

SONA and the Budget Speech in the eyes of a manufacturer

 By [Nadia Rawjee](#)

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While the SONA 2022 touched on various socio-economic matters at the heart of the South African reality, the continued focus on industrialisation and localisation, in my opinion, is the most relevant.



Nadia Rawjee, managing director at Uzenzele Holdings. Source: Supplied

Minister of Finance Enoch Godongwana's maiden budget speech, which is expected to focus on stimulating economic growth and foreign direct investment into the economy while reigning in government debt, further illustrates the point.

Over the past 11 years, our firm, Uzenzele Holdings, has assessed and engaged in multimillion-rand industrial greenfield and brownfield expansion projects, many facing similar challenges.

The below are key issues that need to be addressed if we are serious about transforming the local economy.

Critical infrastructure

Whilst we have many resources, and among the best infrastructure on the continent, network infrastructure known as "critical infrastructure" is insubstantial.

Some examples include:

1. Power - a large R250m mineral beneficiation processing facility has been delayed by at least six months due to the unavailability of power, which dictates the capacity of the facility and project size.
2. Water - interactions with mines in Limpopo have demonstrated the inability to expand extraction capacity due to insufficient access to water due to limited water distribution networks from the dams.
3. Transport - projects have been shelved due to the inability to secure sufficient reliability and space in the cost-effective transportation of goods imported for further value-adding and from rural and outlying areas to domestic and foreign markets.

Whilst the lack of the necessary infrastructure is real, what's also real is the underutilisation of public funds to address the issue.

There's the R100bn Infrastructure Fund managed by the Developmental Bank of Southern Africa (DBSA), the Department of Trade and Industries (DTIC's) R2bn SEZ, and Critical infrastructure Programme (CIP) grant – which consists of incentives support for bulk infrastructure, top structures, and critical infrastructure associated to the industry.

Uptake from the private sector is however slow in part, due to a lack of awareness of these funds, how to access them, timing, preparedness and the requirements to do so.

Whilst regulatory hurdles and red tape have stalled the ability of funders (private and public alike) to invest, there seems to be progress; and with an estimated 4,000 MW from embedded generation projects in the mining sector being announced, the future is bright.



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SMEs

Whilst the reduction of red tape for small businesses has been promoted in the SONA, I'm hoping to see an increased understanding from public sector funders regarding the indulgence of medium-sized businesses.

Whilst the focus in many countries is in line with the reduction of red tape for informal, micro, and small businesses, many medium businesses struggle to conform as they are neither big enough to afford (tongue in cheek, a lot of compliance is unaffordable irrespective of business size) and too big to be addressed in reforms such as the one our president spoke of.

I'm looking for eased compliance for small manufacturers who by definition may turn over up to R50m per annum which places them in the most burdensome bracket for B-BBEE compliance, which has delayed some of our clients' expansion

projects by more than a year.

These delays erode at small manufacturers who need investment through public funds such as the Black Industrialist scheme and the Industrial Development Corporation. They need this funding as they typically don't qualify for commercial funding lacking equity and security needed by most commercial lenders which talk to the president's address regarding credit and guarantee schemes which we hope will provide enhanced access to well-priced capital for Black Industrialists.



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Cannabis

[Zahra](#), my business partner, is a member of the Cannabis Masterplan group, and we've invested over three years and millions of rands into understanding this high growth but equally high barrier-to-entry sector.

What excites me most is the prospect of industrial hemp and its multiple use cases. We're hoping to see a liberalisation of regulation across the value chain but understanding that the cannabis sector is in its nascency in South Africa, we're betting on short to medium wins in the use of hemp biomass as a fiber for industrial purposes.

Funding in cannabis remains scarce in both the public and private sectors due to the regulatory uncertainty that happens in market demand.

The hope is that we are able to bring awareness to the public and private capital markets around the non-medical, ingestible uses of hemp through commercial projects which are being packaged for funding rounds.



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Industrialisation and localisation

Government approved some R8.8bn in funding for 216 projects in 2020/1 contributing to R27.9bn in investment with 18,330 jobs created and 22,272 retained jobs in the industrial sector.

The increased focus on local content in public and private supply chains is encouraging but will require a transition period where local manufacturers are able to meet capacity requirements for local goods.

What was really encouraging is the reform in visa issuance and the updating of the critical skills list. Every single manufacturing client of mine has struggled at some point to obtain visas for engineers and specialists with critical skills (which are in a shortfall in SA) necessary to install, maintain and operate new and upgraded machinery.

These visas and the availability of skills are absolutely required to provide funders with the necessary comfort that the machines they're helping an industrialist procure will operate and generate revenue in order for the business to make repayments, and to create impact in jobs and tax revenue where public money is being utilised.

These skilled individuals are further required to transfer skills to local engineers, production staff, and maintenance teams which enhances South Africa's manufacturing skill base which is critical to re-industrialisation.

All in all, the SONA was well received by my team and I, but much work from both the private and public sectors will be required to get our country's economy back in shape.

I appeal to all manufacturers and those in the industrial sector to assess their business and investment case for growth, engage professionals like ourselves to prepare your projects in line with fund mandates.

It is through this preparedness that private-sector manufacturers are able to play their part in the narrative and extract the billions available for them.

I also appeal to the public sector and Mr President to swiftly implement the reforms you've communicated in the SONA. We needed them yesterday.

ABOUT NADIA RAWJEE

Nadia Rawjee is the Managing Director at Uzenzele Holdings. Nadia Rawjee has experience in industries ranging from FMCG to manufacturing and mining because of family interest and her involvement in an influential African network called Intra Business Network. Her skills lie in business analysis, business modelling and accessing developmental funding. She has a BCom degree in Finance and a BCom degree in Economics and Econometrics from the University of Johannesburg.

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