

## Briefing Note: Investment Conference 2018 – Evaluating the pledges

The South Africa Investment Conference 2018, held between the 26th and 27th of October, was headlined by the announcement of R290 billion in new pledged investment. Achieving that target would contribute almost a third to President Cyril Ramaphosa's five-year US\$100 billion target for new investment. Understanding what lies behind this figure is, however, more of a challenge. Pledged investment can be unreliable as plans and values change, commitments are made at a political level rather than by companies, and potential investors often overstate their commitments.

A useful starting point for assessing the investment pledges is the 10 largest projects announced at the conference, which are listed in the table below.

Three questions should be asked of each investment: is the pledge credible, is it new, and what role did the government play in securing the project.

**Table 1: 10 largest projects announced at the conference**

Project	Company	Value (R billion)
Extending and sustaining lifecycle of mines	Anglo American	75.1
Two zinc mines	Vedanta Resources	21.4
East London plant expansion	Mercedes Benz	10
Export capacity investments	Mondi	8
Dissolving wood pulp capacity	Sappi	7.7
Tech start-up fund	Naspers	6
Platinum mines	Ivanplats	4.5
Vanadium mines	Bushveld Minerals	2.5
Smartphone production	Mara corporation	1.5
Telecomms base stations	Rain	1

Almost all these investments are broadly credible. They are being undertaken by companies with established South African operations, in sectors that tend to be among the most active for investors in the country. Clear project plans seem to be in place for many of the projects. The only concerns arise around Mara's pledge to develop a cellphone production centre. While the phone, the Mara X, has been widely publicised, it remains a new and highly complex undertaking, and a radical departure for a group with a traditional focus on finance and real estate. Despite an advertised launch date of second quarter 2018, no reliable information is available on the development of production infrastructure in Africa, outside

of broad pledges to build the phone in facilities in South Africa and Rwanda. While the project seems exciting, it should be treated with caution until further information emerges.

That said, many of the projects are not entirely new pledges, and while important and a welcome signal of confidence in the South African economy due to the willingness of these companies to continue and expand operations, they may not boost investment as much as hoped. The four largest pledged investments all represent reinvestments or expansions in existing projects. This is a normal pattern for investment, in which reinvestment is almost always larger than greenfields investment. Still, some of the projects – notably Mondi’s multi-year restructuring and Mercedes-Benz’s long-running expansion plans – can be traced back to well before the investment drive. Similarly, Vedanta’s pledge equals the total value of all initiatives related to the company’s existing Gamsberg zinc mine and smelter. While this project is a landmark for the company and certainly represents an important investment, it builds on plans that began in 2015, and that always seemed likely to include iterative development of the mines and infrastructure at the Gamsberg site.

Would the investments have happened even without new government encouragement through the conference? The conference should be seen as a milestone in a broader effort to support increased investment, and with the slowing rate of private sector investment, a surge in investor confidence is much needed. President Ramaphosa has prioritised increased investment and played a direct role in convincing potential investors to move ahead with their plans. The conference was therefore an important public commitment to an improved investment environment – for both domestic firms and international companies. In addition, specific policy changes brought about by the current administration have facilitated some of the investments – with Mercedes-Benz’s pledge underpinned by the dti’s auto programme, and the mining investments supported by the agreement on the Mining Charter. Clearly companies are seeing the broader environment as supportive and are committing to the country.