Aftercare of inward foreign direct investment: A case study of South Africa

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Abstract

Attraction of new inward foreign direct investment (FDI) globally, especially in the developing countries, is problematic. Economic development practitioners have recently started to prioritise the retention and growing of existing investments to enhance their economic development agenda. The purpose of this paper is to analyse and investigate the relationship between inward FDI and investment aftercare in South Africa (SA). Only a few studies have been carried out on the topic at the global level and none on SA as far as could be ascertained. A structured questionnaire was used to collate data, and 30 face-to-face interviews were conducted with 16 investment aftercare practitioners and 14 executives from the investment promotion agencies (IPAs) in seven of the nine provinces of SA. The main finding of the study is that although investment aftercare services are essential, they receive limited funding, staff and attention, and have not yet been developed in SA.

Keywords: investment aftercare; inward FDI; investment promotion agency; South Africa
JEL codes: P450

1 Introduction

The attraction and facilitation of new inward FDI and their impact globally has long been a research topic and is growing in importance. However, the FDI process as a means of retaining existing local and international investments or businesses has been neglected for a long time. Studies show that approximately 80% of new jobs are created by firms already located within a particular economy (Kraybill, 1995:1; Blaine, Hudkins & Taylor, 1999:1).

The International Monetary Fund (IMF, 1995:86) defines FDI as a category of investment that reflects the objectives of an investor in one economy or the direct investor obtaining a lasting interest in an enterprise resident in another economy or investing directly in an enterprise. The lasting interest implies the existence of a long-term relationship between the direct investor and the direct investment enterprise. This includes a significant degree of influence by the investor on the management of the enterprise. According to Vong (2007:21) a direct investment relationship is established when the direct investor has acquired 10% or more of the ordinary shares or voting power of an enterprise abroad. This is the consistent benchmark definition of the Organisation for Economic Co-operation and Development and the United Nations Centre for Trade and Development for FDI (OECD, 1996; UNCTAD, 2003:15). Daniels and Lee (1995:17) and Mehmed and Osmani (2004:13)

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identify five key features which constitute FDI activity, namely control, high commitment of capital, personnel and technology, access to foreign markets, access to foreign resources and higher foreign sales, such as exporting and partial ownership. These key features impact in one way or another on the definitions of FDI.

FDI is classified into three key components, namely equity capital, reinvested earnings and intra-company loans (UNCTAD, 2009:249; Hawkins & Lockwood, 2001:2). Equity capital is the foreign direct investor's purchase of shares of an enterprise in a country other than its own. According to Nithyashree (2005:20) reinvested earnings consist of the direct investor's share of earnings not distributed as dividends by affiliates, which are reinvested. Intra-company debt transactions refer to the short-term or long-term borrowing and lending of funds between direct investors and affiliated enterprises. Reinvested earnings are the focus of this study, since investment aftercare services are provided to existing investors to assist them to reinvest or expand. FDIs are broadly classified in terms of the direction of flows, namely outward and inward FDIs (Matjekana, 2002:23).

Cleeve (2009:1) indicates that despite the large increase in FDI flows to Africa in recent years, these flows represent a small proportion of the total flows to developing countries. FDI inflows into Africa grew to US$61.9 billion in 2009 (Appavoo, 2009:25; UNCTAD, 2009:3). As a percentage of total flows to developing countries, Africa's share fell from 10% in 1980 to 7% during 2000 and 2004 (Cleeve, 2009:1). This shows that the share of Africa's FDI inflows in total inflows globally remains very low. Between 2000 and 2004 the continent received a little over the annual average of 2%, compared to 4.4% in the 1970s.

A similar picture is depicted by FDI flows to SA between 1985 and 2006. Appavoo (2009:35) and Rusike (2007:39) show that SA received negative or very little inward FDI from 1985 to 1993, due to the disinvestments of the 1980s. This was mainly a response to the political isolation of SA's apartheid regime. The FDI inflow to SA has increased substantially since 1994 and reached a peak of US$58 billion in 2002. However, SA's FDI performance is still below the expected levels. Rusike (2007:40) shows that FDI in SA arises mainly from mergers and acquisitions (M&As) and not from greenfield investments.

Furthermore, economic development studies outline the economic impact of the existing businesses to the host or local economy. Firstly, satisfied existing businesses are the best ambassadors when new firms are recruited to the area, and they also serve as sources of leads when new firms to recruit are sought. Secondly, it is less costly to keep existing businesses than to attract new investments. Thirdly, existing foreign businesses are important to the host country, because they have already proven their adaptability to the local conditions. Fourthly, existing businesses often reinvest in the host country.

Investment aftercare functions or programmes are carried out by IPAs at national and sub-national or provincial level. IPAs are defined as governmental or semi-governmental agencies charged with the attraction and retention of FDI and the provision of related services. In most cases this also involves devising incentive schemes and negotiating the terms of the investment with the foreign investor (Dreyhaupt, 2006:35). Establishing IPAs has become a central aspect of most countries' development strategies. During the 1990s, the number of public sector IPAs increased substantially worldwide. There are now over 150 national and over 250 sub-national IPAs (IIED, 2003:2; Morisset 2003:3; Morisset & Andrews-Johnson, 2004:1; World Bank 2005). This trend is relatively new since only a handful of these agencies existed 20 years ago. These agencies aim to respond to the needs of potential investors, while seeking to optimise the benefits of FDI for their national economies. Most IPAs at national or sub-national level are funded by public money.

The purpose of this article is to investigate and analyse the relationship between investment aftercare and inward FDI practices and experiences in SA. The rest of this article is presented as follows. Section 2 reviews the literature on investment aftercare programmes and models. This review is necessary to set the context for the analysis and attempts to explain the critical role of investment aftercare in the retention of existing investments. The attraction of new investments and its challenges are discussed in Section 3. Section 4 discusses the survey design and research methodology. Section 5 summarises and discusses the main findings and results of the study and Section 6 makes conclusions and tentative recommendations. The conclusions can be instrumental and have useful applications for the development of investment aftercare programmes in SA.

2 A review of the literature on investment aftercare programmes and models

Stejskal and Charbuský (2007:1013), Wint (1993:31), Loewendahl (2001:25), Young and Hood (1994:46) and Fuller and Phelps (2004:785) define investment aftercare. However, the most complete and comprehensive definition of investment aftercare is provided by Young and Hood (1994:46). They define investment aftercare as comprising all potential services offered at the company level by governments and their agencies. It is designed to facilitate both the successful start-up and continuing development of a foreign affiliate in a host country or region with a view to maximising its contribution to local economic development. The value of this definition is that it incorporates both post-establishment facilitation services of a narrow kind. It can be termed development support activities and takes into account the role of institutions operating at various socio-spatial levels, namely town, municipal, district, provincial, regional or national (Fuller & Phelps, 2004:785).

Wint (1993:31) and Loewendahl (2001:25) provide a brief definition of investment aftercare. They define investment aftercare as representing a category of services that might be viewed as analogous to the marketing concept of after-sales services or programmes, which could be defined as post-approval services. Investment aftercare is one of the standard functions undertaken by FDI agencies (Young & Hood, 1994:46). Morisset (2003:22), Morisset and Andrews-Johnson (2004:7) and Piontkivska and Segura (2003:2) classify the main functions of IPAs into four categories, namely image building, investment aftercare, investment generation and policy advocacy. These core functions of the IPAs vary according to the type of economy in which they are situated (IIED, 2003:6). Image building is the function of creating a perception of a country as an attractive site for international investment. Investment generation entails targeting a specific sector or set of companies with a view to creating investment leads. Policy advocacy consists of activities through which the agency supports initiatives to improve the quality of the investment climate (Morisset 2003:22). It identifies the views of the private sector, participation in task forces, policy and legal proposals and lobbying.

Ansoff (1987:23-24), Young and Hood (1994:51-57) and UNCTAD (2007:14) show that a comprehensive investment aftercare programme includes a combination of five core services. These services include administrative, strategic, operational, informational and general supply-side services. Administrative services enable operations (UNCTAD, 2007:14). UNCTAD (2007:15) defines operational services as investment aftercare services that support the effective and efficient operation of transnational corporations (TNC). Strategic services are investment aftercare services that have an impact on the future direction of the firm, the development of new capabilities and the corporate development path of the host region (Young & Hood, 1994:52; UNCTAD: 2007:14). Young and Hood (1994:52) indicate that informational services are specific to the investing company, and supply-side services support the development of both indigenous and foreign companies within a region.

Table 1 lists the series of services that might conceivably be included within a comprehensive aftercare programme. On the vertical axis, the types of services are listed, and, on the top, time is listed. UNCTAD (2007:16) and Table 1 show that the time dimension has an impact on the nature of the service to be delivered for strategic, operational and administrative investment aftercare services.

Young and Hood (1994:55) indicate that two additional issues emerge from Table 2 that require elaboration. The first is a distinction between corporate and affiliate-level aftercare programmes. The second issue concerns the distinction between government and non-government services in aftercare programmes.

Ansoff (1987:23) and Young and Hood (1994:56-57) assert that the identification of potential aftercare services, which might be provided by FDI agencies or IPAs and related bodies, needs to be set alongside investor requirements. Services differ widely and are linked to investor experience, investor policies, investor size and the technology, development stage and nationality. The first-time international investor is often in a different situation from a globally networked TNC. The integrated, networked TNC at the global or regional levels may be more self-sufficient and less reliant on aftercare services, especially at the operational level and when considering reinvestment. Rationalisation and reorganisation taking place within the TNC group require services focused on strategic lobbying at the corporate level and on improving plant performance.

Ansoff (1987:24) and Young and Hood (1994:57) state that investor policies place varying demands on aftercare services programmes. The size of the foreign investor and the type of technology raise distinct issues concerning expectations from aftercare programmes. In a high technology company the foreign affiliate is aware of its significance and bargaining power within the region or country. Hence, it will expect a high level of aftercare services in the areas of its choosing. They further indicate that the development stage of an investment project places different demands of varying intensity on aftercare programmes. During start-up and the first two years of operation, there is likely to be constant interaction between aftercare providers and the company, mainly on operational issues. Typically, in the subsequent period there is both a lower requirement for aftercare services and less contact with aftercare providers as the company becomes integrated into the region and focuses on other priorities. Aftercare requirements may be influenced by the nationality of the investor. There is a belief that, for cultural reasons, Japanese investors appreciate a close key account relationship with FDI agencies at the time of search and investment decision-making.

There are four models of an investment aftercare programme: the integrated model, aftercare model, project-based model and company-friend model (Young & Hood, 1994:61). The company-friend model is applied or offered in the first years of operation after start-up (Young & Hood, 1994:64). In this model, existing businesses are offered informational plus limited operational assistance. Young and Hood (1994:64) also show that the company-friend model helps foreign affiliates to build their networks of contacts in the period up to and after start-up, but little else might be achieved. It is also regarded as the minimalist approach to aftercare.

The project-based model represents an attempt to direct resources to key or specific elements in aftercare programmes rather than the entire span of aftercare activities (Young & Hood, 1994:64). Areas of initiatives are supplier development, where the aim is to build up the supplier base as a means of increasing the multiplier effects of FDI. It is also used for human resources development, where, for example, training programmes might be initiated to assist the person-power requirements of a number of foreign investors in a particular industry, or assistance of a number of foreign investors in a particular industry. The integrated model is the most ambitious and costly, and envisages aftercare as part of a comprehensive regional economic development plan. This model would also recognise the need to include indigenous companies (Young & Hood, 1994:61). Table 2 shows that all models, with the exception of the company-friend model, are more formal and ambitious (Young & Hood, 1994:64).

3 The role of investment aftercare for existing inward FDI and challenges faced by these programmes

There are eight major roles of an investment aftercare programme for existing inward FDI. One is to assist local managers in the upgrading of particular establishments by strengthening their ability to negotiate with the parent company (Fuller & Phelps, 2004:785). The second role is that investment aftercare services are used more in relation to regional support than at the national level. Thirdly, investment aftercare services improve the project implementation rate, encourage reinvestment, enhance the development impact of investment and build a strong reputation as an investment location (Wessendorp, 2008:7).

Fourthly, investment aftercare encourages local supply, reinvestment and/or the development of new industry around the firm (Stejskal & Charbuský, 2007:1013). Fifthly, investment aftercare services assist investors to experience the cognitive dissonance often associated with making a purchase. This means convincing them that the correct location decision has been made, and is designed to exploit the opportunities and minimise the threats of highly dynamic TNCs (Young & Hood, 1994:51-52). Sixth, investment aftercare stimulates reinvestment (WESGRO, undated:3). Seventh, investment aftercare facilitates the resolution of problems encountered by existing firms (Ahn, 2008:10 and Government of Orissa, undated:13). Finally, investment aftercare services ensure that investment commitments and plans materialise fully (UNCTAD, 2000:74).

Investment aftercare programmes encounter six major challenges during their development and implementation, namely institutional credibility and capacity of aftercare providers, continuity of and customer responsiveness to aftercare services, proactive and reactive approaches, multi-site TNCs, organisational involvement and FDI and regional economic development (Young & Hood, 1994:57; UNCTAD, 2007:41).

The first challenge of the IPAs is to earn trust and confidence at high levels in the firms (UNCTAD, 2007:41-42). They can earn trust through good governance and by promoting predictability, transparency, accountability and participation in the operations of these firms. This will inspire confidence in TNCs and increase their willingness or preparedness to work in partnership with the IPAs on aftercare and other projects.

The second challenge is to develop long-term relationships of mutual respect and trust between often highly mobile international managers and equally mobile IPA staff. The retention of key staff members of the right calibre and degree of commitment who can function as a corporate memory is a major issue linked to this challenge. The first challenge is addressed partially by the development of customer-relationship management systems, while the second challenge can be met by partially outsourced models (Young & Hood, 1994:58; UNCTAD 2007:44). UNCTAD (2007:45) indicates that another way of addressing the challenge of retaining qualified staff is to focus on retaining a few specialised, well-remunerated and competent senior staff members who manage a corps of relatively young, high-performing and enthusiastic employees. This model has been used by Singapore.

The third challenge is the response time-scales by aftercare providers (Young & Hood, 1994:58). UNCTAD (2007:45) shows that IPAs often work on the policy-driven timeframes of internal clients rather than those of their external TNC clients. This can create frustration and costly delays at companies. In response to this situation, some IPAs now have written into their operating frameworks that they must respond to different types of enquiries within a given timeframe, and are monitored accordingly.

The fourth challenge is that IPAs provide investment aftercare services on a reactive rather than proactive basis (UNCTAD, 2007:45). The danger of a reactive approach is that it is not possible to set or drive a policy agenda when dealing with firms that have not been pre-selected through a segmentation process. Young and Hood (1994:58) show that after start-up, contacts with foreign affiliates gradually diminish. The solution is to use a proactive approach and skilled practitioners.

The fifth challenge is the multi-site nature of the TNCs, which results in centralisation or coordination problems not only within, but also across regions (Young & Hood, 1994:59). Young and Hood (1994:59) show that a range of organisations could be involved in the provision of post-investment services, namely architects and builders, fire services, river purification boards and various public sector bodies. The sixth challenge is the coordination and integration of the aftercare services of widely disparate bodies. This is exacerbated by the fact that regional economic development depends on a wider number of factors than just FDI (Young & Hood, 1994:59).

4 The survey design and methodology

The study was based on both a qualitative and quantitative survey of the IPAs within the seven provinces of SA during February and March 2010. The other two provinces do not have IPAs operating yet. This represents a 100% coverage of IPAs in SA, because all the available IPAs were included in the sample. After a thorough analysis of the municipalities in SA, it was found that only a few were implementing investment aftercare programmes. Therefore, a total of eight municipalities were sampled. Due to the small sample size, it was decided to interview both investment aftercare practitioners and executives. The survey covered a sample of 16 investment aftercare practitioners and 14 executives within the IPAs. This sample represents more than 50% of the total population of the IPAs and related organisations recorded. Table 3 shows the characteristics of the respondents. The KwaZulu-Natal and Gauteng Provinces had the majority of respondents interviewed, while two provinces had none. Although this is a small sample, it captures the large IPAs and is therefore a representative sample.

Data was collected with the aid of a structured questionnaire based on a standard format of the Likert-scale model. The questionnaire included aspects such as the demographic portrait of the respondents, resources allocation of the organisations represented and investment aftercare practices and tools. Secondary data from other sources were used to support and/or supplement the primary data.

Table 3 explains the characteristics of the 30 respondents, such as the type of organisation, years of experience and gender. In terms of the type of the organisation, 50% of the respondents are employed by provincial organisations. Nearly 67% of the respondents have less than five years' experience in the investment aftercare environment. Just over 50% of the organisations employ fewer than 60 employees. Of the total respondents 42.7% indicated that their organisations' budget source is the provincial government, 33.3% local government and 3% national government.

5 Results and discussion

This section discusses the results of the study, based on the responses to each question. The general perceptions or attitudes of the responses or participants were used as the means of analysis. In certain questions two or more answers were obtained from the respondents, because the questions had more than one possible answer.

5.1 Financial and human resources allocation within IPAs in SA

Table 4 shows how IPAs in SA allocated their financial resources in terms of the main investment promotion functions, such as image building, investment generation, investment facilitation, policy advocacy and investment aftercare, during the 2008/9 and 2009/10 financial years. The respondents were also asked to indicate what they consider or perceive as the appropriate budget and staff allocation for the investment aftercare function. Many of the respondents did not answer this question due to the sensitivity of the information required or because they did not know the answer. Moreover, the older the information or data, the more difficult it becomes for the respondents to remember and the less reliable or valuable the results become. This is shown in Table 4, where in relation to 2008/9 only three respondents answered the question, while 22 answered it in relation to 2009/10.

The main finding of this study is that most of the IPAs' budgets are less than R20 million per annum and this is often inadequate to undertake comprehensive investment promotion functions. Table 4 shows that IPAs allocate an insufficient proportion of their budget to the investment aftercare function compared to image building, investment generation and investment facilitation. This data is unreliable, and conclusions cannot be drawn from it, because only a small portion of the respondents answered this question. This shows that IPAs in SA do not offer comprehensive investment aftercare services or functions at present.

Table 5 shows the percentage of staff allocated according to the investment promotion functions for top, middle and lower management. Many of the participants or respondents did not answer the question, because their organisations do not classify their functions in terms of image building, investment generation, investment facilitation, policy advocacy and investment aftercare. In some cases one person performs two or more functions at the same time due to staff shortages or the size of the IPA. Moreover, the large number of missing cases is an indication that the investment aftercare function does not receive adequate attention in many IPAs.

Table 5 also shows that IPAs in SA allocate less staff to the investment aftercare functions than to the other investment promotion functions at the top, middle and lower management levels. This is comparable to the finding of a study conducted by UNCTAD in 2007. UNCTAD (2007:21) states that only 10% of IPAs' resources are allocated to investment aftercare, while the generation and facilitation of new investment is given relatively high priority.

Generally, the finding of this study is that IPAs allocate less financial and human resources to the investment aftercare function than to the investment generation and facilitation functions. The reason for this is that most of these organisations employ fewer than 60 employees. Their total annual budgets are also less than R30 million per annum in most instances. They are therefore compelled to prioritise the other investment promotion functions instead of investment aftercare.

5.2 Selected elements of the IPAs' investment aftercare strategy

Table 6 summarises the responses to the following questions: In which year did the IPA start to offer investment aftercare services? Do they have investment aftercare strategies? Are they willing to make the strategies available for reference purposes? How often do they review the strategies? What are their long-term objectives, and lastly, was the private sector afforded an opportunity to make inputs to the strategy?

Most of the respondents indicated that their IPAs started to offer investment aftercare services in 2000 or thereafter. This shows that the investment aftercare function is fairly new in SA. However, similar organisations in Europe and the United States of America started to offer these services in the late 1970s (UNCTAD, 2007:1 and 21). Cothran (2008:1) indicates that most of the current programmes differ markedly from those adopted in the 1960s and 1970s.

Table 6 shows that 73.3% of IPAs and similar entities in SA have strategies dedicated to investment aftercare, while only 53.3% indicated that their IPAs review these strategies bi-annually. All the respondents who indicated that their IPAs have strategies dedicated to investment aftercare showed that they are willing to make the strategy available for reference purposes. Table 6 further shows that 86.7% of the strategies have long-term strategic objectives and almost half of the respondents indicated that their organisations afford the private sector an opportunity to make inputs to their investment aftercare strategies. Some respondents indicate that private sector representatives sit on the board of directors of their IPAs and make inputs on behalf of the entire private sector.

The participants were also asked to indicate the services offered to existing investors or businesses. The top ten services offered to existing business by IPAs in SA include business networking support, import or export permits, organisation information dissemination workshops, matchmaking, maintaining a database, assistance in expansion projects, policy advocacy, providing advice on recruitment, skills availability and training support, facilitating the placement of expatriate staff and family and dispute resolutions. These services are in line with the investment aftercare services outlined in Table 1 and survey data.

5.3 Selected characteristics of the existing investors

The respondents were asked to indicate the category of investors to which their organisations offer investment aftercare services, criteria used to select existing investors, how they cooperate with other institutions and the sphere/s of government most appropriate to offer investment aftercare services.

Table 7 shows that over 93% of the participants indicate that their IPAs and related entities offer investment aftercare services or support to both existing local and international investors.

Moreover, over 96% of the IPAs in SA apply selection criteria to choose existing businesses for investment aftercare support. This is in line with the finding of the UNCTAD (2007:35) survey, which found that 60% of the IPAs globally who provide investment aftercare services offer these services to all existing investors, while the remaining 40% select existing investors. The criteria used to select existing businesses include variables such as high export intensity, high local content, high pay and productivity, limited displacement effects on key local markets, ability to promote rather than constrain host country competition, the capacity to support high value-add functions, the ability to develop strong local linkages, high levels of innovation and high employment potential. Nearly 60% of the respondents indicated that their organisations select existing businesses based on the high levels of innovation, 56.7% on high employment potential and 46.7% on high local content. However, only 13.3% select existing businesses based on their ability to promote rather than constrain host country competition.

Nearly 97% of IPAs in SA collaborate with other institutions in undertaking investment aftercare activities. These institutions include municipalities (89.7%), organised businesses (93.1%), provincial institutions (65.5%), national institutions (58.6%) and other investment aftercare activities (17.2%). The other institutions include institutions of higher learning. The findings of this survey are similar to the findings of the UNCTAD study. UNCTAD (2007:38) found that 95% of the respondents indicated that their IPAs collaborate with other institutions in offering investment aftercare services.

The survey shows a general disagreement among the respondents regarding what is perceived as the most appropriate sphere of government to offer the investment aftercare services. The respondents were asked to choose from the following options: national, provincial, local, both national and provincial, both provincial and local, and all spheres of government. More than 33% and 30% of the respondents indicated that local government and all spheres of government are suitable to offer these services. However, only 3.3% perceive the national government as the most appropriate sphere. Over 83.3% of the respondents indicate that the investment aftercare services are not well coordinated at the national level in SA.

5.4 IPAs' and related entities' contacts with existing investors, difficulties encountered during implementation and current and preferred investment aftercare models

This section analyses the forms of contact currently used and preferred by existing businesses and the number of times per annum IPAs make contact with the existing businesses. All the respondents indicated that IPAs in SA use both personal visits and e-mails to make contact with existing businesses. Personal visits are the preferred form of contact, because they are considered to be more effective, cover more ground and help the IPAs to build long-term sustainable relationships with existing investors. More than 50% of the IPAs make contact with existing businesses more than three times per annum.

Table 8 shows the factors that hinder or constrain the effective implementation of an investment aftercare programme. The limitations encountered during the implementation of investment aftercare programmes were human resources (86.7%), industry participation (73.3%), financial resources (70%), time (66.7%) and government support (40%). Table 9 shows how the respondents rate these difficulties in terms of extremely important, important, slightly important and do not know. More than 50% of the respondents rate these difficulties as extremely important for the successful implementation of the investment aftercare programmes.

Table 10 shows that 96.7% of the IPAs in SA use the in-house investment aftercare model, while 90% prefer to use this model.

Table 11 shows that both executives and practitioners prefer the in-house investment aftercare model over the outsourced and other models.

5.5 Evaluating and rating the impact of the investment aftercare programmes

Table 12 shows that only 30% of the IPAs evaluate the impact of their investment aftercare programmes. This is an important constraint which needs the urgent attention of IPAs and government to improve the attraction of FDIs. According to UNCTAD (2007:40) it is a cause for concern that, of the 62 IPAs surveyed globally, only 58% indicated that they evaluate their investment aftercare programmes. This survey shows that 66.7% of the IPAs use testimonials to evaluate their investment aftercare programmes, 11.1% use certificates on receipt of service and 33.3% use other methods. Other methods include investor declaration, client satisfaction surveys and investment climate surveys.

The respondents were asked to rate their IPAs' investment aftercare programmes in terms of the following elements: strongly agree, agree, do not agree, strongly disagree and do not know. Most of the respondents strongly agreed and agreed with most of the statements outlined in Table 13. On the statement relating to the use of external consultants to perform their investment aftercare functions they disagreed. In total 73.3% of the respondents agree that the overall assessment of their IPAs' investment aftercare services is good. A topic for further research is how their clients rate the investment aftercare programmes, but this falls outside the scope of this research.

6 Conclusions and tentative recommendations

This was the first empirical study to analyse and understand the relationship between investment aftercare and inward FDI in SA. Although the empirical approach contains several limitations, the analysis presented in this paper shows that investment aftercare practices are not yet well developed or functioning properly in SA.

The first conclusion is that most countries, and mainly the USA, started to offer investment aftercare services to existing investors as an economic development strategy in the 1970s, but that this is fairly new in SA. Moreover, the IPAs' budgets and staff are currently limited and need to be large enough to carry out basic promotion functions.

The study found that provincial governments are the main funding sources of IPA activities in SA. The staff complements and budgets of IPAs are limited, with budget allocations to the investment aftercare function less than R10 million compared to more than R50 million for investment generation, between R21 and R30 million for image building and between R11 and R20 million for investment facilitation. It was also found that the investment aftercare function allocates less than 10% of the total IPA's staff complement at the top, middle and lower management compared to 11% to 20% to the investment generation, image building, investment facilitation and policy advocacy. It is recommended that sufficient resources should be allocated to the investment aftercare function due to their important role in inward FDI. The study found that not all IPAs in SA are undertaking investment aftercare programmes in their true sense. It is therefore recommended that more attention be paid to this function in order to reap its full benefits.

Most of the IPAs started to offer investment aftercare services to existing investors only after 2000, and investment aftercare services are therefore fairly new in South Arica. Only 73.3% of the IPAs have investment aftercare strategies and more than 50% of the respondents review these strategies bi-annually.

There is disagreement between respondents regarding the most appropriate sphere of government to offer investment aftercare services. It is recommended that the investment aftercare services be implemented at the local government level with proper support, facilitation and coordination at the provincial and national government levels. Proper coordination will be possible if a properly constituted forum between all spheres of government and the private sector is established. It is therefore recommended that sufficient, relevant and skilled resources should be deployed to the local government in order to provide effective investment aftercare services.

The IPAs offer investment aftercare support to both local and international investors, but due to the limited financial and human resources, they apply a selection criterion to select investors to be assisted. Most of the IPAs select between 30 to 40 companies per annum. The study found that IPAs in SA currently offer dedicated investment aftercare to a few companies per annum. It is recommended that governments allocate sufficient resources to the IPAs to enable them to provide a comprehensive investment aftercare programme. Moreover, the IPAs need to collaborate with organised businesses and municipalities to ensure that the existing investors are offered sufficient support. IPAs should have a business orientation and strong links with the private sector, and simultaneously be supported by all levels of government to be effective in the provision of investment aftercare services.

Personal visits, e-mails and telephone calls are used to make contact with existing investors, but most of the respondents prefer personal visits. It is important that a proper mix of contact modes should be used, even though personal visits are preferred and effective. These contacts with the existing investors are undertaken more than three times per annum. Both investment aftercare practitioners and executives at all levels of government agree that the in-house investment aftercare model is the best model. The in-house model is cost-effective, but the IPA should employ sufficient and skilled personnel to undertake this function. Human resources and industry participation or buy-in are the key factors that limit IPAs' ability to provide effective investment aftercare services. IPAs should dedicate sufficient resources to address the factors identified as constraints for the effective provision of investment aftercare services. The success and shortcomings of the current investment aftercare programmes are not evaluated in SA. It is therefore recommended that, like any government programme or policy, the investment aftercare programmes should be properly evaluated and monitored.

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Table 1: Aftercare service space by type of service and timeframe

Types of services	Time			
		Short-term	**Medium-term**	**Long-term**
	Strategic	Establish firm so that it operates successfully and performs its mandate	Competition legislation, product development and R&D capabilities	Services that support firms in becoming strategic leaders and centres of excellence
	Operational	Find office space, factory, recruit staff, help install ICT equipment and power.	Staff training, new premises, improved connectivity and local supply chains	Local R&D, university collaboration and strong relationships with unions
	Administrative	Obtain visas, import permits, work permits for spouses and operate in free trade zone	International school, obtain food, drugs and administration approvals	Agreement with tax authorities and collaboration with public sector on planning and transport

Source: Adapted from UNCTAD (2007:16)

Table 2: Models of an investment aftercare programme

Models/ Characteristics	**Integrated model**	**Aftercare team approach**	**Project-based approach**	**Company-friend approach**
Types of foreign investor	Detailed knowledge of the entire stock (foreign and domestic) regularly updated Priority ranking according to economic development potential	Detailed knowledge of stock. Investors ranked according to priority and aftercare provided accordingly	Related to target segments, focusing on supplier development, manufacturing services, research and development	Priority to large high tech, high profile and/or Japanese investors
Time period for aftercare service	Long-term, against clear, quantifiable objectives	Long-term, but priority in early years of project and when potential reinvestment or restructuring	Dependent on time period of project	Mainly first years after start up. Annual visit to priority companies, otherwise as requested
Nature of aftercare	Informational and operational to all investors, plus strategic and general supply-side to developmental facilities. Aftercare integrated with all regional economic development initiatives.	Strategic, operational and informational depending on priority investor	Strategic and operational linked to project plus general supply-side	Informational plus limited operational. May be linked to visits relating to grant award compliance
Evaluation of approach Benefits **Constraints**	Pros: Balanced and integrated approach to economic development. Can avoid excessive emphasis on TNCs Cons: Very costly and long- term, Major commitment needed from wide range of public sector agencies, coordination problems may lead to excessive bureaucracy, assumes TNC cooperation	Pros: Single door for TNC aftercare, committed and systematic aftercare service, aftercare skill developed by government agencies and recognised by TNCs Cons: Costly and may lack some focus depending on method of organising services, success dependent on integrating efforts with other resources	Pros: Highly focused, links company and general regional economic development efforts Cons: Costly and returns mainly long-term, difficulty of obtaining company cooperation	Pros: Inexpensive, may identify some areas of opportunity to aid affiliate Cons: Cause resentment among some TNC affiliates, Laissez-Faire approach may compare badly with that offered to sister affiliates in other host countries, Regional economic development largely left to market.

Source: Adapted from Young and Hood (1994:63)

Table 3: Characteristics of the respondents

Item	Response	Number of responses	Percentage
Informed consent to record	Yes	30	100
	No	0	0
Respondents type	Practitioner	16	53.3
	Executive	14	46.7
Province	Limpopo	6	20
	North West	2	6.7
	KwaZulu Natal	8	26.7
	Gauteng	8	26.7
	Western Cape	2	6.7
	Northern Cape	0	0
	Free State	2	6.7
	Eastern Cape	0	0
	Mpumalanga	2	6.7
Type of the organisation	National	4	13.3
	Provincial	15	50
	Local	11	36.7
	Private sector	1	3
Position of the respondent	Top management	13	43.3
	Middle management	11	36.7
	Lower management	6	20
Years of experience in the investment aftercare environment	Less than 3 years	10	33.3
	3 – 5 years	10	33.3
	6 – 10 years	7	23.3
	More than 10 years	3	10
Main budget source (some of the respondents gave more than 1 main budget source)	National government	7	21.2
	Provincial government	14	42.7
	Local government	11	33.3
	Private sector	1	3
Staff employed by IPAs	Less than 20	8	26.7
	21 – 40	6	20
	41 – 60	6	20
	81 – 100	1	3.3
	More than 100	9	30
Gender	Male	21	70
	Female	9	30

Source: Survey data

Table 4: Agencies' budget allocation in terms of the investment promotion functions (million Rands)

Budget (Rm)	Image Building		Investment Generation		Investment Facilitation		Policy Advocacy		Investment aftercare	
	2009/10	2008/9	2009/10	2008/9	2009/10	2008/9	2009/10	2008/9	2009/10	2008/9
0 – 10	6	-	-	-	4	-	5	-	18	2
11 – 20	2	-	2	1	7	1	-	1	-	1
21 – 30	4	-	-	-	2	-	-	-	-	-
31 - 40	-	1	1	-	-	-	-	-	-	-
41 – 50	-	-	-	-	-	-	-	-	-	-
More than 50	-	-	15	-	-	-	-	-	-	-
Missing or unavailable	18	29	12	29	13	29	25	29	12	27

Source: Survey data

Table 5: Total staff allocation according to the investment promotion functions

Management level	Investment Promotion Function	Percentage staff allocation						
		0–10	11–20	21–30	31–40	41–50	More than 50	Missing or unavailable
Top Management	Image building	2	3	1	-	-	-	24
	Investment generation	-	5	-	-	-	-	21
	Investment facilitation	2	5	-	-	-	1	22
	Policy advocacy	-	2	-	-	-	-	28
	Investment aftercare	2	4	-	-	-	-	24
Middle management	Image building	3	1	1	-	-	1	24
	Investment generation	-	-	-	-	-	8	22
	Investment facilitation	3	2	-	-	-	2	23
	Policy advocacy	2	-	-	-	-	-	28
	Investment aftercare	11	-	-	-	-	-	19
Lower management	Image building	3	1	1	-	-	-	25
	Investment generation	1	1	-	-	-	5	23
	Investment facilitation	2	3	-	-	-	1	24
	Policy advocacy	1	-	-	-	-	-	29
	Investment aftercare	8	-	-	-	-	-	22

Source: Survey data

Table 6: Selected elements of the IPAs' investment aftercare strategy

Item	Response	Number of respondents	Percentage
Investment aftercare strategy	Yes	22	73.3
	No	8	26.7
Willing to make strategy available	Yes	22	73.3
	No	3	10
	Missing or unavailable	5	16.7
Review of the strategy	Annually	10	33.3
	Bi-Annually	6	20
	Once in three years	5	16.7
	Once in four years	4	13.3
	Never reviewed at all	3	10
	Missing or unavailable	2	6.7
Long term strategic objectives	Yes	26	86.7
	No	4	13.3
Inputs from the private sector	Yes	15	50
	No	13	43.3
	Missing or unavailable	2	6.7

Source: Survey data

Table 7: Selected characteristics of the existing investors

Item	Response	Number of respondents	Percentage
Categories of investors	Local	0	0
	Foreign/ international	0	0
	Both local and international	28	93.3
	Other	0	0
	Missing or unavailable	2	6.7
Offer investment aftercare services to all investors	Yes	4	13.3
	No	26	86.7
Does your organisation have a criteria to select investors	Yes	25	96.2
	No	1	3.8
What is the criteria	High export intensity	9	30
	High local content	14	46.7
	High pay and productivity	10	33.3
	Limited displacement effects on key local markets	3	10
	Ability to promote rather than constrain host country competition	4	13.3
	Capability to support high value added functions	3	10
	Ability to develop strong local linkages	6	20
	High levels of innovation	18	60

	High employment potential	17	56.7
Cooperate with other institutions	Yes	29	96.7
	No	1	3.3
Institution that IPAs cooperate with	Municipalities	26	89.7
	Organised business	27	93.1
	Provincial institutions	19	65.5
	National institutions	17	58.6
	Other	5	17.2
Sphere of government most appropriate to offer investment aftercare services	National	1	3.3
	Provincial	5	16.7
	Local	10	33.3
	Both National and provincial	2	6.7
	Both Provincial and local	3	10
	All spheres	9	30
Are investment aftercare function well-coordinated at national level in South Africa	Yes	4	13.3
	No	25	83.3
	Does not know	1	3.3

Source: Survey data

Table 8: IPAs' and related entities' contacts with existing investors

Item	**Response**	**Number of respondents**	**Percentage**
Ways contact is made	Personal visits	30	100
	E-mail	30	100
	Phone	27	90
	Fax	11	36.7
	Other	4	13.3
Preferred form of contact	Personal visits	24	80
	E-mail	5	16.7
	Phone	1	3.3
	Fax	0	0
	Other	0	0
How many times are contacts made per annum	Twice	5	16.7
	Three times	10	33.3
	More than three times	15	50

Source: Survey data

Table 9: Rating of the difficulties encountered during the implementation of the investment aftercare programmes

Difficulties	Rating			
	Extremely important	Important	Slightly important	Don't know
Time	19 (63.3%)	7 (23.3%)	0 (0%)	4 (13.3%)
Financial resources	22 (73.3%)	8 (26.7%)	0 (0%)	0 (0%)
Human resources	19 (65.5%)	10 (34.5%)	0 (0%)	0 (0%)
Industry participation or buy-in	18 (60%)	9 (30%)	2 (6.7%)	1 (3.3%)
Government support	15 (53.6%)	8 (28.6%)	1 (3.6%)	4 (14.3%)

Source: Survey data

Table 10: Current and preferred investment aftercare model

Type of the model	Current investment aftercare model		Preferred investment aftercare model	
	Number of responses	Percentage	Number of responses	Percentage
In-house	29	96.7	27	90.
Outsourced	0	0	2	6.7
Other	1	3.3	1	3.3
Total	30	100	30	100

Source: Survey data

Table 11: Preferred investment aftercare model by type of respondents

Type of respondent	Preferred investment aftercare model			Total
	In-house	Outsourcing	Other	
Practitioner	14 (87.5%)	1 (6.3%)	1 (6.3%)	16 (100%)
Executives	13 (92.9%)	1 (7.1%)	0 (0%)	14 (100%)
Total	27 (90%)	2 (6.7%)	1 (3.3%)	30 (100%)

Source: Survey data

Table 12: Evaluating the impact of the investment aftercare programmes

Item	Response	Number of respondents	Percentage
Does your organisation evaluate the impact of their investment aftercare programmes	Yes	9	30
	No	21	70
Impact evaluation tools	Testimonials	6	66.7
	Certificates on receipt of service	1	11.1
	Other	3	33.3

Source: Survey data

Table 13: Rating of the IPAs' investment aftercare programmes

Criteria	Rating				
	Strongly agree	**Agree**	**Not agree**	**Strongly disagree**	**Do not know**
The organisation or agency's Investment Aftercare Strategy is effective in supporting existing investors/businesses	13 (43.3%)	16 (53.3%)	0 (0%)	0 (0%)	1 (3.3%)
The organisation or agency has made significant investment in resources towards the investment aftercare services	13 (43.3%)	13 (43.3%)	3 (10%)	1 (3.3%)	0 (0%)
The industry is satisfied about the quality of services offered through the organisation or agency's investment aftercare strategy	9 (30%)	17 (56.7%)	1 (0%)	0 (0%)	3 (10%)
An investment aftercare service is a critical function of the organisation or agency	20 (69%)	9 (31%)	0 (0%)	0 (0%)	0 (0%)
The organisation or agency's investment aftercare services enjoy full support from government at all levels	9 (30%)	19 (63.3%)	2 (6.7%)	0 (0%)	0 (0%)
My organisation or agency's cooperation with similar entities is a priority on provision of investment aftercare services	11 (37.9%)	16 (55.2%)	2 (6.9%)	0 (0%)	0 (0%)
My organisation or agency invests a significant amount of time to acquire knowledge and information about existing investors and their needs	14 (46.7%)	11 (36.7%)	4 (13.3%)	0 (0%)	1 (3.3%)
We are dependent on the external consultants to perform our investment aftercare services	2 (6.7%)	2 (6.7%)	8 (26.7%)	16 (53.3%)	2 (6.7%)
Existing investors are always trustful with us	5 (16.7%)	21 (70%)	1 (3.3%)	0 (0%)	3 (10%)
Generally, there are well-established communications channels between us and the existing investors	5 (16.7%)	22 (73.3%)	2 (6.7%)	0 (0%)	1 (3.3%)
My overall assessment of the organisation or agency's investment aftercare services is excellent	4 (13.3%)	22 (73.3%)	3 (10%)	0 (0%)	1 (3.3%)

Source: Survey data