Factors necessary for securing investors toward FDI

By Thembinkosi Maduna

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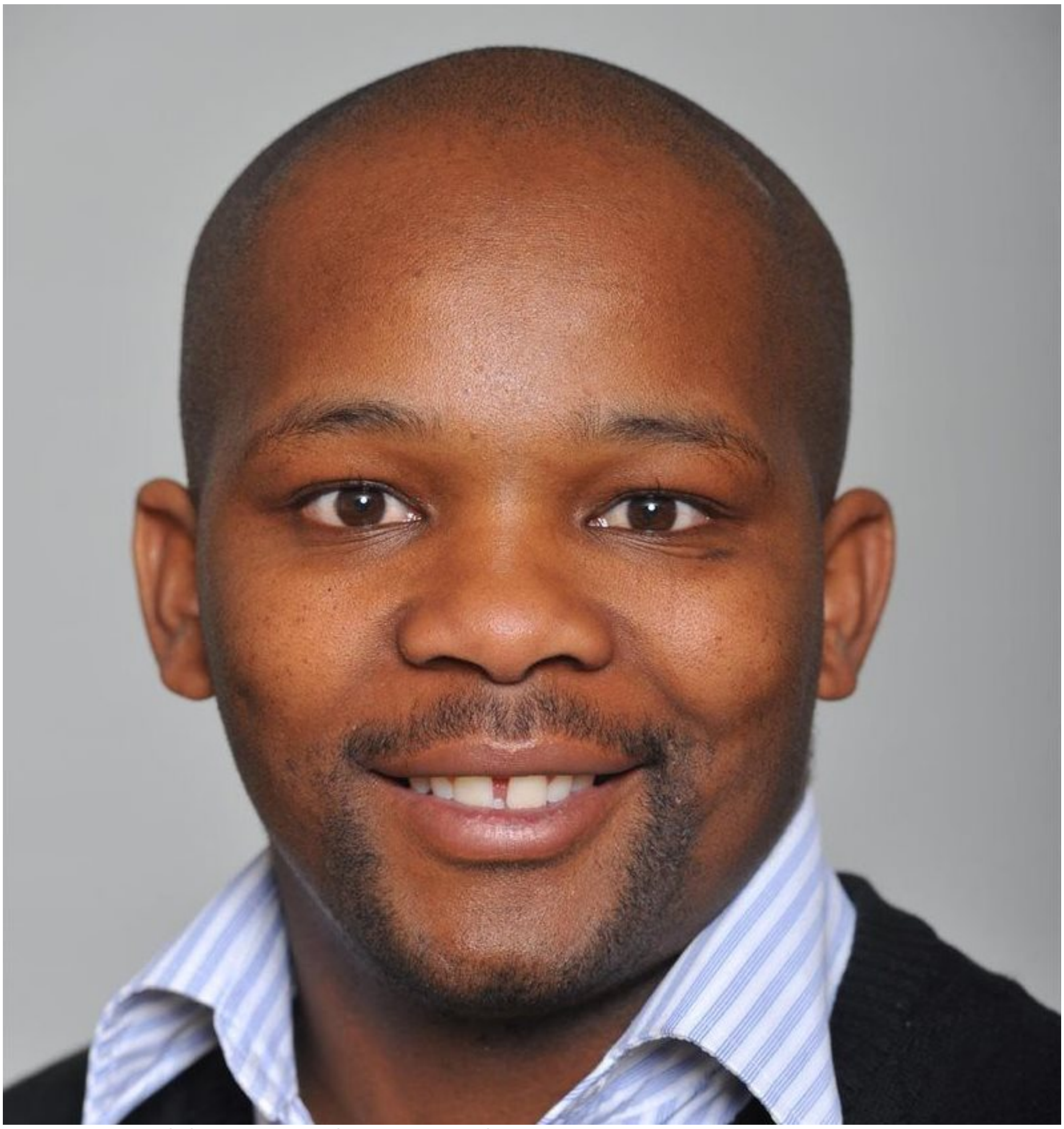
Endorsed by world leaders as an ideal investment destination, the Coega Special Economic Zone (SEZ) prioritises growth in Foreign Direct Investment (FDI).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The field of FDI attraction and investment promotion has a strong body of extant literature and a number of studies have focussed on the attraction of domestic and FDI. There is, however, limited research on operationalising the secured investors once attracted.

South Africa should focus on converting secured investors into operational investors as swiftly as possible to encourage economic growth and decrease the rate of unemployment.

Eleven factors were identified in a paper that was presented and the abstract published in the proceedings of the 31st South African Institute for Management Scientists (SAIMS) Conference proceedings in September 2019, in the Nelson Mandela Bay.

These factors were marked as essential in ensuring FDI ownership transfer to secured investors, and these elements include:

- (1) consideration of risks regarding project feasibility,

- (2) consideration of risks regarding project viability,
- (3) business registration requirements,
- (4) adherence to business regulations,
- (5) availability of [a] basic infrastructure,
- (6) prevalent environmental risks,
- (7) consideration of market distortions,
- (8) adherence to human rights requirements,
- (9) selecting funding sources,
- (10) availability of investment incentives and
- (11) contractors procurement.

The focus of Investment Promotion Agencies

Investment Promotion Agencies (IPAs) and Special Economic Zones (SEZs) influence the operationalisation of FDI in South Africa.

Trade and Investment South Africa (TISA) was established to co-ordinate the activities of provincial IPAs and manage IPA networks through 46 foreign offices.

The focus of these IPAs ranges from domestic and FDI attraction through various industries to cost-effective exporting of goods and services, providing world-class infrastructure and possible expansion opportunities.

It is important to note that all the IPAs are mandated to operationalise secured investors and thereafter provide satisfactory levels of investment aftercare.

The rationale to government's establishment of SEZs in addition to the provincial IPAs was to increase the current levels of fixed FDI in SA, exporting of value-added commodities and introducing incentives to potential investors through the SEZ Act No. 16 of 2014 (Special Economic Zones, 2017).

According to the Department of Trade and Industry, in 2018 there were five existing SEZs in the country namely: Coega SEZ, East London SEZ, Richard's Bay SEZ, OR Tambo SEZ, and Saldahna SEZ.

The South African government is furthermore planning to establish nine additional SEZs over a period of 10 years. The SEZ programme seeks to create five million jobs by 2020. The majority of these jobs will be sourced through FDI and domestic investment.

The current investor ratio comparison for both domestic and international investors in the Coega SEZ is at 55% domestic and 45% FDI. With new investors coming on line, such as Cemza (India) and HELLA (Germany) in Zones 2 & 5 respectively, the SEZ has seen a considerable increase in FDI.

This is bolstered by an additional 18 new investors that have been signed-in the recently concluded financial year 2018/19, which will see a ratio of 60% FDI & 40% domestic.

There are three important processes that need to take place for FDI ownership transfer, namely the Detailed **Due Diligence Process**, which refers to the assessment of land ownership, zoning, availability of utilities, environmental risks, geotechnical conditions, business and tax regulations (as performed by various professionals).

Investment Structuring which involves consideration of the type of funding sources available including incentives and business registration (investment negotiation).

Lastly the **Investment Negotiation Process** which relates to the negotiation of cash-based incentives.

Further, investment negotiation seeks to transfer a business registration that will result in optimal tax benefits for the secured investor.

Currently, Coega is retaining investors by improving its post-investment activities, which include expediting value-adding services for foreign investors. In addition, the Coega SEZ is strengthening its relationships with strategic government departments that have a key interest in Zone Development. This includes the streamlining of the zones' value chain by ensuring critical departments are located in one location through a one-stop-shop model.

To further improve services to investors through resolving enquiries for pre-investment activities (pre-operational phase) as well as post-investment activities (operational phase).

The Coega SEZ also advocates for business-to-business networking amongst investors currently located within the SEZ via quarterly investor meetings. This is poised towards leveraging from existing investors.

The only real benefits from FDIs come after ownership transfer when the businesses become operational. Given South Africa's economic climate, fast-tracking FDI ownership transfer is thus a very important issue to address as it can bring about economic reform and growth. In fact, the importance of FDI for any developing country cannot be underestimated.

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