

## Terms of Reference: Assessing the determinants of productive investment in South Africa (1994-2025)

| Terms of Reference                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
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| <b>Project lead</b>                      | Joan Stott                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| <b>Research collaborator</b>             | Liso Mdutyana                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| <b>Suggested title (to be confirmed)</b> | Assessing the determinants of productive investment in South Africa (1994-2025)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <b>Report type</b>                       | <ol style="list-style-type: none"> <li>1. Working paper (30 - 40 pages)</li> <li>2. Policy brief (10 pages)</li> <li>3. Opinion piece / policy-type summary publication (1,000 words)</li> </ol>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>Brief background</b>                  | <ul style="list-style-type: none"> <li>• South Africa faces persistent investment deficiency, low economic growth, stubbornly high unemployment, structural and constant inequality, premature deindustrialisation, infrastructure constraints, energy and food deprivation, climate vulnerability, rising debt-service costs, and growing fiscal pressures despite possessing a large and sophisticated financial system.</li> <li>• Nominal gross fixed capital formation was <a href="#">at</a> 13.9% of GDP in March 2026, less than half the National Development Plan (NDP) <a href="#">target</a> of 30% by 2030, while national saving was 13.4% of GDP in 2025. Corporate saving was 13.7% of GDP, household saving only 1.4%, while general government dissaved by 1.7% of GDP in March 2026 (<a href="#">SARB</a> 2026).</li> <li>• However, the 'low' national saving rate coexists with very large stocks of financial wealth. The Johannesburg Stock Exchange (JSE) <a href="#">had</a> a market capitalisation of approximately R24 trillion at the end of 2025, equivalent to about 313% of GDP, making it one of the world's largest</li> </ul> |

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|  | <p>equity markets relative to the domestic economy. In addition, South African pension funds <a href="#">hold</a> close to R6 trillion in assets, while life insurers alone managed R5.2 trillion at the end of 2025. In addition, substantial cash reserves are held on corporate balance sheets without firms converting accumulated liquidity into new fixed investment, instead unnecessarily growing retained cash holdings. (Karwowski <i>et al.</i> <a href="#">2022</a>) using the South African Revenue Services (SARS) - the National Treasury firm-level tax database found that South African firms' cash holdings were broadly higher than those of firms in other emerging-market economies, with firm-level cash holdings significantly increasing between 2010 and 2017, particularly in manufacturing.</p> <ul style="list-style-type: none"> <li>• The mainstream narrative based on the loanable-funds theory treats prior saving as the source of investment finance, suggesting that an increase in saving expands the pool of loanable funds and leads to increased investment. Under this approach, fiscal deficits may reduce national savings, raise interest rates, and crowd out private investment (Mitra <a href="#">2017</a>). But other scholars argue that investment is undertaken in response to expected demand and profitability, and can be financed ex ante through bank credit, retained earnings, or other financing instruments and the expenditure and income generated by investment subsequently creates saving ex post (Nell <a href="#">2003</a>).</li> <li>• In this regard, the open-economy dimension is essential because ex post, the national-accounting relation links the current account (CA) to the difference between national saving (S) and investment (I), <math>CA = S - I</math>, even though this identity does not establish the behavioural direction of causality.</li> <li>• Nell's (<a href="#">2003</a>) findings suggest that the relevant constraint on an investment expansion may therefore be less a predetermined stock of domestic savings than the economy's capacity to finance the imported machinery, intermediate inputs, and technologies associated with investment. This distinction is particularly important for South Africa because investment-led growth can widen the current account through higher imports unless it simultaneously expands export capacity or attracts sustainable external finance.</li> <li>• On the other hand, Andreoni <i>et al.</i> (<a href="#">2021</a>) describe South Africa as a case of "profitability without investment", showing that weak fixed capital formation has coexisted with exceptionally deep equity markets and high corporate profitability. Bond and Malikane (<a href="#">2019</a>) similarly argue that periods of weak capital accumulation have coincided with financialisation, in which profits that might otherwise have</li> </ul> |
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|                                       | <p>been reinvested in plant and equipment are increasingly directed towards financial assets.</p> <ul style="list-style-type: none"> <li>• At the same time, wealth ownership is extraordinarily concentrated with the top 10% owning about 86% of aggregate individual wealth, the top 0.1% nearly one-third, while the top 0.01% own more wealth than the bottom 90% combined (Chatterjee <i>et al.</i> <a href="#">2022</a>). This introduces a distributional question into the saving-investment nexus whereas a policy may increase financial saving while failing to increase productive investment if additional income accrues to actors whose portfolios are directed towards existing, financial, or offshore assets rather than new domestic productive capacity.</li> <li>• Fiscal policy consequently becomes part of the empirical analysis in the investment-savings dynamics. Conventional crowding-out arguments imply that public borrowing absorbs savings that would otherwise finance private investment. Marire (<a href="#">2023</a>), using annual data from 1960-2021, however, finds that fiscal deficits increase private savings and reduce interest rates, contrary to the fixed-pool interpretation of loanable funds. For instance, during the 1998-2008 fiscal-consolidation period, the fiscal position improved from about -4% to 0,7% of GDP while net private saving fell from 5,5% to 3,2% of GDP.</li> <li>• The proposed study, therefore, seeks to examine what drives finances towards productive investment in South Africa and assess whether gross capital formation is constrained by the allocation and creation of finance, weak effective demand and profitability, public and infrastructural underinvestment, or the foreign exchange constraint and how these mechanisms interact. The study should test whether public borrowing has crowded out gross fixed capital formation or whether, under conditions of deficient demand and infrastructure constraint, fiscal consolidation has weakened the incomes, profitability, export earnings from which both investment and saving arise.</li> </ul> |
| <b>Purpose of the activity/output</b> | <p>Firstly, the purpose of this study is to provide an empirically rigorous account of what finances and determines productive investment in South Africa, and to assess the implications of this for fiscal policy. The study should test rather than assume the competing propositions of loanable-funds, investment-led growth, financialisation, and balance of payments constrained approaches.</p> <p>In particular, it should distinguish between saving as an ex-post flow of unconsumed income; finance as purchasing power available to initiate expenditure; financial investment as the acquisition of financial claims; and productive investment as expenditure that creates new productive capacity.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |

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|                               | <p>Empirically, the study should identify the relative importance of retained earnings, bank lending, bond and equity finance, pension and institutional funds, development-finance institutions, public investment, and foreign finance in funding new capital formation. The study should test the direction of causality between saving and investment; and examine how this relationship is conditioned by the current account, capital flows, and the foreign exchange constraint. SARB flow-of-funds <a href="#">data</a> provide a useful basis because they explicitly connect sectoral saving and investment positions to the corresponding financial transactions between households, corporations, banks, government, and the external sector.</p> <p>Secondly, the purpose of this study is to assess the fiscal and distributional implications of these findings. In particular, to estimate whether public deficits and investment crowd productive private investment out or in; whether fiscal consolidation releases finance for private capital formation or suppresses investment through weaker demand and public infrastructure; whether accumulated pension and financial wealth finances new productive assets or predominantly existing and offshore assets; and whether South Africa's highly unequal ownership of saving and financial wealth affects the translation of national saving into productive investment.</p>                                                  |
| <b>Call for working paper</b> | <p>Contributors are welcome to share abstracts and proposed outlines for a working paper focused on the sources of productive investment in South Africa during the period 1994-2025. The working paper is aimed at:</p> <ul style="list-style-type: none"> <li>• Quantifying the sources and drivers of productive investment in South Africa between 1994 and 2025. This should determine sources that finance gross fixed capital formation in South Africa.</li> <li>• Distinguishing and analysing the trajectory of financial accumulation and real productive investment in South Africa. This may include an analysis of South Africa's investment financing regime over the last three decades.</li> <li>• Estimating and assessing the dynamic impact of government borrowing on investment, and the dynamic effect of different financing instruments on gross fixed capital formation. That is, assess which financing instruments or mechanisms crowd in or crowd out investment. This may include assessing the assumptions of the macroeconomic identity (<math>CA = S - I</math>).</li> <li>• Analysing different financial institutions and investors' capital allocation. This may include identifying the actors that allocate capital and where the capital is directed in the economy.</li> <li>• Quantifying the drivers of the cost of capital in South Africa. This should include an assessment of the constraints to accessing productive investment financing.</li> </ul> |

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|                                    | <ul style="list-style-type: none"> <li>• Estimating the impact of financialisation on South Africa's productive investment financing and capital allocation. This should determine whether the economy has a savings deficiency, fiscal balance, external constraint, or a productive capital allocation problem.</li> <li>• Drawing policy implications for possible reforms that could improve the allocation of productive capital in South Africa, fiscal and external balance management.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| <b>Other deliverables</b>          | <p>A policy brief should be written from the content developed in the working paper. The purpose of this brief is to:</p> <ul style="list-style-type: none"> <li>• Provide a high-level summary and overview of the key findings in the working paper and their policy relevance.</li> <li>• Share key policy recommendations from the working paper's research findings for policymakers, government, research institutions, business forums, and civil society organisations.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| <b>Summary of findings</b>         | <p>Prepare a written summary in a clear and simple language for publication on the Econ3x3 to share the research findings with the research community and policymakers.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| <b>Outputs/activities</b>          | <ul style="list-style-type: none"> <li>• <b>Detailed outline and inception note:</b> Conceptualise an outline of the working paper and policy brief.</li> <li>• <b>First draft</b> (working paper): Share and present draft to IEJ team members.</li> <li>• Incorporate comments from the IEJ team members into the working paper.</li> <li>• <b>Second draft</b> (working paper): Share and present draft to IEJ team members.</li> <li>• Incorporate comments from the IEJ team members into the working paper.</li> <li>• <b>Third draft</b> (working paper): Share draft with copy editor and IEJ team members.</li> <li>• Incorporate comments from the copy editor on the working paper.</li> <li>• <b>Final draft</b> (working paper): Submit.</li> <li>• Draft policy brief.</li> <li>• Incorporate comments from the IEJ team members and the copy editor in the policy brief.</li> <li>• Prepare a written summary in clear and simple language for publication on the Econ3x3 (1000 words).</li> </ul> |
| <b>Method</b>                      | <ul style="list-style-type: none"> <li>• Desktop research</li> <li>• Quantitative and qualitative analysis</li> <li>• Modelling and estimations.</li> <li>• All writing and formatting must align with the IEJ style guide.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| <b>Connection with the project</b> | <p>This research will enable the Resourcing for Rights Realisation team to advance further research and policy engagements on South</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |

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|                             | Africa's investment financing and the implications for developmental fiscal policy framework capable of supporting high employment, reduced inequality, productive transformation, climate resilience, and sustainable industrialisation.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <b>Translation</b>          | None needed                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| <b>Budget</b>               | R150,000                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| <b>Production schedule</b>  | 16 - 18 weeks                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| <b>Request for proposal</b> | <ul style="list-style-type: none"> <li>• Prepare an abstract and an outline detailing an assessment of the determinants of productive investment in South Africa (1994-2025) and what drives investment financing and the implications for fiscal and external balance.</li> <li>• CV and writing samples of the author.</li> <li>• A budget and proposed timelines.</li> </ul> <p><b>Deadline for proposal:</b> 03 November 2026</p> <p><b>Criteria for the evaluation of the proposal</b></p> <ul style="list-style-type: none"> <li>• Experience and expertise in modelling and undertaking research work related to fiscal policy, macroeconomics, development finance, industrial policy, and current account imbalances.</li> <li>• Knowledge of South African macroeconomic institutions, particularly National Treasury.</li> <li>• Strong publication record in relevant fields.</li> </ul> <p>Please send proposals to <a href="mailto:helen.bhuka@iej.org.za">helen.bhuka@iej.org.za</a></p> |