of the IPA as an important investment promotion strategy, only three of the provincial IPAs of South Africa indicate to strongly disagree (WESGRO, INW and FDC). It seems, however, that FIT and BW-I agree to the importance of the structure of the IPA as an investment promotion strategy. TIKZN is the only IPA that strongly agrees to the structure of the IPA as an important investment promotions strategy. As mentioned in the literature the legal status of the IPAs refers to the power the IPA has to influence the capacity to attract investment. A clear legal status is important for the IPA to carry out its mandate. Only INW strongly disagrees about experiencing the legal structure as an important investment promotion strategy. The above table also confirms that many of the IPAs strongly agree on the importance of aftercare as an investment promotion strategy.

The above section has reviewed the findings from the survey. In the next section the conclusion and recommendation will be given.

The following table provides a summary of the gaps identified in the findings of the study.

Table 28: Summary of gaps and recommendations

Gap	Description
Annual budget	FIT budgets more for investment promotion per year than the provincial IPAs of South Africa. In order for SA to attract more FDI they should improve their investment promotion strategies. In doing so it is recommended that the provincial IPAs should increase their budget for investment promotion in order to have the adequate funds available for investment promotion.
Education	There is a gap between the level of skills used between FIT, BW-I and some of the IPAs in South Africa. In order to attract FDI more effectively the staff of every IPA in South Africa needs to be skilled and well educated to perform the task effectively. The skills of the labour force should be improved so that local communities can gain from employment created by new investment projects.
The number of IPAs in a country.	FIT is the only provincial IPA of Belgium meaning that they are more focused to attract FDI to their province and is not affected by other competitive IPAs. BW-I indicated to be in competition with the other provincial IPAs of Germany, but do interact with them to exchange knowledge and ideas. South Africa has more than one IPA so that (according to literature) their focus is isolated and concentrated on the IPAs themselves. It is recommended that the provincial IPAs of South Africa should have regular interaction to exchange knowledge and ideas. Competition with other provincial IPAs should not be a priority.
Sectors attracting FDI	The overall IPAs in South Africa attract more investment to primary sectors where FIT and BW-I attracts FDI to secondary sectors. This gap exists because of the competitive advantage of Germany vs. South Africa. It is recommended that South Africa uses their primary sectors so that the primary products can be processed in South Africa in order to attract more FDI to secondary sectors.
Targeting investors	Most of the provincial IPAs focus on expanding the existing investor base where FIT focuses on attracting new domestic and foreign investors. It is recommended that the provincial IPAs of South Africa should also focus their attention on attracting new domestic and foreign investors. This could establish the opportunity to gain more international market access to other countries.
Incentives	R&D incentives and profit dividends are not a top priority to all the provincial IPAs in South Africa. R&D incentives or profit dividends seems to appear in the top three incentives of the provincial IPAs of South Africa. It is recommended that South Africa consider R&D incentives as a higher priority, because the country finds itself in a developing phase.

5.3 Conclusion

In Chapter 5 the study indicates how the data was accumulated, why the data was collected and from which IPAs. The use of questionnaires in the study was due to a lack of data. The use of surveys is also an effective method to understand the economic performance of the IPA and the regulatory framework the IPA uses to attract FDI. This method also establishes the gaps between the strategies used by IPAs to attract FDI. In order to have obtained these data, the IPAs were asked to complete the survey and where possible, interviews were held. In Chapter three and Chapter four, secondary data was used to accumulate the information regarding the performance of the IPAs and their economies in terms of their economic performance and investment inflows.

The findings indicates that there is a gap (Table 28) between the strategies used between BW-I, FIT and the provincial IPAs of South Africa. The findings indicate that there is a difference between the periods of years the IPAs are in operation. This influences their knowledge and experience in practice to operate effectively. All the IPAs, in comparison, indicate to focus on both investment promotion and trade. It is also evident that there is a difference between the size of these IPAs in terms of their annual budget for investment promotion and the amount of staff employed in the IPAs. According to the structure of the IPAs, the study shows that they are all being operated by the government except for two (BW-I and NCEDA). The study also shows that the IPAs focus to operate on a provincial level, meaning that they attract potential investment to their province. It also appears that there is a difference between the level of educated staff employed in the provincial IPAs in South Africa and between the IPAs of SA and those abroad. From the findings, the study shows that there is a difference between the level of skilled staff employed by BW-I and FIT in comparison with South Africa. The study shows that BW-I, FDC, INW and WESGRO are in competition with other provincial IPAs. FIT, GEDA, NCEDA, and TIKZN differ in this regards and indicate not to compete with other provincial IPAs.

It can also be concluded from the findings that there is difference between the budgets for investment promotion between the IPAs. It seems like best practice IPAs budget more for investment promotion that the provincial IPAs in South Africa. FIT has indicated to budget the same percentage of total budget as some of the other provincial IPAs in SA for investment promotion. The amount budgeted for investment promotion is an indication whether or not the IPAs have sufficient funds available to effectively execute their investment promotion strategies to attract potential investors. The IPAs have also indicated how important they consider perception building to be as a strategy used to attract FDI. In this case the provincial IPAs of South Africa finds it more important than the two international IPAs. This can be because of the difference between the economical and political stability between the countries where the IPAs are situated. The study also finds that there is a difference between the percentages that is budgeted for perception building. BW-I and FIT indicated to have budget the same percentage of their budget for perception building as some the provincial IPAs in South Africa (excluding INW and GEDA).

The study shows that the industries to attract investors differ between South Africa and FIT. It seems like South Africa's main attraction of investors is their primary resources like mining agriculture and for some provincial IPAs, manufacturing. FIT indicates that their sectors to attract FDI are the value added sectors and already processed products. The manners in which IPAs prefer to contact investors also differ. It can be concluded that BW-I and FIT indicates to have direct contact with the investor whereas some of the provincial IPAs in South Africa prefer to have contact with the investor via e-mail or telephone. The lack of face-to-face personal relationship between the investor and the IPA is in this case a shortcoming for the provincial IPAs of South Africa. All the IPAs, except INW have indicated to use specialists in their sector to attract FDI to the province or their region. In terms of the preferred criteria used it is clear that the IPAs focus to attract investors who have the ability to invest. This criterion differs between the IPAs, where FIT indicates to focus on the size and the experience of the investor. BW-I also indicates to target investors who have the ability of invest in a project or green investment.

Most of the provincial IPAs in South Africa indicate to target the eastern countries for inward investment, especially China. BW-I and FIT have a different approached. They indicate to target EU countries for their inward investment. This provided them the geographical benefit to focus on cross-border mergers and acquisitions. USA and Europe also feature in the top three countries to target for inward investment.

It can also be concluded from this chapter that the role of aftercare is important amongst the IPAs. All the IPAs agree to strongly agree to target investors and specifically target the investors to potential industries in their provinces instead of the region or specific businesses. The findings also show that most of the IPAs focus to attract market seeking investors. This provided them with the opportunity to gain access to other international markets. The fact of the matter is that the provincial IPAs of South Africa focus to expand existing investors instead of, to try and attract new foreign direct investment.

All the IPAs do use incentives and policies to attract foreign direct investors. It is evident that they all spend the same percentage to budget for incentives. The role of IPAs is to facilitate and assist investors with the incentive packages provided by the national government. The findings on all of the IPAs except for TISA show that IPAs focus on industrial incentives and the reason as told by one of the IPAs it that it is more specific to the investor's need and what they want.

In the next table the summative conclusion and proposed recommendations are provided. This will be collaborated on in the last chapter.

Chapter 6: Conclusion and recommendations

6.1 Introduction

The goal of the study was to establish if the IPAs use the same investment promotion strategies to attract FDI. Although the study finds that the provincial IPAs of South Africa are using the same investment promotion strategies as BW-I and FIT, they do not execute them with the same importance. The second goal of the study is to find out if more than one IPA will have a negative effect on the economy. The study could not fully reach this goal since a more detailed questionnaire is necessary to establish how regularly the provincial IPAs interact with each other. Identifying the role of the IPA to attract FDI – literature indicates that IPAs play an important role to attract FDI since the effort made by the IPAs to execute their investment promotion strategies influence the decision of the investor.

The purpose of this chapter is to discuss the main findings of the study. In support of the research questions in section 1.4, the study will discuss how the findings from the literature compare with the findings of the survey to support the gaps and recommendations made in section 6.3. The research questions of the study are discussed in section 6.2, where section 6.3 will discuss the gaps and recommendations. Section 6.4 will discuss the limitations of the study, where suggestions for further studies are made in section 6.5.

6.2 Findings of the study

One of the goals of the study is to examine the investment promotion strategies used by the provincial IPAs of South Africa and to compare them with best practices like BW-I and FIT (objective one). This goal is trying to establish whether all IPAs use the same investment promotion strategies to attract FDI. The reason for this is to establish the gaps between the different agencies to identify weakness in the strategies used by the provincial IPAs of South Africa in order to improve the strategies used to attract potential FDI. Establishing and identifying the gaps between the IPAs provides insight and understanding in the ability of the best practices to attract FDI and see where there is room for improvement.

In Chapter 2, investment promotion is defined as the use of different activities engaged in by the government to communicate the activities of the IPAs to the investor. The role of the government in this regard is to take responsibility to use investment promotion to attract FDI. This can be done if governments are more proactive in communicating effectively with investors. The role of an IPA comes into play by using a combination of these activities to attract FDI. These activities are then communicated to the investor by providing the investor with the potential information needed for making an investment. The primary goal why these activities are executed is to influence the decision of the investor to invest in the host country.

Best practices are a good example of how FDI helps to improve the management and workforce to facilitate and increase liaison with domestic and international markets. The two channels created by FDI, namely the extension effect and the external effect, come into play when attracting FDI (section 2.2.2). To ensure that the host country can obtain the spill-over from the FDI, absorptive capacity is needed, meaning that the infrastructure needs to be in place to handle the amount of spill-over in the economy. Literature indicates that where FDI is not potentially attracted, it is because that country lacks the productivity needed to attract potential investors. In other countries FDI thrives, because the country has a well-educated general population and a skilled labour force.

Chapter two further indicates the importance of perception-building since it contributes to the accountability of the country to the investor. Since perception-building is hard to gain but easy to lose, South Africa should focus on building a positive perception among investors to attract more FDI. This should be done by advertising in a variety of media and bringing private firms together through trade shows and trade missions. This leads to the establishment of a competitive advantage providing to the investor lower risk and assuring the investor that the province's investment opportunities are the best choice.

The effectiveness to serve the need of every investor is influenced by the diverse requirements of every investor, signifying that an IPA should target their investors. This approach gives the opportunity to the IPAs to serve the investor more effectively and efficiently. By targeting the investor the IPAs can therefore gain the investor's decision by influencing them with the knowledge that the specialists use in the attraction and creation of potential investment sectors. The IPA is able to use their resources more effectively (cost-effectively) to have a pro-active communication channel with the investor. This would imply that the effort made by the investor to sustain a proactive communication channel with the investor would lead to the creation of a long-term relationship. It is therefore evident from the literature that targeting the investor is cost-effective and that targeting random investors can be very costly. It is as a result advisable to utilise databases to target and identify potential investors.

Chapter 2 (section 2.3.3) further shows that the key issue for investment promotion is that no single structure fits all countries. The structure of an IPA is affected by the size of the country and the difference in the regional agencies. It is important for an IPA to operate independently from its government to enhance its credibility and flexibility. This section also states that the effectiveness of an investment programme mainly depends on the organisational structure of the IPA.

Incentives play an important role when attracting FDI. This strategy is not always sufficient but its role in investment promotion is still significant. The role of incentives and policies goes hand in hand and policies should be effectively implemented. The use of incentives varies between two types of incentives namely fiscal and financial incentives (section 2.3.4.1). The commitment of the government to attract FDI can be seen by the incentives used to stimulate FDI in the host country. Their commitment contributes to hold secure economic, environmental and social benefits for the host country.

Well-implemented policies tend to depend on the type of structure of an IPA. The role of well-implemented policies is very important to deliver the returns investors expect to have on their investments. Government should therefore use the policies of best practices as a guideline to enhance their own. This will lead to the encouragement of links to achieve their goals to attract new and existing investors. Investors will also see the good implemented policies of a country to deliver a macro-economic stabilised environment with political stability. The implementation of these policies goes hand in hand with the legal status of the IPA indicating the power of the IPA to influence the capacity of it to attract investors. It has a fundamental influence on the basis of investment promotion.

Investment aftercare is defined as a continuous strategy to keep investors satisfied. This occurs mainly in the start-up phase of an investment project. The strategy keeps investors interested in reinvesting, providing the opportunity for economic development. The nature of the investor will influence the manner in which aftercare is executed and will determine how close the relationship between the investor and the IPA will be. Depending on the progress of the investment project in terms of its size and development, the investor's experience and technology, the extent of aftercare services is naturally adapted. These services are later reduced, since the investor has become more integrated with the region and shift its focus to other priorities. From section 2.3.6 it should also be noted that aftercare has the potential to assist local managers to upgrade establishments by strengthening their negotiation capabilities with the parent company.

Furthermore, Chapter two focused on the best practices of investment promotion agencies. To differentiate between best practices and ordinary practices certain aspects have to be taken into account, which includes the quality and availability of managerial know-how and specific resource endowment. One can also differentiate between best practices and ordinary practices by taking capital, geographical location and proximate markets into consideration. Leading IPAs also provide easy access to quality information.

The importance to provide investors with potential information is also discussed and state that public and private information should be made available to investors. This would help them with their investment decisions. How IPAs can improve their distribution of potential information to the investor is also discussed in this Chapter. IPAs should ensure that all relevant information is distributed to the investor to make an appropriate investment decision and alleviate the problems of the investor.

Literature indicates that the first requirement for investment promotion is building a positive perception. Policies, laws and regulations in attracting FDI are required to be comprehensive, clear and fair, but the uncertainty is how IPAs implement these policies to build a well-established perception for the investor? Literature answers that best practice takes the following into consideration when implementing policies and that is: laws and regulations and specific requirements should be provided as the foundation stone of the investment framework, protecting investment (the bilateral nature of multilateral treaties that is based on the discrimination and constitutional protection of government assistance) and fiscal regimes (includes income tax, corporation tax, capital gains tax, custom duties etc.)

Governments should be eager to incorporate their role in the distribution of rare capital into selected industries to stimulate and influence the acquisition of foreign technology and skills. Accordingly, it leads to pro-activeness to target investments providing the opportunity for long-term investment in the country. In contradiction, inactive entities are not doing so well to establish their objectives and as a result attract non-complementary and “un-met” workable types of investments. This section also indicates that there is a shift from labour-intensive industries to more capital-intensive industries that focus on high value added skill-intensive activities. Also being proactive means that incentives are provided to provide an advantage to the investor that motivates him/her to invest more in the country to his/her benefit.

The concluding remarks from Chapter two were that the investor’s decision depends on the effort the IPA makes to attract the investor’s attention. By doing so the IPA uses different investment tools that range from perception-building to incentives and policies used to attract FDI from abroad. The manner in which investment promotion is executed largely depends on the organisational structure of the IPA.

The literature review (section 2.2.3) and discussions in Chapter 5 (section 5.2) also highlight problems for IPAs. These include bottlenecks that prevent the effective attraction of potential investment, which is due to uneducated and unskilled staff mostly appearing in government agencies. Funds can be utilised when investors are segmented leading to cost-effective use of resources. Providing investors with potential information regarding investment opportunities contributes to the investor’s decision-making process. The possibility of a long term relationship will depend on the interaction between the IPA and the investor complemented by their professionalism.

Chapter three focussed on the comparison of the international IPAs FIT and BW-I. This chapter states that FIT was created by the merger of the former FFIO and Export Vlaanderen. It is also evident from this chapter that FIT promotes international business from Belgium, domestically and internationally. This IPA has done it through the widening of networks and expertise made possible after the merger. The well-established policies and incentives provided by the Flemish government put Belgium in the top 20 economies resulting from good FDI inflows. The good implemented investment promotions strategies ranked FIT first under certain criteria. Through their investment promotion strategies investors enjoyed good benefits when they made the decision to invest in Belgium. BW-I has a good relationship with its neighbouring countries and has provided the opportunity for BW-I to utilise the benefits of the EU government to attract investors. Identifying markets analysed according to the industry, potential investors and the strengths of the industries are strategies used by BW-I to attract new investors. The section also concludes that the good investment flows of Baden-Württemberg are due to the exportation of capital goods. A constructive use of incentives has contributed to the potential investment inflow to Baden-Württemberg.

Chapter four indicates the economic and investment flow performance of the South African economy. It is stated in this chapter that TISA is responsible for the potential export market and to develop a potential investment market for South Africa. It is also evident that one of the reasons behind the potential investment figures of South Africa is the incentives programme implemented by TISA. The incentives of South Africa have helped the country to boost an integrated South Africa with the international investment with the main strategy being a reduction in taxes and the existing tax system. The implementation of the competition policy has created the opportunity for economic development and for the economy to perform efficiently.

Chapter five is about the investment promotion agency survey and has the following results. In order to complete the goals of the study a questionnaire was conducted to gain the primary data from the IPAs needed for the comparison. The questionnaires were distributed to the different IPAs for purposes of comparison and where possible interviews were conducted. Only a small sample could be used for this study, due the limited number of IPAs, in order to provide insight and understanding into the strategies that are used to attract potential FDI. The secondary data were accumulated using the following sources: UNCTAD, WAIPA, Investment Map, DTI and FIAS. In order to have answered the research questions, the study firstly builds a framework based on theory of FDI investment promotion and the role of FDI (section 2.2). Then performance indicators are provided for the different countries regarding their economic performance and investment flows (Chapter Three and Four). The study then concentrates on the research method (Chapter Five) and the findings of the survey, ending with the final conclusion and recommendations (Chapter Six). The study shows that IPAs focus on two aspects: investment promotion and export promotion. All the IPAs reported that they do not only focus on investment prospects but also provide assistance to companies that are exporting and that want to export.

Literature (section 2.5.1) indicates that the effectiveness of an investment programme largely depends on the organisational structure of the IPA. The literature (section 2.3.3) also states that IPAs operating under the government have easy access to other government departments. A large proportion of the provincial IPAs in South Africa are driven by the government. This indicates that they report to a minister, premier or the president himself. They also tend to have access to information provided by the other government departments. The study finds that all the IPAs in comparison are operating under the government, except NCEDA and BW-I. All of the provincial IPAs in South Africa indicate that their level of operation is regional – attracting investors to their province or potential regions in their province. This is also the case with FIT and BW-I.

The general perspective from the provincial IPAs is that they do not compete with each other but rather interact with each other to exchange knowledge and ideas. Although the provincial IPAs of South Africa interact to exchange knowledge and ideas, a question unanswered is how regularly these interactions take place. This will indicate whether there is regular cooperation between the provincial IPAs to successfully deal with investment problems and build on the promises to not compete against each other. The study shows that one of the international IPAs (BW-I) has been in longer than most of the provincial IPAs in South Africa. The study shows that most of the provincial IPAs are working with a staff of less than 50. This is also the number of staff working for FIT and although FIT is smaller than some of the provincial IPAs in South Africa, the IPA spend more on investment promotion as percentage of total budget. This is also a gap that arises from the study and should be given attention to if wanting to gain more from their investment promotion efforts. BW-I indicates to spend less than certain provincial IPAs on investment promotion and states to have enough funds available. IPAs in South Africa should reconsider how they can use their budgets more effectively.

As stated in Chapter 2 (section 2.2.2), FDI has benefits for the host country attracting investment. Theory[53] has also indicated that FDI has a positive effect on the economy. The role of investment promotion to attract FDI is therefore important. Being more proactive in terms of investment promotion strategies used to attract FDI, the IPAs can communicate effectively with and to the investors. Through effective communication, the effectiveness of the IPAs can be transparent through the availability of the information. The study shows that

[53] (Bezuidenhout, 2007; Naudé and Krugell, 2007; OECD, 2002, Branstetter, 2004 and Bertélemy et al., 2000).

FIT prefers to have direct contact with the investor in terms of their preferred contact method used (Table 20).

Research question one: Do all IPAs use the same investment promotion strategies to attract FDI and execute them with the same level of importance? It can be concluded that the IPAs uses the same investment promotion strategies to attract FDI but do not execute them with the same importance. It is evident that the difference in the importance of the investment promotion strategies used to attract FDI, affects the outcome of investment inflow since Germany and Belgium shows higher FDI inflow to the country in comparison with South Africa.

Research question 2: Does having more than one IPA have a negative effect on the performance of a country's FDI inflow? The study does not provide confirmation on how the interaction between IPAs contributes to their ability to cooperate effectively. This research question needs further investigation since BW-I also tends to compete against other provincial IPAs in the country and still shows good performance in attracting FDI.

Research question 3: What role does the IPA play in contributing to FDI inflow to the country? It is evident from literature that IPAs play an important role in attracting FDI, that means to influence the decision of the investor to invest in their country. The goal of every IPA (section 2.2.4) is to gain economic growth and to create employment opportunities by executing various activities, including: perception building, targeting investors, structure of the IPA and the incentives and policies. It is evident from the study that there is a difference in the investment promotion strategies used to attract investment and also a difference in the FDI inflow. It means that an IPA plays an important role contributing to FDI inflows as it depends on the investment promotions strategies used to attract FDI. The number of years the IPAs have been in operation provides an indication of how well experienced the agency is to attract FDI. It can be concluded that the role IPAs play to attract FDI inflow is influenced by the number of years the company has been in operation.

6.3 Gaps and Recommendations

The literature review also states that enhancing investment promotion strategies leads to technology transfer, economic growth and human capital, but this is influenced by the three-way channel. This means that the effect of FDI (on forward or backward linkages) differs in terms of the development of the country. This could be an explanation why the effect of FDI in South Africa differs from those of Germany and Belgium.

It is also evident from the literature (section 2.2.4) that FDI increases the flow of knowledge spill-over to and from the investing firm. Financial transfers, creation of employment, transfer of fixed assets, technology and know-how, create the opportunity for international market access (section 2.2.4). This can be an explanation as to why many IPAs in South Africa, including BW-I FIT, focus on attracting market-seeking investors.

With the IPAs spending on average a quarter of its total expenditure on perception building, this study indicates that three of the provincial IPAs in South Africa are spending between 21-40 percent of the annual budget on perception building. This is also the case with BW-I and FIT. Could it be that other IPAs in South Africa are making the investors aware of the investment opportunities to a lesser extent by not focusing as much on building a positive perception? Is insufficient attention being given to effective marketing communication to the investor by the provincial IPAs of South Africa? In contrast to best practices, some provincial IPAs in South Africa should provide the investor with the prospective information to guide their investment decision. This affects the outcome of the investor's decision to invest in the province/country. A gap exists between the IPAs in comparison to the extent to which attention is given to perception building.

The diversity of the investors makes it difficult to serve the need of every investor. This problem can be easily overcome when IPAs target investors who they can serve more effectively. This implies that targeting the investor is a cost-effective way of attracting investors of quality rather than quantity. The difference between the IPAs of South Africa and FIT is that FIT prefers to target investors according to their size. The provincial IPAs mostly report targeting the investor according to their ability to invest. This also seems to be the case with BW-I. The resources can thus be effectively used to focus the promotional effort of the IPAs to identify the sectors that has the most potential for the economy. The cost effectiveness of targeting investors can be experienced where there has to be constant contact between the investor and the IPAs.

Effective databases should also be used to target and identify potential investors, which should be done by monitoring active investors who participated in recent projects. The study recommends that the initiative needs to be taken between IPAs to share data. This initiative was taken at the IPA Information Sharing Session to establish an institutional home where IPAs could share information and data. This would influence the cost of subscription fees to other databases and further increase cooperation between the provincial IPAs of South Africa.

The findings indicate that all IPAs in the comparison do target their investors, with its focus to identify potential industries to attract investors to. It is also evident that not all the IPAs in South Africa indicate to strongly agree to this question, but do indicate to agree. It is specified that the investor's attention is mostly directed to potential industries in the IPAs of South Africa and not the businesses or the region itself. By targeting market-seeking investors, these IPAs report gaining access to the investors' international market. The findings show that most of the IPAs in South Africa choose to focus their attention on expanding the existing investor base instead of attracting new foreign and domestic investors. The opportunity to broaden their access to other international markets is narrowed in comparison with FIT who indicates to attract new foreign and domestic investors. This can be identified as a gap between FIT and the provincial IPAs of South Africa in their investment promotion strategies to attract FDI. Could this be a reason for South Africa to miss out on new potential investment projects that influence the FDI inflow to the country by focusing on expanding the existing investor base? Attracting new foreign and domestic investors should be considered as a priority for the provincial IPAs in order to broaden the access to other international markets. This could also lead to new export opportunities for South Africa.

It is therefore recommended that IPAs should mostly try and attract new foreign and domestic investors as well as give more attention to aftercare. By focusing more on aftercare the study concludes that the opportunities to gain international market access to other countries are. Provincial IPAs should therefore use existing investors as the main starting point since the established company has international clients who might seek the opportunity to be closer to its supplier (Table 23).

Mining is the potential industry to attract investors to the different provinces of South Africa. The question remains whether or not the products produced within the primary sectors of

South Africa are also added with value? It is noted from the IPAs that instead of adding value to the mining products in South Africa, the products are exported and within weeks being shown in stores abroad. To gain from this deficiency, the workers in South Africa need to be skilled and well educated. Provincial IPAs in South Africa also report manufacturing, agriculture, tourism and the automotive industries to be potential industries for investors. It is evident that best practices like BW-I's and FIT's potential industries to attract investment are industries that add value to the primary product or industries that contain added value products. This means the product is sold for much more than it was purchased for. It is evident from Table 17 that FIT's top industries to attract investment are biotech, pharma and logistics. BW-I's top industries to attract investors are Industry processing (cars, machines, etc), medical technology and environmental technology. South Africa's top industries to attract investors to, is: mining, manufacturing and agriculture. This is a gap South Africa needs to close in order to gain more from their investment promotion strategies. One can assume that to keep the investor's attention to the primary sectors in South Africa, the provincial IPAs needs to do more with their promotion effort, since South Africa there is a comparative advantage between South Africa and Germany in terms of their sectors. The investor could gain more from investing in value added products rather than raw material products. It is therefore also recommended that South Africa prioritise to invest in the education and skills of its labour market. The study recommends that South Africa should benefit from its raw materials and produce the necessary skills to add value to the raw products being exported for further processing. In order for IPAs to gain more in terms of their investment project with the investor the IPA should accept that training programmes should be the first priority. This would imply that the return on the investment project can increase by first adding the value in the home country before attempting to export.

The study finds that the education levels of the IPAs vary between skilled and highly skilled. TISA along with NCEDA is working with staff whose education level varies between intermediate to skilled. This is a weakness indicated by the IPAs and is seen as a gap between the strategies used to attract FDI. TISA and NCEDA need to take steps towards employing educated and skilled staff to manage and operate the IPA effectively. The study recommends that the provincial IPAs of South Africa need to focus their attention to educate the investment promotion facilitators in the company.

More than half of the IPAs in South Africa indicate China as their first choice as one of their three targeted countries for inward investment. This seems to differ from FIT and BW-I, where the agency targets receiving most of their inward investment from Germany and other European countries. This could be explained by the relationship South Africa has established with the BRICS[54] countries. European countries are more interested to invest in manufacturing and services while China is more interested in raw materials which can also explain why the BRICS countries are a focus for South Africa.

As indicated in the literature review, incentives are a very strategic approach to attract investors because of the persuasion effect it has on investors. The study shows that all of the IPAs in the comparison use incentives and policies as part of their investment promotion strategy, to attract potential investors, except for BW-I. These IPAs state that 0-20 percent of their budget is allocated to provide for incentives. The main reason for the low percentage spent on incentives is that they are compiled by the national government and IPAs only assist to help facilitate incentive packages. It should be kept in mind that incentives may fail due to the inefficiency of proper implementation of the FDI policy and the distortion of the IPA structure in the host country. The role of the government should be emphasised on the establishment of an incentive system that will relate to specific FDI objectives. To attract FDI the IPAs of South Africa, FIT considers different incentives as important for investment promotion. It is evident that the combination of tax incentives, R&D incentives and profit dividends seems to be the first three choices for FIT.

The study also finds that the role of the municipalities in attracting investors is also important and this reflects why all the provincial IPAs indicate to consider industrial policies more important than macro-economic policies.

The study recommends that some of the provincial IPAs in South Africa budget more for investment promotion. This would make them more effective when attracting FDI but it should be noted that the staff should be educated to operate the increase in the budget effectively (Table 17&18). Having a bigger budget accelerates investment promotion leading to better performance when attracting investors (section 2.2.3).

The study further suggests that training programmes should be provided in advance so that staff in the agency would be ready to operate effectively. In general, the education and skills

54 BRICS stands for: Brazil, Russia, India, China and South Africa.

level of the local employees should also be improved in order to gain from the potential investment and provide local employees with the job opportunities created through that investment project. This is one of the largest gaps in South Africa existing between the IPAs and that is the ability to have the necessary skill to operate effectively.

The study finds that all the provincial IPAs in South Africa interact with other provincial IPAs but also indicates them to be in competition with each other. It is recommended that regular interaction should occur between these provincial IPAs. This would also provide the opportunity for the provincial IPAs of South Africa to collaborate on certain issues such as access to updated and cost-effective databases.

Tax benefits are the number one incentive used by most of the IPAs. There is a difference in the incentives considered important between the international IPAs in comparison with the provincial IPAs of South Africa. The study recommends that the provincial IPAs of South Africa should consider their priority list of incentives to establish whether or not a change in priorities it would have significant benefits (Table 23).

6.4 Limitation of the study

In order to have been able to do a more comprehensive comparison the contribution of all the provincial IPAs in South Africa would have been appreciated. It is also evident that in certain cases IPAs did not answer all the questions in the survey. The study only compares best practice from the EU and did not include other best practices such as IPAs from the east to participate in the study. The study would have also wanted to use a larger sample to get significant results between the strategies used. This would have provided the opportunity to establish the relationship between the different variables used in the study. One of the IPA's results was not discussed (section 5.2). Interviews were not conducted with all the IPAs in the study indicating that in some cases the IPA was not asked additional questions when providing certain answers.

6.5 Suggestions for further studies

The study suggests that further studies be done on how the regular interaction between IPAs affects the productivity of that IPA. Further studies should also be done on the role of the IPA to use current investors to attract new investments. Does more than one IPA have a negative effect on the performance of a country's FDI inflow? The study does not provide confirmation on how the interaction between IPAs contributes to their ability to cooperate effectively. This hypothesis needs further investigation since BW-I also indicates that competing against other provincial IPAs in their country still makes it possible to show good performance in attracting FDI. A large sample of respondents is necessary in this case since it is important to know what the correlation is between the number of IPAs in a country and their ability to operate effectively.

Since the access to well-built databases is a cost-effective concern, further studies can investigate how to make investment data more cost-effective to IPAs. The study further suggests that further studies can also investigate whether specialists have a significant contribution to make in influencing the investment decision of the targeted investor to invest.

In order to establish whether IPAs should focus more on attracting new foreign and domestic investors or expand the base of existing investors, the study suggests that focusing on the expansion of the existing investors' base should be compared with the attraction of new foreign and domestic investors.

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Appendix

Table 1: Percentage of the total inward investment in the world

Year	2002	2003	2004	2005	2006	2007	2008	2009
Belgium	2,59	5,92	5,95	3,49	4,04	5,64	6,21	3,03
Germany	8,52	5,72	-1,39	4,81	3,81	3,64	1,38	3,2
South Africa	0,25	0,13	0,11	0,67	-0,04	0,27	0,51	0,51

Source: *Investment Map (2010a,b,c)*

Table 2: Tax incentives in South Africa

R&D expenditure	25% of the capital expenditure approved by the Council for Scientific Industrial Research (CSIR) (if the research is discontinued, compensating payments must be made).
Employee housing	50% of the cost of a house built for an employee (or money donated/advanced for the building of a house), with a maximum value of R6 000. Or 10% in year one and 2% thereafter for the building of five or more houses to let/to house employees.
For new and expanding businesses (both local and foreign) plant and machinery	Is depreciated over three years and land and buildings over five years. The rates for plant and machinery are 20% (manufacturing), 2% (hotel equipment) and for farming equipment the rates are 50%, 30% and then 20% over the three years.
Buildings	Are depreciated at 5% (industrial), 5% (hotels) or 20% (hotel expansions).
Other non-manufacturing fixed assets	Are depreciated at variable rates (between 10% and 20%).

Table 3: Industrial financing incentives of South Africa

Employment Promotion Scheme	Three-year loans are available to companies creating at least ten new jobs, provided the capital cost of creating the job is less than R50 000 and the total assets of the company are less than R100 million. If the cost per job is between R50 000 and R100 000, half the loan will qualify for the low rate and the other

	half will be charged IDC's normal rate.
Export of Capital Goods and Services Scheme	Loans are available for two to ten years.
Import Financing	Importers of capital goods and services are provided access to credit and guarantee facilities.
Economic Empowerment Scheme	Industrialists from previously disadvantaged communities enjoy preferential treatment in terms of project financing.
Venture Capital Finance	Loans are available for entrepreneurs starting up a high-technology business.
Eco-tourism Scheme	Loans are granted to projects that develop, improve or expand tourist facilities in conservation areas/national parks (larger than 10 000 ha), provided the owner finances 40% of total assets
General Tourism Scheme	Loans (maximum of R10 million) are granted to hotels providing accommodation for foreigners. Turnover from accommodation (including meals) must be 70% of total turnover and the owner must finance 40% of total assets.
Orchards Scheme	Loans are available to employment generating projects in rural areas.
Multi-Shift Employment Creation Scheme	Independent industrialists with assets greater than R1 million and equity greater than 33% of the value of total assets, are granted finance at low rates (for three years) for projects that add at least one extra eight-hour shift.
International Competitiveness Finance	This scheme was in place from 1995 to 1999 and aimed to help industrialists that were diversely affected by tariff reduction regarding the importation of capital equipment. They were granted finance at low rates for three years (after which they will pay the IDC rate).
Bank Indemnity Scheme	This is applicable to SMEs where contribution and collateral equal 50% of the facility granted. The bank is given indemnity against 60% of any loss for SMEs borrowing up to R400 000.
Standard Leased Factory Building Scheme	The IDC leases properties to industrialists at competitive rents.

Source: *DPRU (2001)*

Table 4: R&D incentives in South Africa

Support Programme for Industrial Innovation (SPII). (Two schemes)	The Matching Scheme gives a grant equal to 50% (capped at R1,5 million) of the direct costs of a development activity. The Feasibility Scheme (only small, medium or micro-enterprises qualify) makes available a grant of 50% of the costs of a feasibility study undertaken by a consulting company.
Partnerships in Industrial Innovation (PII)	This fund provides support for large R&D projects. Tax-free loans are awarded to development projects (for a maximum of 50% of its qualifying costs).
Technology and Human Resources for Industry Programme (THRIP)	This programme is administered by the National Research Foundation (NRF) and it provides grants to joint research teams (comprising members from government, industry and academic institutions). It favours research in the natural sciences, engineering and technology.
Innovation Fund	R&D in the following areas - information society, genetic biotechnology, value added in the exploitation of natural fauna and flora, value added in advanced materials and manufacturing - are eligible for funding of between R1 and R5 million over a three-year period.

Source: *DPRU (2001)*

Table 5: List of the provincial IPAs of South Africa

IPA	Website
INW: Invest North West	www.**inw**.org.za
GEDA: Gauteng Economic Development Agency	www.geda.co.za/
WESGRO: Western Cape Trade and Investment Agency	wesgro.co.za/
TIKZN: Trade and Investment of KwaZulu-Natal	www.**tikzn**.co.za
TIL: Trade and Investment Limpopo	www.**til**.co.za/
MEGA: Mpumalanga Economic Growth Agency	www.**mega**.gov.za/
NCEDA: Northern Cape Economic Development Agency	www.**nceda**.co.za/
ECDC: Eastern Cape Development Corporation	www.**ecdc**.co.za/
FDC: Free State Development Corporation	www.**fdc**.co.za/

Table 5: FDI Inflows and cross-border M&As by region and economy 2008-2009 (billions of dollars).

Region/economy	FDI inflows 2008	FDI inflows 2009 ᵃ	FDI inflows Growth rate (%)	Cross-border M&As 2008	Cross-border M&As 2009	Cross-border M&As Growth rate (%)
World	**1 697.4**	**1 040.3**	***- 38.7***	**706.5**	**239.9**	***- 66.0***
Developed economies	**962.3**	**565.6**	***- 41.2***	**581.4**	**195.4**	***- 66.4***
Europe	518.3	373.5	*- 27.9*	273.3	127.1	*- 53.5*
European Union	503.5	356.7	*- 29.2*	251.2	109.6	*- 56.4*
Austria	13.6	9.8	*- 27.8*	1.3	1.8	*35.4*
Belgium	59.7	35.1	*- 41.2*	2.5	12.1	*385.3*
Czech Republic	10.7	4.0	*- 63.0*	5.2	2.7	*- 48.4*
Denmark	10.9	11.3	*3.2*	6.1	1.6	*- 74.3*
Finland	- 4.2	3.0	..	1.2	0.5	*- 55.9*
France	100.7	65.0	*- 35.5*	4.6	1.3	*- 72.4*
Germany	24.9	35.1	*40.7*	31.9	2.4	*- 92.6*
Hungary	6.5	- 4.2	*- 165.2*	1.6	1.9	*18.7*
Ireland	- 20.0	14.0	..	2.9	1.4	*- 50.5*
Italy	17.0	29.9	*75.5*	-2.4	1.1	..
Netherlands	- 3.5	37.8	..	-8.2	22.6	..
Poland	16.5	13.4	*- 19.2*	1.0	0.5	*- 51.6*
Romania	13.3	6.1	*- 54.4*	1.0	0.0	*- 97.7*
Spain	65.5	25.8	*- 60.6*	33.7	31.5	*- 6.6*
Sweden	43.7	15.5	*- 64.4*	18.8	1.0	*- 94.5*
United Kingdom	96.9	7.0	*- 92.7*	147.7	24.9	*- 83.2*
United States	316.1	135.9	*- 57.0*	227.4	39.9	*- 82.5*
Japan	24.4	11.4	*- 53.4*	9.3	-5.9	*- 163.5*
Developing economies	**620.7**	**405.5**	***- 34.7***	**104.8**	**37.7**	***- 64.0***
Africa	*87.6*	*55.9*	*- 36.2*	21.2	5.7	*- 73.1*
Egypt	9.5	8.2	*- 13.9*	15.9	1.6	*- 90.2*
Morocco	2.4	1.0	*- 56.6*	-0.1	0.3	..
South Africa	9.0	6.8	*- 24.6*	6.7	4.2	*- 36.9*
Latin America and the Caribbean	*144.4*	*85.5*	*- 40.7*	15.5	-4.4	*- 128.5*
Argentina	8.9	5.1	*- 42.7*	-3.3	0.1	..
Brazil	45.1	22.8	*- 49.5*	7.6	-1.4	*- 118.2*
Chile	16.8	12.9	*- 23.0*	3.2	0.8	*- 74.5*
Colombia	10.6	8.6	*- 18.6*	-0.1	-1.6	..
Mexico	21.9	13.0	*- 40.8*	2.3	0.1	*- 95.6*
Peru	4.8	6.2	*28.1*	0.3	0.0	*- 86.9*
Asia and Oceania	*388.7*	*264.1*	*- 32.1*	68.2	36.5	*- 46.5*
West Asia	90.3	51.3	*- 43.1*	16.3	2.3	*- 85.9*
Turkey	18.2	7.9	*- 56.3*	13.2	1.6	*- 87.7*
South, East and South-East Asia	297.6	202.8	*- 31.8*	52.6	34.1	*- 35.1*
China	92.4 ᵇ	90.0 ᵇ	*- 2.6*	5.4	11.2	*108.5*
Hong Kong, China	63.0	36.0	*- 42.8*	8.7	2.1	*- 75.3*
India	41.6	33.6	*- 19.0*	10.4	6.2	*- 40.5*
Indonesia	7.9	5.1	*- 36.0*	2.1	1.3	*- 34.9*
Malaysia	8.1	2.7	*- 66.6*	2.8	0.2	*- 93.0*
Singapore	22.7	18.3	*- 19.5*	14.2	9.7	*- 32.1*
Thailand	10.1	4.6	*- 54.3*	0.1	0.3	*142.4*
South-East Europe and the CIS	**114.4**	**69.3**	***- 39.4***	**20.3**	**6.8**	***- 66.6***
Russian Federation	70.3	41.4	*- 41.1*	13.5	5.0	*- 62.6*
Ukraine	10.7	4.8	*- 55.2*	5.9	0.2	*- 97.0*

Source: *UNCTAD (2010)*

Survey

To whom it may concern.

Thank you for being part of this comparative study. The results of the survey will be freely available for all participants who wish to have insight in the findings.

The goal of the study is to establish the gaps between best practices by international investment promotion agencies (IPAs) as against South Africa's (SA) IPAs. The focus is on how Trade and Investment South Africa (TISA) and regional SA IPAs are measuring up against best practices to ensure significant results when attracting investors. Best practice strategies and ideas will be a good starting point for IPAs who wish to improve their services. Best practices show good performance through the amount of investment secured. Performance by best practice IPAs was evident throughout the world financial crisis during 2007-2009. IPAs can learn from ideas and important strategies to attract potential investments. This will not only give South Africa but also other international IPAs an idea on how to address the gaps in their investment attraction strategies.

The goal of this survey is to establish the best practice strategies to attract potential investors. The survey concentrates on the following strategies: perception building, structure of the IPA, targeting investors, incentives and policies. The results of this survey will be used to compare international IPAs to establish how they operate to attract potential investors. Other agencies can in turn use the investment promotion framework of best practices to improve their investment promotion framework to attract investors.

Please indicate whether you want your result to be kept confidential and whether the author may acknowledge/publish the IPA details with the results.

Anonymous	**Publish**
1	2

Thank you very much for your participation to make this study possible.

Kind regards

Mr PH Pietersen

Questionnaire for International Investment Promotion Agencies

The following questionnaire is based on theory and secondary data. This questionnaire will form part of the empirical study to be used for evaluation purposes.

X	Mark the appropriate answer.
•	Encircle the block if you want to correct the answer and then mark the right block with the **X** mark.

Name of the IPA:	

IPA Information

1. Are you an Investment Promotion Agency (IPA)?

IPA only	1
IPA and trade	2

2. Number of years in operation:

0-4 years	1	5-10 years	2	11-15 years	3	15 years and more	4

3. Number of full-time staff:

0 - 50 (small)	1	51-150 (medium)	2	151 and more (large)	3

4. If possible, please indicate the 4 most important foreign investment deals in your country/province/state since 2008.

Investor	Year	Short description

Structure of the IPA

5. Indicate what type of organisation the IPA is.

Public (Government)	Private	Quasi-Government
1	2	3

6. On what level is the IPA operating?

Local	1
Regional	2
National	3

7. How skilled are the staff members of the organisation?

Unskilled	Intermediate	Skilled	Highly skilled
1	2	3	4

8. Is the IPA in competition with other domestic IPAs?

Yes	1	No	2

9. Does the agency have access to information provided by government departments?

Strongly agree	1	Agree	2	Disagree	3	Strongly disagree	4

10. Does the agency interact with other domestic IPAs to exchange knowledge and ideas?

Strongly agree	1	Agree	2	Disagree	3	Strongly disagree	4

11. Does the agency receive adequate funds to promote its location?

Yes	1	No	2

12. Please indicate the industry that attracts most investors in your country/province/state.

1st	
2nd	
3rd	

13. On an annual basis, how much does the agency budget for investment promotion (US dollars)?

0 – 500 000	1
500 001 – 1000 000	2
1000 001 – 5 000 000	3
5 000 001 – 10 000 000	4

10 000 001 and more	5

Perception building

14. Does the IPA consider perception building as an investment promotion strategy?

Not important	Less important	More important	Very important
1	2	4	5

15. What percentage of the budget is spent on perception building?

0 – 20	21 – 40	41 – 60	61 – 80	81 – 100
1	2	3	4	5

16. Rank the following in order of importance (with 1 as the most important and 4 as the least important).

Corporate personnel	
Environmental policies	
Ideal and beliefs	
Economic and political stability	

Targeting investors

17. Does the investment promotion agency target their investors directly?

Strongly agree	1	Agree	2	Disagree	3	Strongly disagree	4

18. Indicate three countries that the agency regularly targets for inward investment.

19. How does the agency target their investors?

Region	Industry	Business
1	2	3
Other (please specify):		

20. Indicate the type of investor the company is most likely to target.

Resource-seeking investor	1
Market-seeking investor	2
Efficiency-seeking investor	3
Other (please specify):	

21. What is the main focus of the company?

Attract new foreign and domestic investors	1
Expand existing investors' base	2

22. Are specialists used to attract targeted investors?

Yes	1	No	2

23. Select the preferable criteria used to target your investor.

Age	Experience	Their interest	Amount investing	Ability
1	2	3	4	5
Other (specify all other used):				

24. Rank your preferable contact method with targeted investors, with 1as the most preferable and 5 as the least preferable.

E-mail	Telephone	Exhibitions	Embassies	Trade missions
Other (please specify):				

25. Is the agency's application of their resources cost-effective when targeting investors?

Strongly agree	Agree	Disagree	Strongly disagree
1	2	3	4

Incentives and policies

26. Does the agency use incentives and policies to attract FDI?

Yes	1	No	2

27. Please rank the incentives used to attract investment, with 1 as the most important and 6 as the least important.

Research and	Tax	Cash	Subsidies	Profit	Training

Development (R&D) incentives	benefits			dividends	

28. What percentage of the budget is provided for incentives (if provided by provincial IPAs)?

0 – 20	1	21- 40	2	41- 60	3	61 – 80	4	81 - 100	5

29. Do you think the company uses the following strategies to attract investors?

	Perception building	Targeting investors	Structure of the IPA	Incentives	Policy framework	Aftercare	Legal status
Strongly disagree	1	1	1	1	1	1	1
Disagree	2	2	2	2	2	2	2
Agree	3	3	3	3	3	3	3
Strongly agree	4	4	4	4	4	4	4

30. Does the company use an aftercare policy as a strategy for investment promotion?

Yes	1	No	2

31. Does the IPA consider aftercare as an important strategy to attract investors?

Not important	Less important	More important	Very important

1	2	4	5

32. What role do macro-economic and industrial policies play in attracting investors?

Not important	Less important	More important	Very important
1	2	4	5

33. What does the company consider as more important to attract investors?

Macro-economic policies	1
Industrial policies	2

Thank you very much for your participation!