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An Appropriate Investment Promotion Framework for South Africa

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CONTENTS

1. INTRODUCTION

This paper proposes the establishment of a “new” investment promotion infrastructure coordinated by a single agency that would lead the national effort to proactively attract Foreign Direct Investment into South Africa. This agency will serve as the coordinator of the national investment coalition that will comprise a host of national, provincial and local government departments, parastatals and other relevant organizations.

The first part of this document will highlight the current institutional capacity that exists for effective investment promotion and indicate the shortcomings of this approach to date. The second part of this document will provide backup for the proposals through an analysis of international best practice of the more successful investment promotion agencies around the world. This section will focus on the key factors that are critical to these agencies achieving the kinds of successes with respect to their responsibilities to market their respective countries as desirable destinations for Foreign Direct Investment. Finally, the third section of this paper will focus on relevant issues that need to be addressed in order to put an appropriate structure for investment promotion in SA in place. This will be followed by recommendations for the implantation of an efficient and effective investment promotion machinery which is capable of attracting the much needed Foreign Direct Investment to meet the targets set out by government's Growth, Employment and Redistribution (GEAR) strategy.

This paper assumes that policy and industrial strategy are developed at a national government department level and would be communicated to all relevant stakeholders, including the National Investment Promotion Agency. The National Agency may have some expertise in this area, but the principal institution responsible for this information should be the Department of Trade and Industry. It is the intention of this document to show that South Africa has all the elements required to implement a proven methodology and achieve sufficiently improved results in the area of the attraction of FDI. More importantly, this can and will be achieved without significant increases in budget, but a mere realignment of forces.

1.1. Overview of the Macroeconomic Environment in South Africa

South Africa has enormous potential as an investment destination. The economy has shown strong performance in the recent past while the government has committed itself to a stable, investment-friendly macro-economic policy. There is a vast array of opportunities that can be tapped into by the foreign investor, and, indeed, healthy capital achievement of national targets by 18 to 24 months, it was by no means as severe as experienced by other countries like Malaysia, Thailand and Russia for example.

Achieving a balance between greater openness and improvement in local competitiveness while pursuing a process of industrial restructuring aimed at expanding employment opportunities and productive capacity, is a major challenge. Despite the nature of these challenges, South Africa has made courageous strides in opening the domestic economy to international competition.

However, despite the sound macroeconomic fundamentals and steady, transparent and consistent process of transformation, South Africa has not been rewarded with a commensurate level of FDI. There is a range of reasons for this slow influx of FDI, but a large portion of the blame can be attributed to the approach South Africa has taken to attracting FDI. The fixation on conducting foreign missions and investment seminars at all levels of government in pursuit of foreign capital, in the absence of a clearly coordinated strategy with clearly set out targets will continue to yield such dismal results. If we are serious about raising the levels of FDI into South Africa, we need to benchmark ourselves against international best practice in order to achieve the kind of job creation targets as set out by GEAR. These international agencies are our competitors. It is therefore logical to benchmark ourselves against the standards they set so as to compete effectively.

An appropriate framework for investment promotion in South Africa, which is proposed in the remainder of this paper, takes into consideration international best practice, and adapts this specifically to the South African situation.

2. THE CURRENT INSTITUTIONAL CAPACITY FOR ATTRACTING FOREIGN DIRECT INVESTMENT INTO SOUTH AFRICA

2.1. Background

The new government in 1994 realized the importance of Foreign Direct Investment in achieving the objectives of the RDP and GEAR. In recognition of the importance of Foreign Direct Investment, the Minister of Trade and Industry commissioned a study to “develop a framework for investment promotion in South Africa”. The report covered a wide range of topics, the bulk of which are as follows:

- South Africa in transition
- Lessons from international experience
- South Africa’s competitiveness for investment attraction
- The institutional framework for investment promotion
- A proposed framework for promoting investment

With respect to a proposed framework for South Africa to promote investment, the report made the following recommendations:

The institutional framework for investment promotion in South Africa is diffuse, involves a large number of actors, and is poorly coordinated. At the same time, the nation is large and encompasses a diverse group of provinces. Taking into account these factors and the nation's institutional resources and needs, the strategy for South Africa's institutional framework for investment promotion should be based on the following principles:

- Promotional activities should be permitted at the national, provincial, and local levels, and be directed by constituencies in those geographic areas.

- Efficiencies and avoidance of unnecessary duplication should be sought through coordination and information sharing

- Specific promotion organizations and programs should be allowed to vary, and to evolve to meet different conditions and needs.

- The overall promotional framework should reflect provincial differences in promotional capacity and investment attractiveness. Specifically, lesser-developed provinces should be provided greater access to promotional resources and assistance.

- No discrimination or preferences should be permitted regarding investor lead management.

The proposed institutional framework is based on the principles stated above. It should be noted at the outset that this framework attempted to be "inclusive" in that all current organizations involved in investment promotion in 1994/1995 should play an active role. The level of effort needed to promote South Africa as an investment site was substantial, at least in the near term. Over time, the structure would evolve as conditions and needs change.

Features of the proposed institutional framework included the following:

- The overall institutional framework proposed was "federalist" in design, including a national program and provincial/municipal programs.

- A new national investment promotion center was to be established as an independent authority.

- The agency was to be established as a coordinating body and a service center at the national level, not as a director of overall promotional activities.

- As an organizational entity the agency was to be small, emphasizing quality over quantity.

- The agency was to coordinate overseas marketing activities.

- The key domestic role of the agency was to develop and disseminate information.

- The agency was to provide inputs and views on investment policy issues, but the policymaking process itself would be left to the central and provincial governments and other deliberating bodies.

- Provincial promotion agencies would operate their programmes and develop their organizations independently

- Other institutional actors would play key roles in South Africa's emerging promotional network.

- The nation's overall marketing strategy was to focus first on general "positioning" but move quickly toward targeted promotion.

- The process of investment lead management was to take the form of an efficient funnel and referral system.

In conclusion, South Africa's structure then for promoting investment, like the country itself, was in a period of flux. It was fragmented and in need of coherence and solidarity. Competition among the different actors, especially among provinces, was natural and in fact healthy. However, a certain degree of pooling resources at the national level would benefit South Africa and all provinces within it. If this pooling process was based on the fundamental premises of cooperation and coordination, and single-mindedly pursued the key promotional precepts of information and service, the network of investment attraction in South Africa would succeed.

On the basis of these recommendations, the agency was established. While the current structure may not be ideal in global terms, it was however in the same way necessary from an internal development perspective. There is recognition that the current structure is not appropriate for attracting inward investment. However, the lessons we have learnt through the evolution of the institution equipped us sufficiently to advance to the second phase of the institution's growth.

2.2. Investment Promotion Activities

Before outlining the investment promotion machinery as it currently exists, it is important to clearly define what is meant by investment promotion. Very simply put, investment promotion comprises three broad activities namely:

- ***Image Building***
  1. Advertising in general financial media
  2. Participating in investment exhibitions
  3. Advertising in industry or sector specific media
  4. Conducting general investment missions from source country to host country or vice versa
  5. Conducting general information seminars on investment opportunities.

- ***Investment Generation***
  6. Engaging in direct mail or telemarketing campaigns
  7. Conducting industry or sector specific investment missions from source country to host country and vice versa
  8. Conducting industry or sector specific information seminars
  9. Engaging in firm specific research followed by sales presentations
  10. Providing investment counseling services

11. Expediting the processing of applications and permits
12. Providing post investment services

- ***Investment Services***

- ***Image Building***

Agencies use image-building techniques with the focussed objective of changing the image of the country as a place to invest. Of significance is that these image building techniques were employed with no expectation that they would generate investments directly. Without a favourable image as a suitable destination for foreign direct investment, all other techniques employed, no matter how co-ordinated, will be a waste of resources. This is of particular importance for South Africa where there has been very little, if any, country image building conducted thus far.

In the absence of a co-ordinated image building campaign, the momentum and goodwill of the new South Africa of April 1994 has been replaced by an image of a country that is crime ridden, with low labour productivity, large scale corruption and well on its way to the same fate as many African countries.

Being on the continent of Africa which has been plagued by civil wars and internal strife, particularly of late, a thorough and sophisticated image building campaign is required to change the negative perception that currently exists.

Should these perceptions not be altered, all efforts to promote inward investment will prove fruitless.

- ***Investment Generation***

Key to the success of any investment promotion strategy is an understanding of the investment process. A key element to an investment marketing strategy is an identification of the decision-makers in the investment process of a corporation. A well co-ordinated investment marketing drive, if targeted at the wrong audience would not yield the necessary results.

Alternatively, such a campaign could yield the necessary results, but only after significant expenditure of time and resources. It is therefore vital to identify the target audience carefully and then develop the marketing message in a way that it is palatable to the prospect investor or target audience. Simply put, the success of investment promotion strategy is dependent on the number of presentations made at a boardroom

Since all the main objectives of techniques 1 – 12 is to encourage inward investment into the country it is essential that they be focussed along these guidelines. More importantly, the work of other government departments, both national and provincial agencies and institutions, must be attuned to this methodology.

This methodology has been very successful in countries like Singapore, Malaysia, Ireland etc. in attracting foreign direct investment. While it is not rocket science, it requires diligence and discipline in its application. South Africa has all the elements to attain the level of success required to generate foreign direct investment that will contribute to sustainable job creation and economic growth. This will however require significant political will to enforce this methodology at the highest level to ensure that the necessary results are achieved.

- ***Investment Services***

Investment services would include investment counseling, expediting applications and permits and providing post investment promotion process. The rationale for this is that investment service activities hold:

- already interested investors
- help keep investors that already made commitments to invest; and
- help convince corporations to re-invest rather than move to new and alternative investment locations.

At present, investment services in the form of investment counseling is provided on a reactive basis, while the expediting of applications and permits and the provision of aftercare is conducted on an ad hoc basis.
These techniques provide the follow through to any promotional plan and can in many instances be the deal-maker. This is particularly true of the expediting of applications and permits. At this stage no such function exists within Investment South Africa or the Department of Trade and Industry. Foreign investors need to be made to feel special. Every effort should be made to project a pro-business environment and culture.

Investment SA has tried to develop relationships with key departments and institutions like the Department of Home Affairs, Finance and the Reserve Bank to name but a few. Without the necessary mandate, however, very little headway is being made in this area. A core team from each of the relevant departments must be convened with the sole purpose of fast tracking foreign investor applications.

The environment for attracting foreign direct investment into any particular country is extremely competitive. Agencies such as EDB and IDA have budgets in excess of US$500 million and offer substantive fiscal incentive packages. In the absence of such generous fiscal incentive packages, it is imperative that the softer tools be more appropriately geared.

In Singapore, for example, the EDB guarantees that all applications (company registration, home affairs, etc) will be approved within 15 days while the Malaysian Industrial Development Authority (MIDA) makes the same commitment within 20 days. Bahrain, the fast growing Singapore or Hong Kong of the Gulf, guarantees company registration within 24 hours and boasts incentives such as zero tax etc.

Our own experience to date within the South African machinery indicates a lack of urgency in getting things done and we therefore need to begin to project the type of image we so desperately need.

In terms of functionality, the Department of Trade and Industry transferred some functions over to the newly established agency. The functions and duties of the agency as specified by the Department of Trade and Industry are as follows:

- Co-ordination of investment activities
- Establishment of a database
- Establishment of a resource centre for investors

2.3. Limitations on Investment Promotion in South Africa

In essence, the agency has not been able to implement its mandate effectively for a host of reasons:

- ***Budget***: - The environment for investment promotion is highly competitive with more sophisticated agencies (such as EDB & IDA) using state of the art skills and technology against ill equipped and archaic South African approach. The predetermined budget allocation of R5 million per annum was grossly inadequate and a failure on the part of policy makers to recognise this was always going to impede our ability to succeed.

- ***Function***: - A lack of understanding of how investment decisions are made and how investment promotion ought to be carried out to yield the necessary results on the part of policy makers. In terms of international best practice, the investment promotion methodology followed is practically a science, with specific sectoral & job creation targets set and a plan of action developed to achieve these targets. Furthermore, there are clear performance measures set for these agencies with appropriate incentive schemes in place depending on whether targets are met or not. This culture was very different from the previous systems and met with considerable resistance.

- ***Lack of Direction from the Department of Trade and Industry***: - Even though established by the Department of Trade and Industry with a "clear" mandate, there was significant resistance to accept the new agency. The process of transformation has its own dynamics and the establishment of our agency outside of government, in Sandton of all places, run by some "hot shots" (as we were described) was never going to be easily accepted by the "old guard". A definite lack of understanding of the issues related to investment promotion from "new guard" created further problems for the agency. The transformation within the Department of Trade and Industry as an institution coupled with the major task it had of transforming the economy from inward focused economy to an outward focused global manufacturing economy meant that senior personnel could not devote sufficient attention to the agency. There was thus no proper mechanics for communication between the Department of Trade and Industry and Investment South Africa.

- ***Lack of skilled personnel***: - Given that South Africa was new to the arena of proactive investment promotion and competing with seasoned veterans from IDA & EDB, it stood to reason that there would not be sufficiently trained personnel in this area of expertise. The art of getting multinationals and other corporates to establish or relocate million-dollar manufacturing facilities to South Africa requires highly skilled and trained personnel.

- ***Lack of coordination***: - Within the report the agency is tasked with the responsibility of coordination of investment promotion activities. This term is however far too loosely used without any clear clarification of what the meaning of coordination really is. Given the plethora of agencies and institutions currently involved in "investment promotion" in a South African context, there is definite need for coordination. South Africa currently has a very poor image abroad. In part this is because of the manner in which we have presented ourselves. Very often foreign businesses are confronted with regular "investment missionaries" from South Africa. This constant uncoordinated approach has done South Africa's image abroad more harm than good. Additionally, other important role players such as national government departments, parastatals, municipalities, banks, etc. that conduct their own investment promotion initiatives which are not necessarily in line with broader national objectives. There needs to be an alignment of major role players such as the Department of Foreign Affairs, the Department of Trade and Industry, Investment South Africa in the investment promotion arena to ensure South Africa's success in attracting Foreign Direct Investment.

3. INTERNATIONAL BEST PRACTICE

Before looking at the structure and functionality of leading international investment promotion agencies, it is important to highlight pertinent issues with respect to successful investment promotion methodology. In conducting research on international best practice, common elements have been found in the methodology and structure within international agencies. A further commonality is that while the methodology has common features, the entire support system with respect to national policy, sectors and targets, the bureaucratic process involved in investment promotion, etc. are geared towards effecting the methodology. The issue of budget is not raised separately. The manner in which these agencies have evolved and operated, is to define what the objectives of the agency are, what specific functional areas it will focus on, what human and other resources are required, before budgetary allocations are made. The common issues are:

- Methodology
- Mandate
- Board Structure
- Human Resources
- Approvals
- Policy Coordination and Input
- Aftercare

- Provision of Information and Research
- International Best Practice of selected Investment Promotion Agencies

3.1. Methodology

3.2. Mandate

The next important factor that makes these international agencies successful is mandate. The majority of these agencies are constituted through an act of parliament giving them absolute authority with respect to investment promotion. This mandate is extremely important in that the national agency is able to coordinate the national effort for promotion of Foreign Direct Investment. Within such an environment the possibility of an uncoordinated approach to the investment promotion function is ruled out. Visits abroad of national ministers, provincial premiers or ministers, or provincial or local authorities are coordinated entirely by the national agency as it relates to investment promotion. While politicians may make visits abroad, they would not necessarily conduct investment promotion activities abroad unless required to by the investment promotion agency. This approach is based on the fact that these agencies target Foreign Direct investors specifically. They then implement a clear and focused strategy, follow the methodology outlined, until the investor invests. These agencies are able to be so focused and precise because of their thorough knowledge of the investment process that companies go through. Furthermore, having the mandate as a premier authority for investment promotion from the highest level (normally cabinet or the premier's/ president's office). The entire civil service and parastatals etc. understand the mandate and responsibility of the national agency and are therefore guided by the agency in respect of Foreign Direct Investment attraction. The mandate allows it to operate above the bureaucracy in the interests of the country as a whole.

3.3. Board Structure

The mandate of the agency is further enriched by the establishment of a highly effective and high profiled Board of Directors. In most instances, the Board is chaired by a Cabinet Minister (normally the Minister of Trade and Industry) and has representation from strategically important government departments, parastatals and private sector. In case of Thailand for example, the Prime Minister serves as chair of the Board. The presence of such a high powered individual(s) has the following impact:

- Gives an indication to foreign investors how serious the country is about Foreign Direct Investment.
- Helps in unblocking bureaucratic redtape and provides access directly into executive structure of government.

An additional significant feature of the Board is the presence of high profiled privates sector foreign investors. These individuals are very often Chief Executive Officers of MNCs located in a specific country. They are therefore able to provide useful insights to the Board, and therefore to executive council of government through the Chair, of the concerns, needs and desires of Foreign Business with respect to investing in the

only saves money, but also generates revenue in the form of taxes as more and more corporations invest into the country. The ability of these agencies to be a one stop facility for investment for all approvals is a phenomenal advantage and a useful marketing and monitoring tool.

3.6. Policy Coordination and Input

Being at the cold face of dealing with Foreign Direct Investment on a daily basis, these agencies are well equipped to make policy recommendations to improve the investment environment and thereby attract even more investment. Given this critical positioning and their direct access to the policy and decision making bodies of government at the highest level, they make regular policy recommendations. In fact, in the case of EDB and MIDA for example, there is a full time employed specifically for the purpose of studying and making policy recommendations for the sole purpose of improving the investment environment so as to attract even more Foreign Direct Investment.

3.7. Aftercare

One part of the investment promotion equation is getting foreign companies to invest into the host country. An equally, if not more important aspect of the process is to get companies to stay in the country once they have invested and even expanded and made new investments. Agencies such as IDA and EDB have indicated that 55 % of any new investment come from foreign investors already in the host country. Where there is confidence that there is an institution within the host country, foreign investors are more likely to consider an additional investment or the expansion of an existing investment.

3.8. Provision of Information and Research

A critical success factor to prospective foreign investors is the provision of reliable information and research. Any foreign investor wanting to invest in a particular country relies heavily on available and reliable information. The easier the access to reliable information, the quicker the decision to invest on the part of the foreign investor, and the better equipped are policy makers to address shortcomings which serve as deterrents for future investments in a particular sector. The investment decision making process in itself has different phases and it is critical that the information provided to the actors in each of these phases is relevant. This is particularly important for the investment generation phase where critical information is required. It is not necessary to provide detailed feasibility studies or market analysis since companies conduct these themselves. However, most of international agencies have excellent research capacity capable of generating brief summaries of investment opportunities in a sector or project which could peak the interests of prospective investors sufficiently to warrant a visit to the Investment Promotion Agencies’ host country.

4. AN APPROPRIATE INVESTMENT PROMOTION FRAMEWORK FOR SOUTH AFRICA

In assessing some of the more successful international Investment Promotion Agencies, there appears to be a common approach to certain aspects of the investment promotion process. Briefly stated, these common features relate to Mandate, Structure, Function, Methodology etc. of these agencies. The assumption of this paper is not that by simple study, International Best Practice can be replicated in South Africa to produce the same kind of results as have some of the more successful agencies. The real challenge is whether South Africa can adapt this proven approach to suit local needs and still attain greater success in attracting FDI and reaching its full potential.

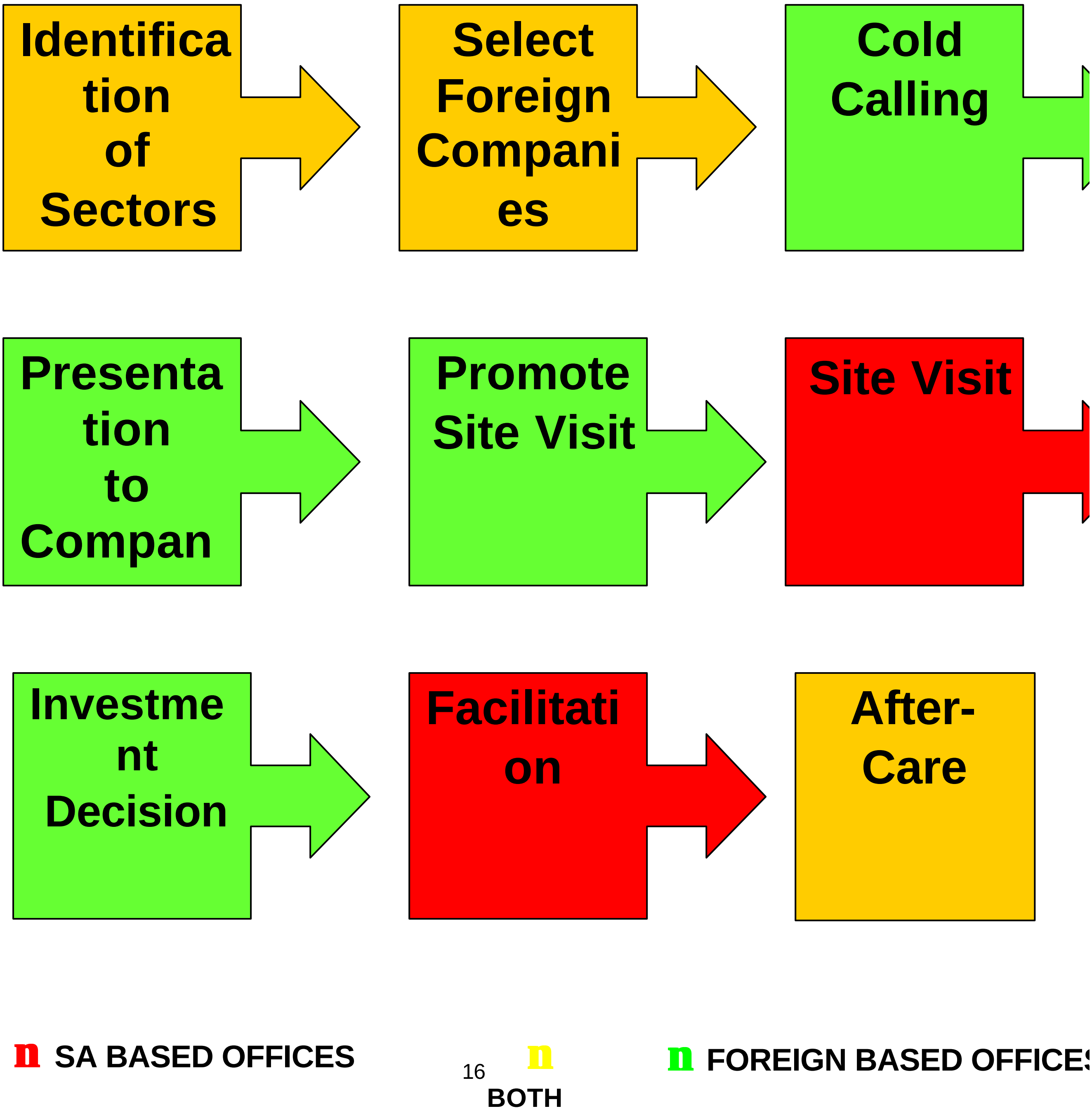
South Africa is currently generating a mediocre level of FDI, but we are by no means near enough to the kind of investment targets we should be achieving. The failure to achieve these targets is a direct result of the approach we have adopted to attracting FDI. The current uncoordinated approach by the host of players (at national, provincial and local level, as well as the private sector and parastatals) for attracting FDI is to a large extent responsible for the dismal results. The lack of real guidance and leadership on the part of national government has allowed the situation to develop to its current state. The real question is then whether South Africa can reach its full potential and attract significantly greater amounts of FDI within the constraints that it has to operate under. Agencies like EDB and IDA, for example, have incredible successes, but only after expending in excess of US$500 million and employing between 250 and 500 professional staff. South Africa need not expend the same amount of resources to achieve comparable results. What is important is to benchmark ourselves against the best in the world and then replicate the results within the framework that currently exists in South Africa.

A first point of departure for South Africa would be the acceptance of the methodology, which is outlined. This methodology has been very effective for many of the highly regarded international investment promotion agencies. The two agencies considered to be the most successful in the world are EDB and IDA. They have refined this methodology to a science and have generated incredible successes. It is therefore not necessary to re-invent the wheel, but rather to adapt this methodology to suit South African circumstances.

The first part of the methodology that I would like to focus on is the external promotion aspect of investment promotion. Before dealing with this however, we need to make a number of significant decisions about South Africa's ability to promote Foreign Direct Investment. At present, South Africa and Investment South Africa in particular, are only capable of fulfilling generic investment promotion activities. In this regard the agency deals with issues of investment climate, investors' rights and obligations, operational conditions, the administrative and legal systems, business support services and limited infrastructure. This information is provided via investment brochures, embassies, Provincial Investment Promotion Agencies, advertisements etc. However, these generic services are reactive in nature. South Africa and Investment South Africa can continue to operate in this manner without much difficulty. However, the challenges facing South Africa with respect to job creation and sustainable economic growth warrants a concerted effort to increase the amount of Foreign Direct Investment into the country. It is therefore the recommendation of this paper that South Africa adopts a far more proactive approach to investment promotion in order to achieve the job creation targets as set out by GEAR.

The first steps towards implementing this methodology then is to understand the processes involved and align the various forces at work towards a common goal. A critical element contributing to the success of the international agencies is their ability to coordinate and control the investment promotion process in its entirety. This issue of coordination is clearly the major challenge for South Africa.

4.1. Methodology



This diagram illustrates the various focal points for the investment promotion process. The focal points can essentially be divided into an internal and external component. What is clear from the methodology is that South Africa has a number of institutions and structures in place to follow this methodology and achieve better results. With some training and the necessary will, South Africa will be able to achieve the desired results. This will not be automatic and will require hard work. However, the sooner it is implemented, the sooner we can begin to see the necessary results.

4.2. Internal Coordination

- ***Mandate***

An acceptance of the methodology implies that investment targets are set in specific sectors and are given priority focus. This must be conducted and controlled by the DTI and its supporting institutions (IDC) and sector directorates. Once these sectors are chosen and targets set, this must become a national priority and be communicated from the highest level of government (i.e. Cabinet and the Office of the President) to all organs of government. The purpose of this is to ensure that all the forces of government are totally aligned to the same objective and end results. In the absence of this, we will continue to operate in a totally uncoordinated manner with dismal results. The power of the message must be such that no organization of government, national, provincial, local or parastatal will operate outside of the methodology, focusing on non-critical sectors and pursuing their own agenda. If then, the telecommunications sector is identified as a sector of focus, all work related to promotion of Foreign Direct Investment into the sector must be coordinated through one process and institution. Should the Department of Communications wish to make a visit abroad, they may do so as long as it does not interfere with the investment promotion process already underway in that country. In the absence of such discipline all promotional efforts be will be rendered ineffective and therefore unproductive.

A clear and unambiguous mandate must therefore be given to the institutions at both national and provincial level which are charged with the responsibility of investment promotion, to ensure effective coordination of the attempts to attract Foreign Direct Investment into South Africa. This should be done preferably through an Act of Parliament which gives these agencies the necessary authority to fulfill their functions. The restructuring of the Board of Directors would give rise to a smaller, but far more highly profiled and focused Board. The Minister of Trade and Industry should Chair the board and invite a number of additional Cabinet Ministers (especially the Departments of Foreign Affairs, Home Affairs and Provincial Affairs, for example),as well as senior private sector representatives, domestic and international, to join the board. The Board should meet no more than three or four times per year. At a level below the Board, a number of working committees should be appointed by the Minister to focus on specific functional areas, namely:

- Provincial Coordination
- Image Building
- Investment Generation
- After Care

The mandate must give the respective agencies total control over investment marketing in the form of advertising, targeting companies and markets, and facilitation.

- ***Provincial Coordination***

At present, the coordination at a national and provincial level with respect to investment promotion is extremely weak. While the relations between the national and provincial agencies may be cordial, there is no framework which guides operations for a common purpose or goal. This is, in part, a result of the manner in which both the national and provincial agencies have evolved or been established. Four of the seven agencies, namely, NorthWest, Mpumalanga, Eastern Cape and Kwazulu Natal are remnants of the old Development Corporations. In the case of Kwazulu Natal, for example, the agency functions to a large extent as a facilitator to fill vacant factory space which is owned by the Kwazulu Finance Corporation, of which it is a wholly owned subsidiary. They operate in such a manner to fulfill their own objectives which may in fact be contrary to national goals.

An additional reason for the lack of effective coordination is the structure of each of these agencies and the manner in which they are constituted. The structures range from Section 21 Companies, as in the case of Investment South Africa and four provincial agencies, to Statutory Bodies. The lack of uniform structure means that functionality and accountability varies, thereby creating an uncoordinated approach to investment promotion.

It is therefore the recommendation of this report that the activities of National and Provincial Investment Promotion Agencies be streamlined so as to be able to effectively promote and attract Foreign Direct Investment into South Africa. This could be achieved in the following manner:

- A uniform approach to structure and function for all agencies. If the issue of mandate is taken into consideration, then the most suitable structure for each agency to have is through the mandate of a statutory body.
- The National and Provincial agencies should jointly formulate targets for specific countries and sectors and then develop an appropriate framework for implementing a strategy to achieve these targets. This strategy should focus on the specifics of delegating tasks to the foreign offices, DFA or DTI, within the framework methodology outlined.
- The Board should appoint a sub-committee that focuses specifically on provincial issues. This working group should comprise both the Departments of Economic Affairs in each of the provinces, as well as the CEO of each of the provincial agencies.

- ***Image Building***

This is one of the critical areas of the investment promotion process that requires serious attention. Without the perception of a favourable environment, all attempts to market the country, no matter how focussed will be ineffective. This function must therefore be centrally controlled and implemented. Some of the problems that exist today are as follows:

- Currently, three or four provinces market themselves as the gateway to Africa. One province says, “Africa Starts Here”, and the other counters this by saying, “Africa’s Business Starts Here”.
- Provinces currently promote themselves in a competitive environment to the extent that this competition has become negative and damaging to the country’s already tarnished image. Evidence of this is where one provincial representative has told a prospective investor not to consider a particular province since it is the “crime capital of the world”.
- At a national level, the Department of Environment Affairs and Tourism, through its agency Satour, is branding South Africa in one particular way. This is being done in total isolation of all other initiatives both national and provincial.
- At the same time, the embassies abroad each conduct their own PR and image building activities. This ad hoc approach to this important function perpetuates the negative impressions of the country.
- International press publishes extremely negative articles about South Africa, almost on a daily basis. In the absence of a coordinated image building campaign, these perceptions tend to become the reality in terms of people’s knowledge of South Africa.

A positive image is therefore critical to the success of an investment promotion effort. South Africa has neglected this important function with the result that the initial image of a country signifying hope, peace, a political miracle, rainbow nation etc, has degenerated to an image of a country that is crime ridden and on the brink of collapse. The incredible amount of political goodwill toward SA has not been able to withstand this negative branding. As a country, SA has made significant strides in the areas of macroeconomic transformation, social upliftment and the attainment of political stability. These images are, however, not the impression people have of the country both domestically and abroad. Neither will this image automatically manifest itself. In order to improve the country’s image, a focussed effort must be embarked upon by a single agency or institution responsible for this. In South Africa, Government Committee of Information Systems (GCIS) is that premier institution that should lead this effort.

- ***Advertising, Marketing and Image Building***

- A host of agencies, parastatals and private sector organisations currently advertise in different local and international magazines. Since this is done in isolation of a coordinated image building and national investment promotion strategy, more harm is done than good.
- Additionally, DTI and DFA offices abroad in the same country and same embassy often conduct image building activities in total isolation and sometimes ignorance of each other. This further entrenches the wrong image of the country as a whole.

An appropriate mechanism needs to be put in place to prevent this current state of affairs form recurring. One possible solution is to identify a number of key institutions such as DTI, DFA, Investment South Africa, Provincial Agencies, Satour, Eskom, Transnet, GCIS etc and to establish a Joint Marketing Budget Committee. Each of these institutions should stop all expenditure on generic marketing and pool their resources into this committee, and collectively, under the guidance of GCIS, develop an appropriate advertising, marketing and image building policy and strategy for South

Africa. This would clearly require significant political will and subsequent decision making at the highest level.

- ***Foreign Trips***

To date, provincial agencies and government departments travel abroad in the name of Foreign Direct Investment Promotion. A survey of the "success" of these investment promotion missions will be evidence enough to suggest that such visits need to be better coordinated and followed up in order to yield the kind of results required to meet the job creation targets set out by GEAR. Foreign trips by themselves cannot yield foreign direct investment, unless they are properly coordinated and followed up. Additionally, such visits must be in line with investment sectors and targets set, and form an integral part of the methodology, which has been outlined. International experience has shown that successful investment promotion is a process that takes time and requires specific events to occur in order to achieve the desired results. From the time of first contact with a prospective investor to the time when an actual investment takes place, significant time elapses, as much as ten years in the case of Japanese investors. Additionally, a substantial amount of structured work needs to take place before an investor will invest. This work required must be clearly defined and delegated to the various role players such as Investment South Africa, Provincial Agencies, DFA and DTI.

Thus, the perception created that foreign missions need to be undertaken to fetch Foreign Direct Investment is incorrect and should be restructured into a responsible programme. Foreign trips for Foreign Direct Investment promotion is required, but at specific and strategic times as part of a broader process as outlined in the methodology.

- ***Approvals***

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As highlighted earlier, the more successful agencies have excellent research capacity enabling them to provide highly focused and relevant information to investors and promoters. The capacity to provide this information already exists in South Africa and it is therefore not necessary to replicate this capacity at the national agency level, but merely to align the necessary institutions to the common objectives. Institutions like IDC, CSIR, DBSA all have excellent research capacity to produce the kind of information required. At this stage however, they are very focused on their own objectives and are therefore not prepared to provide information readily. There is therefore an incredible amount of wastage of resources in the part of the different role players in terms of accessing relevant information required for effective investment promotion.

4.3. External Coordination

Based on the assumption that the methodology, is tried and proven, and that we as a country endorse its implementation, it is critical that the foreign activities that need to be conducted abroad are properly coordinated. This is particularly important with respect to image building and investment generation abroad. The recommendation here is that the Department of Foreign Affairs and Department of Trade and Industry foreign officials take responsibility for these functions abroad. The successful agencies like EDB and IDA have offices abroad, which are independent of their embassies and trade offices. While this may be the most desired option, it is far too excessive for what the South African fiscus could bear. The next best alternative is to equip the embassies with the sufficient skills and understanding of the investment promotion process, thereby enabling them to act as the Foreign Investment Promoters abroad. The two aspects of investment promotion which they should focus on are as follows:

- ***Image Building***

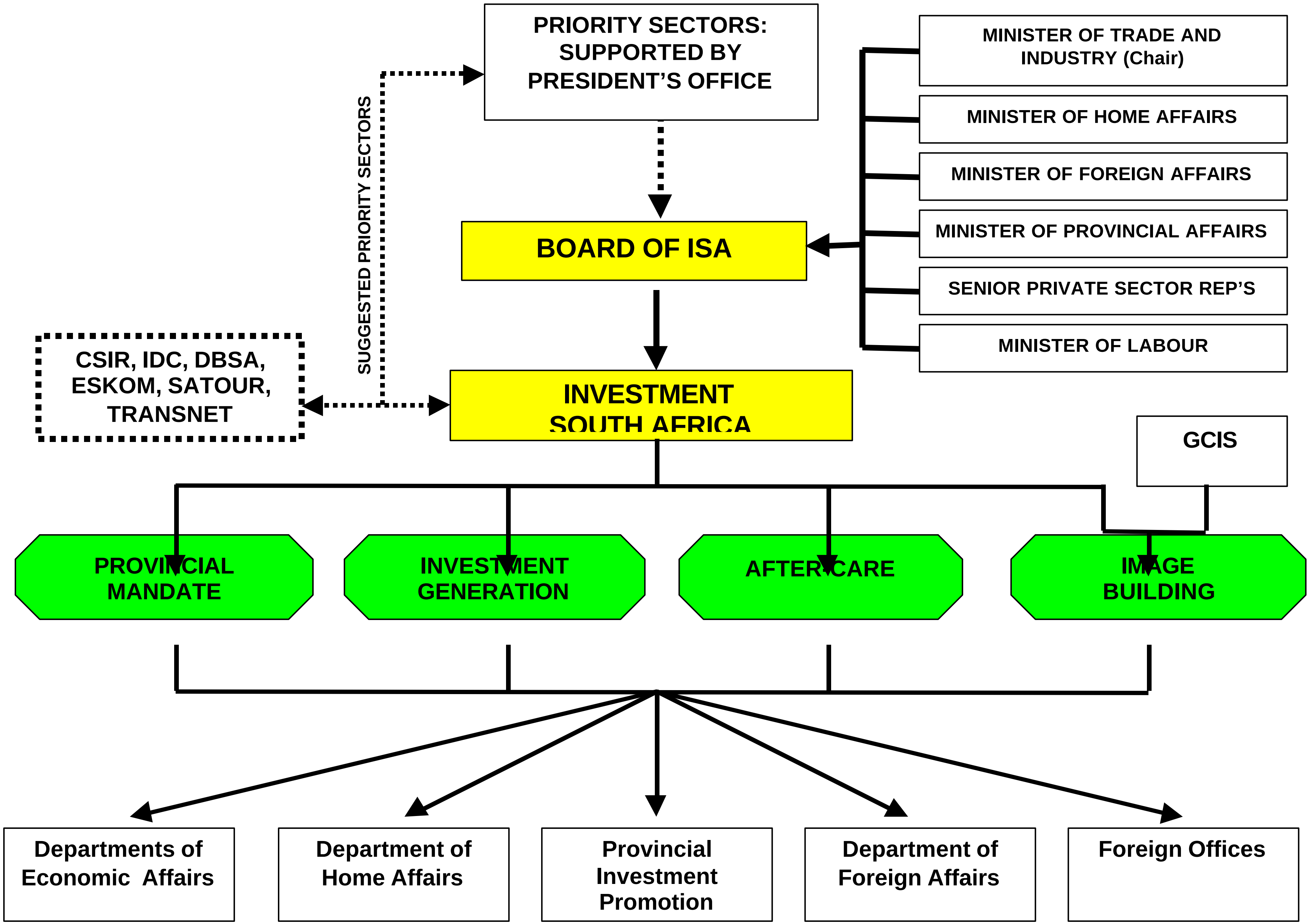
The implementation and execution of the strategy should be the responsibility of the Ambassador. GCIS, together with the leading national government departments need to develop a vision as to what image we want to create for South Africa. This is a very dynamic process which changes/increases as we achieve certain milestones. The overall vision and strategy for the image building campaign must be communicated to the embassies who will then implement the strategy through special events, adverts, regular editorials, missions etc. depending on the requirements of the specific countries. There is already a process underway, but it still does not have the buy in of all national government departments.

- ***Investment Generation***

This is the most important aspect of the foreign work that needs to be done when attracting FDI. The approach here is that Head Office (Department of Trade and Industry, Department of Foreign Affairs and Investment South Africa) should identify sectoral targets, companies and investments that need to come from specific countries. Ambassadors as the Chief Executives of the missions abroad, are then responsible for ensuring a certain number of site visits to South Africa by companies identified. The missions should then be evaluated by the success they attain in terms of meeting the targets set. Once these companies visit South Africa, it then becomes the responsibility of the local players (Investment South Africa and Provincial Investment Promotion Agencies) to implement the site visit methodology and ensure that the visit is turned into an investment. They should be measured on how many site visits are turned into investments.

This is the most critical aspect of the entire process and must therefore be coordinated within a holistic framework approach. The following flow diagram depicts the proposed structure for the investment promotion process in South Africa.

PROPOSED RESTRUCTURE OF INVESTMENT PROMOTION IN SOUTH AFRICA



4.4 Proposed Restructure of Investment Promotion in South Africa

The proposed structure above separates the strategic and operational aspects of Foreign Direct Investment. Without the appropriate strategic focus at the highest level and the subsequent communication of this focus to all levels of government, the operational aspects of attracting Foreign Direct Investment cannot be successful. The overarching policy, sectoral focus and job creation targets should therefore be set and communicated to all government departments from the highest level. From a Foreign Direct Investment point of view, there are a number of national government departments that have a direct impact on South Africa's ability to attract foreign direct investment. These departments should form part of the Board of Investment South Africa to ensure that their respective Ministries and Departments are totally aligned in achieving the FDI targets set.

Included on this Board should be senior private sector individuals, both national and international. These individuals must have South Africa's interest at heart and not represent individual company interests. Furthermore, they should focus on enhancing South Africa's competitiveness to attract Foreign Direct Investment within the constraints of what is realistically achievable. This Board will then direct the activities of the National Investment Promotion Agency within specific focus areas. The Minister should appoint sub-committees who can add value within the specific operational areas of investment promotion. A working group should be established for each of the operational areas of investment promotion as depicted below.

- ***Provincial Liaison***

As indicated earlier, coordination of the effort to attract FDI into the country is critical. This coordination must occur at both a national and provincial level. To enforce this coordination, MIDA for example has a national office in each of Malaysia's thirteen states, in addition to the state agencies that already exist. These state agencies are not allowed to promote or facilitate unless instructed to by the national agency. The reason for this is to ensure that the effort to attract FDI is totally coordinated in a coherent and consistent manner. Investors need the assurance that the entire country is working in a single and positive direction. In the case of Singapore on the other hand, the country is small enough to be serviced by a single agency. The lack of coordination and direction in SA has given rise to an uncoordinated image of the country. This needs to be set right forthwith. The mechanism proposed for doing this is establish a provincial affairs working group. The Minister of Provincial Affairs should appoint a senior official (DDG or CD responsible for the finances of the provinces) to chair this working group. The group would comprise the heads of economic affairs departments that have direct responsibility for investment promotion in the province. Included in this group should be a representative of the department of finance responsible for provincial finances. According to the methodology, the site visit of an investor is critical and must be carefully managed. The decision by an investor to consider a country as a prospective destination is often based on the experience during the site visit. This working group must therefore take total control of this aspect of the investment promotion process to ensure success. This working group must have the ability to bring provincial agencies in line when the code of conduct is breached. In the absence of proper cooperation and coordination, the DTI may have to consider the establishment of satellite agency offices in problem areas.

- ***Investment Generation***

Within the successful

Competition for world-wide flows of mobile FDI has always been strong, and even more so in the current unstable economic environment globally.

Emerging markets like South Africa, are competing more aggressively than ever for FDI. Host countries are offering substantial financial and other incentives to attract the much needed FDI. This marketing is done by professional investment promotion agencies that market the different locations as a viable and lucrative site for inflows of FDI. As outlined in this paper, the countries that have been most successful in attracting significant amounts of FDI have adopted a well co-ordinated and targeted investment promotion programme that is underpinned by a very specific methodology.

The institutional framework for investment promotion in South Africa is sufficient. What is required is an alignment of the forces involved in the investment promotion process. Accordingly, an adaptation of the internationally proven methodology to South African conditions, combined with the existing stable macroeconomic and political environment and appropriate supporting trade and investment policies in South Africa, can, and will, successfully attract large scale flows of inward investment capital.