OPINION

NADIA RAWJEE: African manufacturing sector requires innovative financing solutions

The African manufacturing landscape continues its rapid evolution and businesses need to adapt

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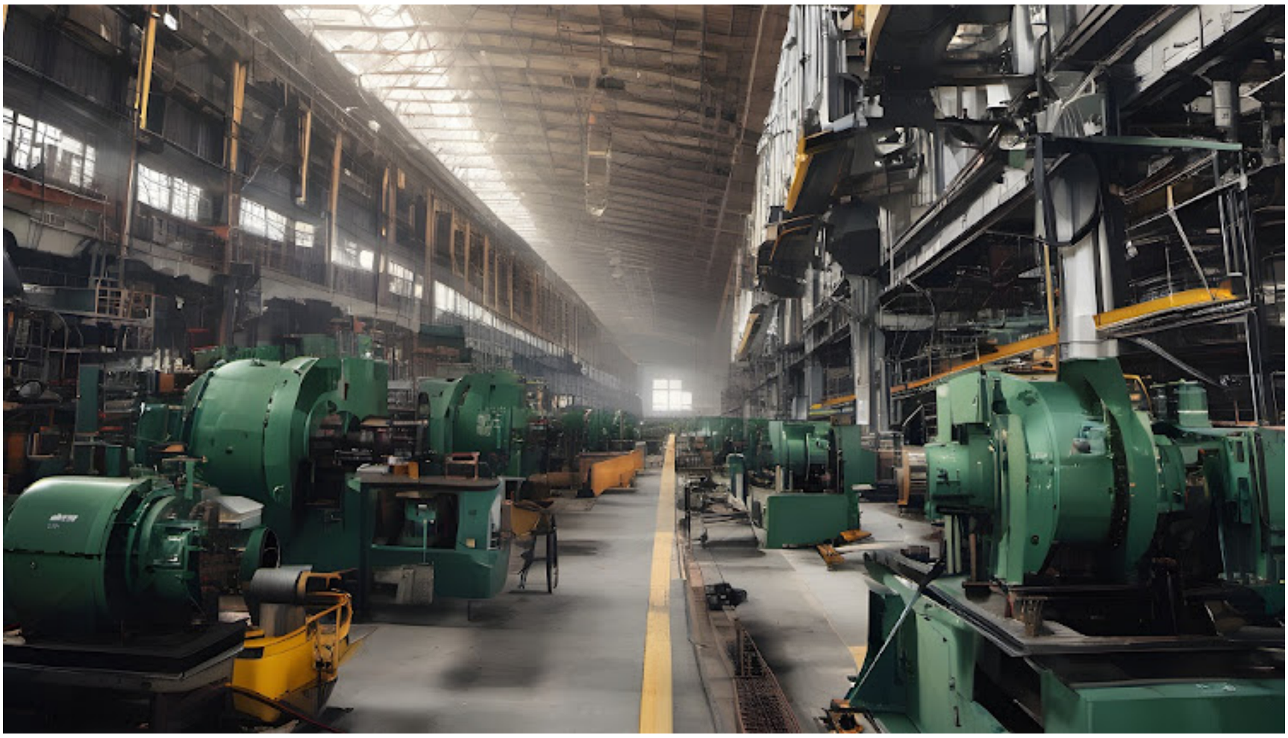
by NADIA RAWJEE



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The recent Manufacturing Indaba held in October provided an illuminating overview of the manufacturing landscape on the continent. Aptly themed *Capitalising on Manufacturing Growth in Africa*, the event highlighted both the vast opportunities and challenges facing intra-Africa trade.

The manufacturing landscape is evolving at an unprecedented pace. Current projects span a spectrum from energy production and efficiency to new equipment, technological improvements and expansions into new markets. These ventures are not only crucial for growth but also pivotal in ensuring competitiveness in an increasingly globalised world.

However, the financial intricacies involved can be daunting. How can businesses determine which projects to prioritise, especially when working with restricted balance sheets and security? The answer might lie in innovative financial strategies. In a world where projects are diverse — ranging from AI solutions to geographical expansions — businesses must also diversify their financial approaches. By understanding the unique nuances of different financial institutions and leveraging their strengths, they can accelerate project rollouts.

A striking statistic from the event underscored the potential for growth in intra-Africa trade: a mere 17% of the continent's trade is within its borders. This offers a colossal opportunity to leverage regional collaborations, diminishing external market dependencies. By promoting local industries and championing economic integration, Africa cannot only create resilient, diversified economies but also generate local employment, tapping into the wealth of resources and skills within its boundaries.

One of Africa's most formidable assets is its youthful, burgeoning population. While many developed nations grapple with ageing demographics leading to labour shortages, Africa's young and rapidly growing population stands as a beacon of potential. Equipped with education, tech acumen, and enthusiasm, this labour force can attract foreign investments due to its competitive wage structures. As global industrial trends evolve, Africa's labour force is poised to make a significant mark on the world stage.

It is imperative to note that a critical area of opportunity lies in the realm of healthcare. With an astonishing 86% of medications and nearly all vaccines imported, there is an exigent call for local production. Bolstering domestic manufacturing not only addresses supply chain vulnerabilities but also creates employment and invigorates the economy. Moreover, it equips Africa with the agility to respond during health crises, tailoring solutions to local needs. This approach sets the stage for Africa to become a formidable player in the global pharmaceutical sector.

Further, the burgeoning repair economy, rooted in sustainability and resourcefulness, stands as a testament to Africa's commitment to circular economy principles. Prioritising repair over replacement not only extends the lifespan of products but also fosters job creation and entrepreneurship. This sustainable approach has the potential to amplify Africa's GDP by an additional 3%.

Despite this, challenges persist. A consistent theme echoed in many sessions was the intricate web of logistical constraints impeding intra-Africa trade. From divergent customs regulations to infrastructure deficits, the hurdles are multifaceted.

Differing trade policies, inadequate transportation networks, and security apprehensions further compound these challenges, escalating costs and trade uncertainties. Additionally, the diverse quality and qualification benchmarks across Africa's 54 nations create hurdles, and the absence of standardisation impedes trade, fosters product inconsistencies, and stifles integration initiatives. A unified standard is imperative not only for fostering regional collaboration but also for ensuring safety and solidifying economic harmony.

In the realm of manufacturing there is a compelling truth that many industry leaders, including Mark Goliath from the Industrial Development Corporation (IDC), have come to understand: there's no universal blueprint for financing. Every manufacturing business is a unique entity with its own challenges and advantages, but access to reliable energy supply will be non-negotiable. As Goliath aptly stated, as a manufacturer "you're obligated to find what works best for your business." One pivotal aspect of this equation is the decision regarding energy projects.

Should these be on-balance sheet investments, or is it wiser to navigate through a power purchase agreement, allowing specialists to manage the energy facet while the business centres focus on its core operations? The return on investment of energy projects is often significantly lower than that of reinvesting directly into the business. This raises valid questions about aligning with shareholder interests and maximising capital effectiveness.

This brings us to a point made by Sachin Chanderdhev of Absa. The journey to secure financing isn't monolithic. While commercial banks traditionally lean towards security lending, developmental finance institutions (DFIs) such as the IDC are more inclined towards cash flow lending.

They're not just looking at what you have but at where you're heading. Chanderdhev emphasised that DFIs focus on the opportunity and market pricing for the risk involved. The longer processing time, he argued, is justified given the meticulous due diligence these institutions conduct. Chanderdhev's sentiment — "It's not a one-size-fits-all [to finance], it's a really in-depth understanding that's needed" — captures the essence of today's financial landscape.

For businesses, this underscores the importance of approaching finance with an inquisitive and tailored strategy rather than a cookie-cutter approach.

Saul Levin of Trade and Industrial Policy Strategies added another layer to this dialogue by highlighting the often-overlooked benefits of not solely relying on one's balance sheet. Keeping capital accessible and liquid can be an invaluable asset, offering businesses the agility to pivot when opportunities or challenges arise.

The African manufacturing landscape continues its rapid evolution and businesses need to adapt. Not just in their production strategies but in their financial blueprints. Adopting a flexible, informed, and diversified approach to financing can be the game changer manufacturers need to thrive in this dynamic environment.

With the right financial partners and a clear understanding of the available options, African manufacturers can leverage their unique strengths and carve out their niche in the global marketplace.

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