Private sector dominates investment in South Africa – BusinessTech

The private sector is continuing to sport the lion's share of capital investment in South Africa, increasing its spending on infrastructure, software, research and development investments.

This comes as public corporations (SOEs) spend on infrastructure continues to fall.

This is according to Chief Economist at Investec, Annabel Bishop, who said that "the private sector continues to drive capital investment in South Africa, contributing over 70% to growth in fixed investment."

Capital investment into the country from "[SOEs] remained weak at 11%, and general government at only 17%," she added.

Fixed investment growth came predominantly from investments into the construction of non-residential buildings, and infrastructure investment in computer software, research and development, cultivated biological resources and mineral exploration

Bishop outlined that private sector growth in infrastructure investment accelerated by 4.9% y/y in 2023, after the 5.2% y/y increase seen in 2022.

This is opposed to Reserve Bank, which data shows that South Africa's SOEs, in contrast, reduced their expenditure on fixed investment by 1.7% y/y in 2023.

"SOE spend on infrastructure continues to fall, [which limits] economic growth," said Bishop.

"Fixed investment remains key to economic growth outcomes," as it provides many of the structural and productive factors necessary for growth, said Bishop.

Government's new 'multistakeholder' approach to investment

The Department of Trade, Industry and Competition (DTIC) said that over the past several years, it has changed its approach to "a multistakeholder approach to industry-level initiatives, in which government, the private sector and labour collectively developed and implemented plans."

This contrast "with the earlier approach of state-led measures developed through comparatively informal consultations," said the department.

At the start of his tenure as minister of the DTIC, Ebrahim Patel said that "the role of industrial policy is to unleash private investment and energise the state to boost economic growth and inclusion [as] this is an essential part of building investor confidence and the platform for job-creation."

President Cyril Ramaphosa echoed this, recently saying that "(i)t is only through attracting higher levels of investment, both foreign and domestic, that a swift, sustainable economic recovery can be assured."

Moving towards a multistakeholder approach, as opposed to the previous state-led approach has seen that between 2019 and 2023, foreign direct investment (FDI) inflows into South Africa rose to R1.1 trillion.

This is an increase from the R312 billion recorded during the previous five years, a period largely under the presidency of Jacob Zuma, which the DTIC says was as a result of muddied relationships with the private sector and government during the height of state capture.

Investment growth

At the beginning of May, the DTIC published its Industrial Policy & Strategy Review, which outlined that the South Africa Investment Conference (SAIC) surpassed the initial R1.2 trillion target to reach R1.51 trillion in investment pledges.

The department said that one of the major issues South Africa has faced in gaining investment was due to the impact of state capture.

“The state capture period in the second half of the 2010s, which had a particularly negative affect on core infrastructure and on investor confidence. It was associated with a pro-cyclical fiscal policy, with the rate of growth in government spending dropping as economic growth declined,” said the DTIC.

This was echoed by Nedbank senior economist, Isaac Matshego, presenting at Nedgroup Investment’s pre-election roundtable on April 24, who said that “the relationship between government and the private sector muddied during the Zuma years (2009 – 2018).”

However, Matshego added that although policy shifts – albeit slow in implementation – are reenticing potential investors, there are still prevailing obstacles.

He said that the proliferation of corruption (even after the “9 wasted years”) with little to no consequences, the breakdown of service delivery particularly seen in energy, transport, and security, and a subsequent decrease in confidence in the government, has not done good in rebuilding those burnt bridges between potential investors and the government.

Source: Mark Kean - https://affluencer.co.za/2024/05/private-sector-dominates-investment-in-south-africa-businesstech/

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