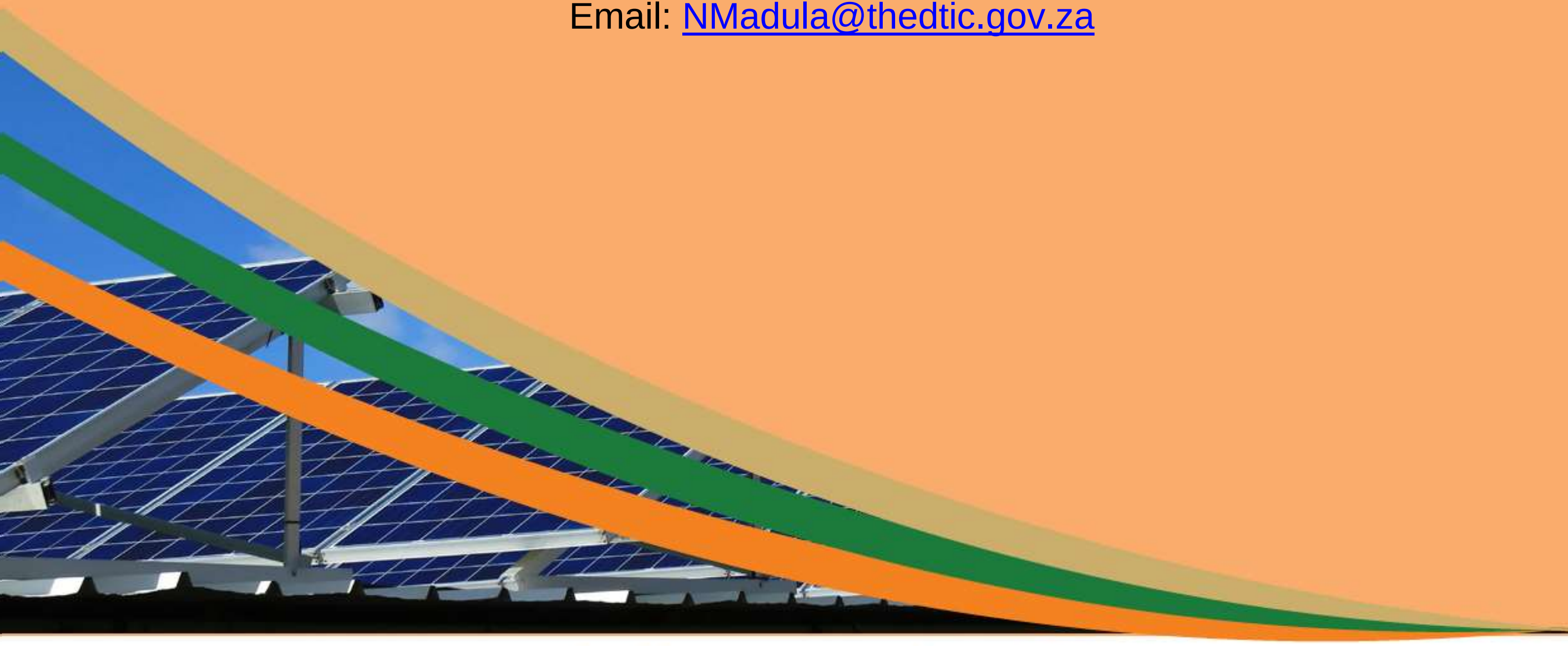
Opinion Piece

Efficacious or Lethargic: An Assessment of the Effectiveness of the South African Investment Conference as a National Investment Instrument

Produced by Chief Directorate: ERPC

CD name: Nkosiyomzi Madula
Email: NMadula@thedtic.gov.za



Efficacious or Lethargic: An Assessment of the Effectiveness of the South African Investment Conference as a National Investment Instrument

Word has it that domestic investment is good for economic growth; and economists, policy analysts and politicians, alike, have taken this word as gospel of the century. Who wouldn't, when the empirical evidence is singing the same tune?

The national target for investment is set at 30% of GDP by the year 2030, according to the National Development Plan (NDP) published in August, 2012. However, recently the ratio has been trickling away from the set target, averaging 16% of GDP from 2014 to 2021, from 19% in 2013; with 2021 ratio at just 14%.

Most sectors have been experiencing declines in investment – with the eight-year period, beginning 2014, having an annual average of -2.0%, driven largely by the electricity, water and gas that plunged by an annual average of 10.3% during the same period. Despite the overall downhill path, investment growth in some sectors has been positive. Agriculture and trade are such sectors. However, the fortunes of these two sectors have not been sufficient to re-write the SA investment story. Ultimately, this overall decline in domestic investment affected all classes of investment – from organisation type, through asset type, to sector type.

The South African Investment Conference (SAIC) was an initiative by the sitting President, to raise capital investment into the country to reverse, or at least halt, the declining investment trend. Since its inception in 2018, a total of more than R1.14 trillion worth of investment commitments has been made. However, based on the first three years of SAIC, a total of about R774bn worth of investments has been committed, out of which R316bn has been invested so far; forty-five (45) projects completed; while a further 57 are under construction, and another 15 put on hold. This is against investment attraction target of R1.2 trillion by 2023, leaving the initiative likely to surpass the set target.

Although it is well understood that there is bound to be an implementation lag, mapping the commitment and the actual investment realisation, to date, the fourth year of the investment initiative, reveals that realised investment is only R316bn, signifying 40.8% of the commitments. This is lower than the standard expected success or conversion rate from pledges to actuality of 60%. Even with this 40.8% conversion rate, the economic growth has not been responsive. Could it be the conversion rate is dependent on the sectors in which investment has been attracted to?

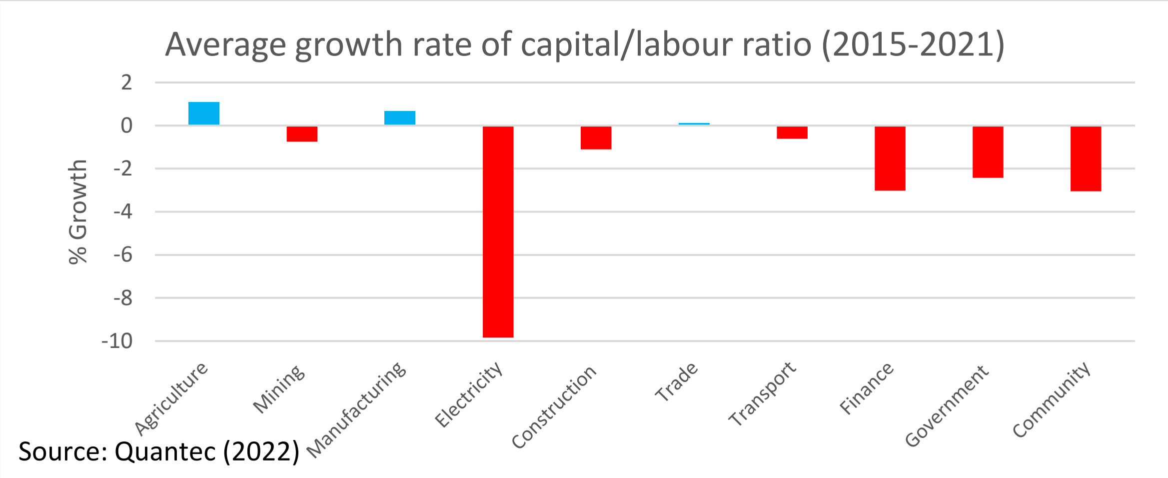
A synopsis of the investment pledges during the March 2022 conference shows that investments pledges were in these sectors: energy; automotive; mining and mineral beneficiation; healthcare and pharmaceutical; creative and fashion; infrastructure, property and logistics; food and beverages; and the development finance institutions.

The key question is whether the country is attracting investment in the appropriate sectors, deemed pivotal for economic growth and employment creation.

Using the concept of capital/labour (K/L) ratio and its growth rate as a measure of capital intensity of a firm, the agriculture sector has emerged as having the highest capital intensity growth rate of 1%, among all sectors. This was followed by the manufacturing and the trade sectors. However, the rest of the sectors showed a negative trend over the period 2015-2021[1].

[1] Qunatec. (2022, November). *quantec.co.za/easydata/.*

These three sectors with positive growth in K/L ratio, could be associated with greater appetite for investment, while others have a lower investment absorption. The pledges from SAIC exclude the agricultural sector, though it is the best performing sector, if the K/L ratio growth is anything to go by.



The manufacturing sector, which is second in raising capital usage, signalling more need for investment, can attracted investment in only the pharmaceuticals, food and beverages and automotive sub-sectors/industries as per the SAIC pledges[2]. This implies that only three of the ten manufacturing subsectors would draw investment. According to a study undertaken by Pan-African Investment & Research Services[3], it was established that a 10% increase in manufacturing investment in South Africa would result in a gross domestic product (GDP) contribution increase of 13% in South Africa, along with a 9% increase in fiscal revenue and an 8% increase in employment creation. This is an indication that the sector has a high investment multiplier; and, therefore, if more capital was to be invested in the sector, more growth in the economy could accrue, bearing in mind the large proportion the sector contributes (14% of GDP). The sector plays the role of an enabler with both backward and forward linkages, converting raw materials from the primary sector to finished goods supplied to the tertiary sector.

Trade is another sector with an appetite to grow in capital input. However, looking at the spectrum of pledges made during the last SAIC, this sector did not attract any. This is quite ironical given the current paradigm which looks into the tertiary sector as the driver of the economy, out of the doldrums.

The latest Nedbank Project Listing publication, covering the first half of 2022, shows investment as flowing in eight out of ten sectors (agriculture and construction sectors excluded)[4]. The value of projects amounted to R133.8 billion, which translates to R267.6 billion on an annualised basis, a 24.6% rise from R214.7 billion posted in 2021. This was driven mainly by the private sector, amounting to a robust R228.8 billion, and accounting for 86% of the total. The value of government projects rose to R37 billion from R33.8 billion. In contrast, public corporation plans declined sharply.

---

2 www.sainvestmentconference.co.za

3 (2022). Revitalising SA's Manufacturing Sector. Johannesburg: Pan-African Investment & Research Services (Pty) Ltd.

4 Nedbank. (2022). Nedbank Capital Project Listing. Johannesburg: Nedbank Economics South Africa.

Significant investment pledges were in the electricity, community, & personal services, mining, and finance & business services sectors. However, the key sectors, distinguished for their effective conversion of investment to employment – the manufacturing; trade & accommodation; and transport & communication – received the least pledges.

Investment flowing in the various sectors has been driven by the expansion in machinery and equipment, computers, processing equipment, computer software as well as transport equipment. These trends show that the focus for companies remains on automation, mechanisation and the digitisation of production processes and operations, as well as at improving the efficiencies of existing operations rather than expanding production capacity. The renewable energy sector has greatly contributed towards the surge in machinery and equipment.

The deviation or the lack of increased investment flows since the inception of the investment conference drive, could be explained by the lag in the time of project announcements and the actual commencement of projects. The announcements could be improved by indicating the time frame on which the project would be rolled out to minimise the ambiguity.

The pledges made in the conference by the various companies, have not been different from the usual drivers of investment in the country – reflecting a few new corporates as heeding the call to invest; and investment still relies on the usual companies.

There is misalignment between sectors attracting more pledges, whereas not necessarily have higher propensity to expand and attract more investment.

Furthermore, within those sectors that seem to be growing investment, there are categories or segments of the sectors that are attracting investment and not the entire sector.

Therefore to improve the uptake of pledges and their conversion into actual capital injections, those segments or categories of sectors with higher need for investment have to be put out on a radar, be identified and prioritised to avoid the misalignment.

The call and the drive for more investment is needed in trying to reach the NDP target of 30% of GDP, and the concerted effort would enable the goal, though it might be beyond 2030, with the remaining pledges still to translate into actual investment in the future. Although some sectors identified by SAIC are already driving investment in the country, such as the energy, mining, real estate and business /finance services, an alignment of priorities between the public and the private sector, from a policy perspective, cannot be overemphasised if SAIC is to be an effective vehicle for building investment momentum that finds expression in the lives of the South Africans in all walks of life. It is of importance that investment calls be guided by sectoral propensity to invest, hence an upfront dashboard would need to be communicated to potential investors if the SAIC is to be efficacious, as a national investment tool.