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THE DYNAMICS OF PRIVATE INVESTMENT IN SOUTH AFRICA: A REVIEW OF POLICIES AND TRENDS

Glenda MALULEKE, Nicholas ODHIAMBO, Sheilla NYASHA
University of South Africa, South Africa
malulg@unisa.ac.za, odhianm@unisa.ac.za, sheillanyasha@gmail.com

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Abstract:
The study provides an overview of private sector investment in South Africa from 1980 to 2019. It reviewed investment policies and trends of private investment. The government policies were designed to accelerate employment creation, stimulate sustainable economic growth, and promote private investment. It is found that the level of investment by the private sector was higher than public investment for the period under review. For the South African economy to grow at the desired rate, it needs further investment from the government and the private sector. To encourage private investment, the government needs to continue to create a conducive environment for the private sector to participate in the economy.

Key words: Economic growth, Policies, Private sector investment, South Africa.

JEL classification: E20, H50

1. INTRODUCTION

Private sector investment has received considerable attention over the years as it is believed that it contributes more to the economic growth of the country than the public sector (see Sakr, 1993). Although there is no consensus about the factors that determine private investment in both developed and developing countries, economic growth is seen as a driver of investment in the economy. Greene and Villanueva (1991); Ndikumana (2000); and Hassan and Salim (2011) have studied the determinants of private investment in developed and developing countries but their findings are inconsistent. Many studies have proposed various factors that determine private investment such as public sector investment (Oshikoya, 1994; Ghura and Goodwin, 2000); external debt (Greene and Villanueva, 1991); interest rates (Oshikoya, 1994); inflation (Greene and Villanueva, 1991); economic growth (Sakr, 1993; Oshikoya, 1994); and terms of trade (Acosta and Loza, 2005). In South Africa, studies such as Kollamparambil and Nicolaou (2011), Biza et al. (2015), Molocwa *et al.*, (2018), among others have studies the impact of the macroeconomic variables on private investment. Molocwa *et al.*, (2018) found that economic growth, tax rate, and exchange rate have a significant impact on private investment.

Developing countries including South Africa have been facing the challenge of achieving sustainable economic growth and are looking at ways to improve it. The country is also faced with the challenge of reducing poverty and the unemployment rate. The countries with high participation in private investment achieve higher economic growth (Majeed and Khan (2008). Hence, the South African government has over the years been developing policies that will include the private sector in achieving its objectives. The policies and strategies have the objective to create a conducive environment for the development of the private sector. Like many other African countries, South Africa has implemented numerous policies to promote investment by the private sector. The South African government is also working on policy reforms to promote private investment. The National Development Plan (NDP) has outlined the structural reforms that are required to improve the level of investment (National Treasury, 2018).

Against this background, the study provides an exploratory review of the policies, trends and determinants of private investment in South Africa for the period from 1980 to 2019. During this period, the government has developed policies and strategies such as the privatisation of state-owned enterprises and policies to create a conducive environment for the private sector to conduct business. Therefore, the objective of the is to analyse the dynamics of private investment in South Africa in terms of policies and trends to establish whether the policies that have been implemented over the years succeeded in promoting investment especially from the private sector.

The rest of the study is presented as follows: Section 2 reviews some of the policies in South Africa over the years. Section 3 discusses incentives and institutions to promote investment. Section 4 discusses the private investment trends and Section 5 concludes the study.

2. INVESTMENT POLICIES IN SOUTH AFRICA

The government has committed itself to policies that will lead to an increased level of investment, employment creation, and sustainable growth in the economy. Over the years, it has adopted several policies and measures to promote private investments.

In 1985 the South African government adopted the privatisation of state-owned enterprises (SOEs). This was after foreign loans were cut off and the government realised that government corporations would have capital shortages as they were the major recipients of the loans (Jerome, 2004). The sale of the corporations' assets was expected to reduce the debt burden and that the government will also get additional revenue that was needed for its social programmes (Jerome, 2004). The government formulated the White Paper on Privatisation and Restructuring in 1987. The privatisation process formed part of a strategy where the involvement of the government in the economy would be limited to create more opportunities for the private sector (Gumede *et al*. 2016).

The aims of privatisation stated in the White Paper included developing a supportive environment with opportunities for the private sector, reducing the size and spending of the government, and allowing businesses to develop and grow without government interference, among others (Mostert, 2002). The pre-1994 government wanted to promote the involvement of the private sector in the economy through privatisation. It also believed that privatisation would develop the economy by increasing the level of net fixed investment in the private sector (Gumede *et al*., 2016).

The new government after 1994 got over 300 government owned enterprises and they had control of above 50 percent of the fixed capital assets in the economy (Jerome, 2004). The government continued with the privatisation process after 1994 and the restructuring of SOEs was established in 1999 (Department of Public Enterprises (DPE), 2000). According to the DPE (2000), the purpose of restructuring SOEs since 1994 has been to address the social, economic and political objectives of the government. The restructuring programme aimed to facilitate economic growth; mobilise private sector capital; create wider ownership of the economy; enhance the competitiveness of state enterprises; and reduce government debt (Department of Public Enterprises, 2000).

The objectives of the restructuring programme and the promotion of private sector growth continued to be central in economic policy strategies such as the Reconstruction and Development Programme (RDP), Growth, Employment and Redistribution (GEAR) strategy, National Framework Agreement (NFA), and Inter-Ministerial Cabinet Committee (IMCC) on restructuring of state assets. (Table no. 1) presents the key objectives of various policy documents since 1994.

Table no. 1. Key objectives of various policy documents

RDP(1994)	GEAR (1996)	NFA (1996)	IMCC (1999)
Meet the basic needs	Introduce a budget reform that would support the redistribution of expenditure	Increase economic growth and employment rate	Mobilise the capital and expertise of the private sector
Develop human resources	Reduce the fiscal deficit	Meet the basic needs	Ensure there is inclusive participation in the economy

Build the economy	Encourage a competitive and steady currency	Diverting assets for growth	Create constructive structures in the sectors where the SOEs are dominating
Democratising state and society	Introduce tax incentives for new competitive investment and labour absorption	Enhance competitiveness and productivity of the state enterprises	Attracting foreign direct investment
	Accelerate the restructuring of state assets in order to improve the investment resources	Facilitate the development of infrastructure through mobilising and redirecting the private sector capital	Reduce the public sector borrowing requirement

Source: Department of Public Enterprise (2000:20)

The RDP was launched in 1994 to address poverty and socio-economic inequalities. In its first year, a programme on infrastructure investment and a policy framework that focused on urban, rural and human resource development were formulated (National Treasury, 1995). The government also committed itself to substantial public investment to meet the basic needs of all citizens and to encourage private investment (Government Gazette, 1994). According to the Government Gazette (1994), the government also committed to creating an environment that is conducive for the private sector to invest.

The GEAR strategy was introduced in 1996 with the aim to rebuild and restructure the economy after RDP. This policy approach was for the economy to reach a growth rate of 6 percent and create 400 000 jobs per year and this was for the duration from 1996 to 2000 (National Treasury, 1996). Private investment was meant to drive the GDP growth envisaged during the period. This was to be achieved through the government reducing the fiscal deficit, which was expected to lead to a decrease in real interest rates and an increase in private investment (Weeks, 1999). The policy failed to achieve the desired economic growth rates. The GEAR's disappointing performance was as a result of fiscal contraction and high interest rates (Weeks, 1999).

The Accelerated and Shared Growth Initiative for South Africa (AsgiSA), replaced GEAR in 2006. AsgiSA aimed to halve unemployment and poverty by 2014 (The Presidency, 2006). To achieve its objectives, the government planned to increase its investment by focusing on infrastructure development that included upgrading and building energy infrastructure, ports, railways, and roads. In 2007, despite the rising interest rates, the level of investment reached 20.6 percent of GDP (The Presidency, 2007). This was the highest level of investment that had been achieved since 1985 and close to the investment target of 25 percent of GDP by 2014 that was set for AsgiSA (The Presidency, 2007). In the same year, private investment grew by 14.8 percent while public sector investment also continued to increase as was projected in AsgiSA (The Presidency, 2007).

The promotion of private sector investment was also mentioned in the National Development Plan (NDP) of 2012. Its objective is that by 2030, it will eradicate poverty and decrease the level of inequality. Through the NDP the government aims to lower the cost of living and conducting business which is anticipated that would improve the level of investment by the private sector, the growth of the economy, and the level of employment (National Treasury, 2013). With the NDP, the government aim to provide support to small businesses and improve access to finance; and encourage investment by the private sector in renewable energy development National Treasury, 2013).

After the 2009 recession, the government has chosen to spend more on consumption expenditure than on investment while the private sector has been reluctant to invest (The Presidency, 2012). However, seeing that the private sector is reluctant to invest, the government changed its spending from consumption to investment and it was envisaged that public sector investment would help crowds in private investment (The Presidency, 2012).

3. INCENTIVES TO PROMOTE PRIVATE INVESTMENT IN SOUTH AFRICA

To encourage investment that would boost economic growth and create employment, the government introduced a range of incentives in terms of capital investment and tax exemptions. Some of the incentives include the Critical Infrastructure Programme (CIP), 12I Tax Allowance Incentive (12I TAI), Export Marketing and Investment Assistance (EMIA), Automotive Investment Scheme (AIS), and Black Industrialist Scheme (BIS). The CIP objective is to increase investment by supporting critical infrastructure while at the same time decreasing the costs of investment (Marumo, 2020). It is mainly intended to attract private investment, however it will also encourage investment from the public sector that will create an enabling environment that will leads to an increase in the level of private investments (Department of Trade, Industry and Competition (dtic), 2021). The 12I TAI was made available to manufacturers that invested in new manufacturing assets (Greenfield investments) and in expansions or upgrades of existing projects (Brownfield investments) (see Swart, 2020). The objective of this tax allowance was additional tax deductions designed to support investment and improve productivity and skills development in the manufacturing sector (Swart, 2020).

The EMIA scheme compensated companies the costs for the development of export markets for products and services and attracting foreign direct investment to the country (Le Roux, 2020). Another incentive is the AIS and it was designed to grow the automotive sector through investment in new and/or replacement models and components that would increase plant production volumes, sustain employment, and strengthen the automotive value chain (the dtic), 2017). Through the scheme, the country has managed to secure commitments from investments above R45 billion from auto assemblers and component suppliers and this has helped to keep 38,267 jobs (the dtic, 2018:42).

Instead of simply shifting the ownership of large companies that are already operating to empower individuals without having been a change in control and decision-making of these companies, in 2015 government launched the BIS scheme to support committed black industrialists (the dtic, 2018). The support that was provided through the programme includes access to finance and markets, and development of skills (the dtic, 2018). The scheme has attracted private investment in the country as 79 projects amounting to R1.9 billion have been approved, leveraging R7.2 billion in investment by the private sector (the dtic, 2018:43).

The above incentives by the government are a way to promote investment especially, from the private sector, which can lead to job creation and economic growth. The incentives aim to stimulate investment in the various sectors of the economy. Most of these incentives are provided in a form of grants to those who are interested in investment. According to the dtic (2018:42), for the period 2011/12 to January 2018, the department has offered support to 14,226 enterprises through several incentives which totalled an amount of R61 billion. Most of the support was offered for investments in machinery, plant, marketing activities of exports, and getting services of business development.

4. PRIVATE INVESTMENT TRENDS IN SOUTH AFRICA

In the 1980s, the level of investment decreased when sanctions were imposed on the country. The sanctions led to a restriction on new foreign capital investment in South Africa (Chirwa and Odhiambo, 2016). According to Hefti and Staenhelin-Witt (2002), the country suffered a net capital outflow of R16.2 billion, which is equal to an annual average of 2 percent of GNP. (Figure no.1) presents private and public investment in South Africa as a percentage of GDP from 1980 to 2019.

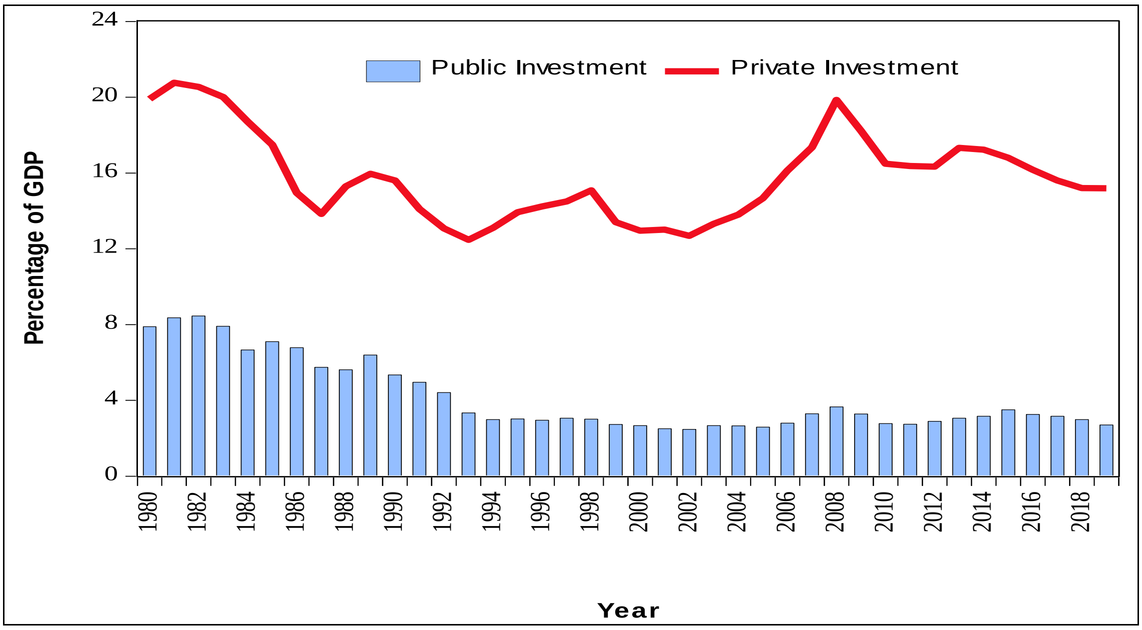

Figure no. 1. Private and Public Investment as a Percentage of GDP in South Africa (1980–2019)

Source: Own compilation from World Bank Development Indicators (2021).

From 1980 to 2019 investment by the private sector as a percentage of GDP was consistently higher than public investment, as displayed in (figure no. 1). Private investment declined from 16 percent in 1989 to 13.1 percent in 1992 while public investment shrunk from 6.4 percent to 4.4 percent during the same period. The decrease in investment from both the public and the private sector between 1989 and 1992 could be because of the poor projections for domestic and international economic growth; the low levels of capacity utilisation in manufacturing; and the underutilised production capacity of public corporations (National Treasury, 1993).

In 2000 private and government investment grew strongly and gross domestic fixed investment as a percentage of GDP increased to 15.3 percent while investment rose by 5.6 percent in the first half of 2001 (National Treasury, 2001). By 2018, the growth of gross fixed capital formation was an average of 1.5 percent per year from 2010, which is very low when it is compared with the 5.7 percent annual growth average in the 2000s (National Treasury, 2018). The lack of growth in the level of investment has been due to the low levels of demand and the continued uncertainty regarding policies, however, the government has been working hard to improve the conditions of investment by strengthening governance in the government institutions (National Treasury, 2018). The target of NDP is a total investment of 30 percent of GDP by 2030, of which 10 percent is anticipated that it will be contributed by the public sector (Treasury, 2016).

From 1980 to 1982, the level of private investment was on an upward trend, rising from 19.9 percent to 20.5 percent. However, it started to decrease from 20.5 percent in 1982 to 13.8 percent in 1987. Private investment in 1980 was 19.9 percent and it reached its lowest in the period from 1980 to 1993 when it was 12.5 percent in 1993. (Figure no. 2) presents private investment as a percentage of GDP from 1980 to 2019 in South Africa.

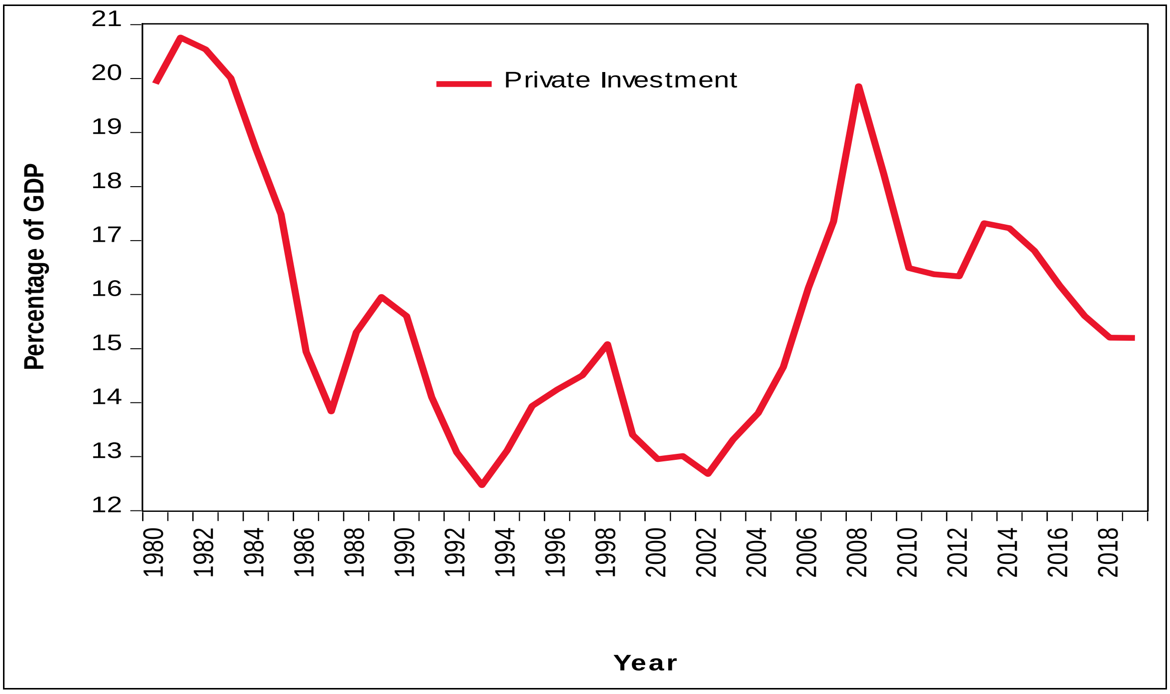

Figure no. 2. Private Investment as a Percentage of GDP in South Africa (1980–2019)
Source: Own compilation from World Bank Development Indicators (2021).

For the period 2003 to 2008, private investment as a percentage of GDP increased from 13.3 percent in 2003 to 19.9 percent in 2008. The private investment growth during this period was complemented by decrease in real interest rates, which decreased from 8.7 percent to 5.8 percent (World Bank, 2021). As interest rates were decreasing, it was also becoming cheaper for the private sector to borrow funds from financial institutions to finance their investment projects and activities. After 2008, private investment was fluctuating, decreasing from 19.9 percent in 2008 to 15.2 percent in 2018. However, there was also an increasing trend between 2008 and 2018. In 2012, private investment started to increase again until 2014 when it started to decrease until it reached 15.2 percent in 2018. The level of private investment averaged 15.8 percent from 1980 to 2018 while it increased from 13.1 percent in 1994 to 15.2 percent in 2018. The initiatives and policies that have been developed by the government to promote private sector investment since 1994 could have contributed to the increase in investment levels from 1994.

The policies that government has implemented since 1994 depended on the growth of the economy to be successful. Since 1980, the economic growth rate has been fluctuating, with the highest growth rate recorded at 6.6 percent in 1980 and the lowest was in 1992 at a growth rate of -2.1 percent (see Figure no. 3). The negative growth in 1992 was due to the lack of investment, which contributed to the poor economic performance (National Treasury, 1993). As Figure no. 3 shows, although economic growth picked up from 1993, another sharp decline occurred after the mid-1990s, which resulted in a decrease from 4.3 percent in 1997 to 0.5 percent in 1998. (Figure no. 3) presents economic growth rates and private investment as a percentage of GDP in South Africa from 1980 to 2018.

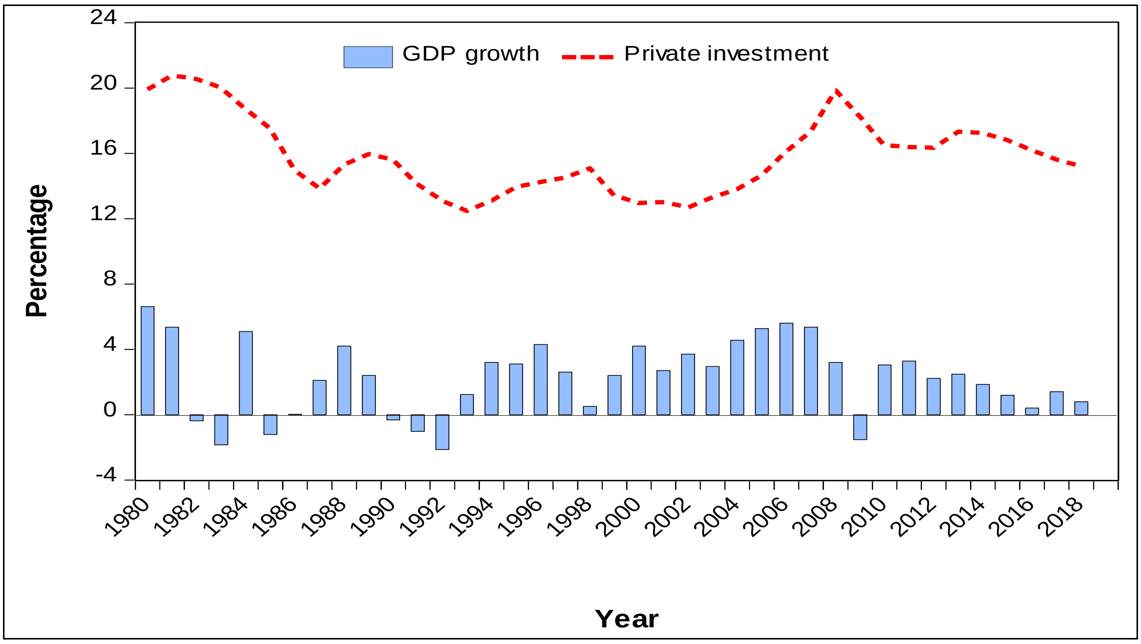

Figure no. 3. GDP Growth Rate and Private Investment in South Africa (1980-2018)
Source: Own compilation from World Bank Development Indicators (2021)

During the period 1980 to 1993, the economic growth rate was an average of 1.4 percent, while private investment was 16.6 percent. As can be seen from Figure no. 3, between 2004 and 2007, economic growth accelerated to an average of 5 percent while private investment was at an average of 15.5 percent. In 2006, the economy grew by 5.4 percent and over 5 percent in 2007, which was higher compared to the AsgiSA growth target for the period 2004 to 2009 with an average growth rate of more than 4.5 percent.

5. CONCLUSION

This paper presented an overview of private investment in South Africa and also examined the investment policies and trends in private investment from 1980 to 2019. In 1980s investment decreased because of international sanctions. Private sector investment as a percentage of GDP was consistently higher than investment by the government from 1980 to 2019. The government has also contributed to the increase in investment with a focus on infrastructure development and service delivery.

Since 1994, the government has focused on poverty reduction and job creation as can be seen by the policies that the government has adopted. The government policies were designed to accelerate employment creation, stimulate sustainable economic growth, and promote private investment. They include the privatisation policy, the RDP, GEAR, AsgiSA, and the NDP. The government also introduced a range of incentives such as the critical infrastructure programme, the 12I tax allowance incentive, the export marketing and investment assistance scheme, the automotive investment scheme, and the black industrialist scheme, among others, to encourage investment. For the South African economy to grow at the desired rate, it needs further investment from both the government and the private sector. To encourage investment, the government needs to continue to create a conducive environment for the private sector to participate in the economy.

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