
2016 JETRO Survey on Business Conditions of Japanese Companies in Africa

Japan External Trade Organization (JETRO)
Middle East & Africa Division
Overseas Research Department
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Points about this Survey

Expectations for African Markets Continue

More than 50% of Companies Intend to Expand Business & foresee Market Growth Potential

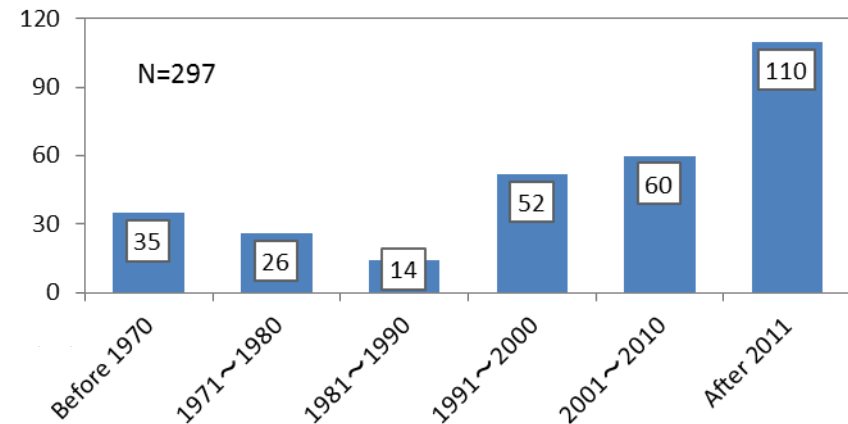
- ☆ More than 50% of companies intend to expand citing “High Growth Potential” as the most important factor. (p. 4)
- ☆ Increasing Surplus Rate; number of companies predicting better performance are also increasing. (p.5-7)
- ☆ Still High Investment Risks; Complex administrative procedures, deteriorating security and exchange rate fluctuations of local currencies. (p.12 &13)
- ☆ Future Investment Destinations: Kenya, Nigeria and South Africa. (p.17 &18)

Survey Summary & Company Profile

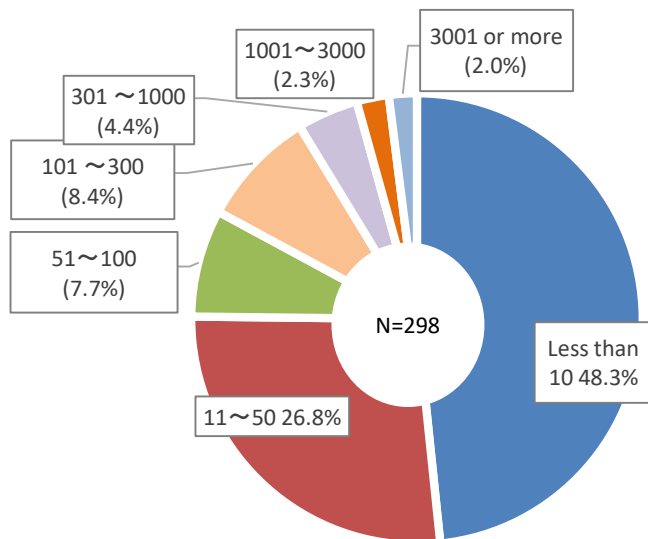
2016 JETRO Survey on Business Conditions of Japanese Companies in Africa

- ◆ Targeted Japanese Companies in 24 African countries including South Africa, Egypt, Kenya, Nigeria and Morocco.
- ◆ Conducted between September 29th to November 11th, 2016
- ◆ Response Rate: 299 valid responses (80.2% response rate) out of 373 companies surveyed
- ◆ A Japanese Company in Africa, is a company that receives capital contribution of any from a Japanese company, regardless of the investment ratio or number of Japanese expatriates present.

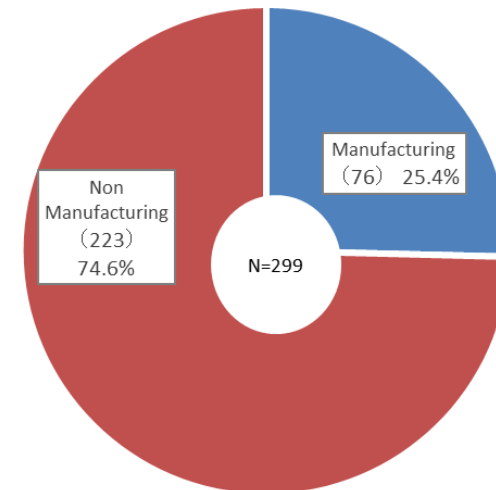
Year of Establishment in Africa



Number of Employees



Industry : 1/4 of Respondents were Manufacturing Companies



Survey Objective: 299 Companies from 24 Countries Responded

	No. of Companies Targeted	No. of Survey Participants		Valid Response rate
		No. of Valid Responses () = Manufacturing	%	
Total No.	373	299(76)	100.0	80.2
North Africa	92	74(20)	24.7	80.4
Egypt	47	36(10)	12.0	76.6
Morocco	22	21 (5)	7.0	95.5
Tunisia	12	6 (3)	2.0	50.0
Algeria	11	11 (2)	3.7	100.0
West Africa	41	41 (9)	13.7	100.0
Nigeria	22	22 (6)	7.4	100.0
Ghana	12	12 (2)	4.0	100.0
Cote d'Ivoire	5	5 (1)	1.7	100.0
Senegal	2	2 (0)	0.7	100.0
East Africa	63	56(12)	18.7	88.9
Kenya	38	36 (5)	12.0	94.7
Tanzania	11	8 (2)	2.7	72.7
Ethiopia	8	7 (2)	2.3	87.5
Uganda	3	3 (1)	1.0	100.0
Rwanda	3	2 (2)	0.7	66.7
Southern Africa	177	128(35)	42.8	72.3
Republic of South Africa	128	87(26)	29.1	68.0
Mozambique	17	16 (5)	5.4	94.1
Zambia	10	7 (2)	2.3	70.0
Angola	9	8 (0)	2.7	88.9
Madagascar	4	4 (0)	1.3	80.0
Mauritius	2	2 (0)	0.7	100.0
Botswana	2	1 (0)	0.3	50.0
Malawi	2	1 (0)	0.3	50.0
Swaziland	1	1 (1)	0.3	100.0
Namibia	1	1 (1)	0.3	100.0
Zimbabwe	1	0 (0)	0.0	0.0



(1) The country in color is a target country.

(2) Red=North Africa, purple=West & Central Africa, Green=East Africa, Yellow= Southern Africa.

(* 1)

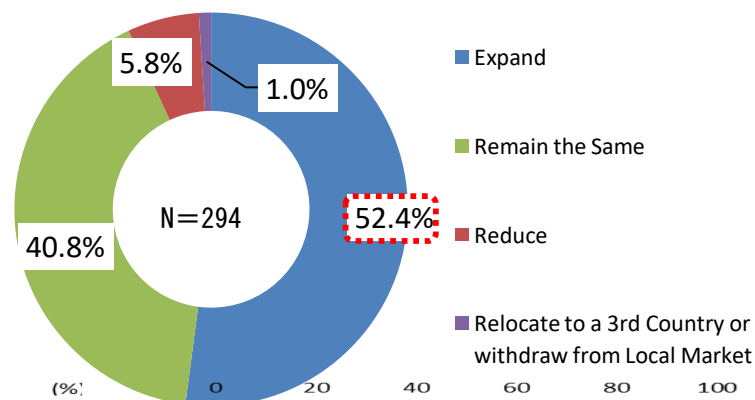
Not all respondents answered every question. The component percentages in the tables and charts of the document have been rounded off to the 2nd decimal place, therefore the percentage of each answer may not amount to 100%

(*2) Within the charts "N" refers to the number of companies that responded.

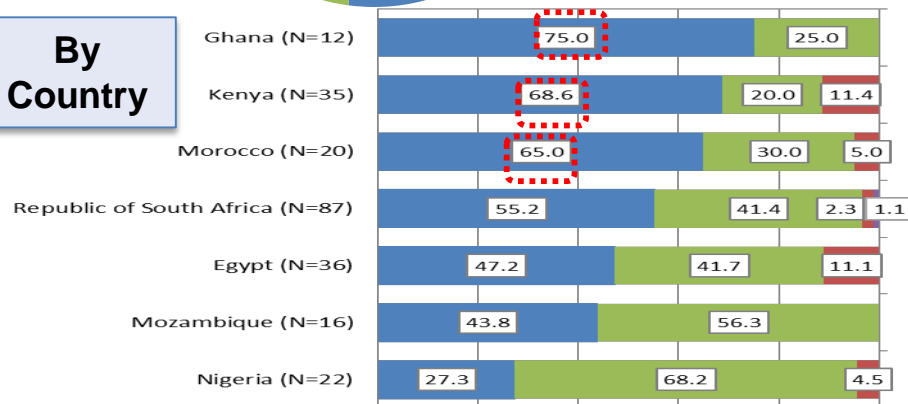
Future Business Outlook: More than 50% of Companies Plan to Expand

A majority of 52.4% of companies replied that they were looking into expanding business over the next 1-2 years. The top reasons for expanding were “Increasing Sales” and “High Growth Potential”. Countries such as Ghana, Kenya, Morocco have the highest expansion rate.

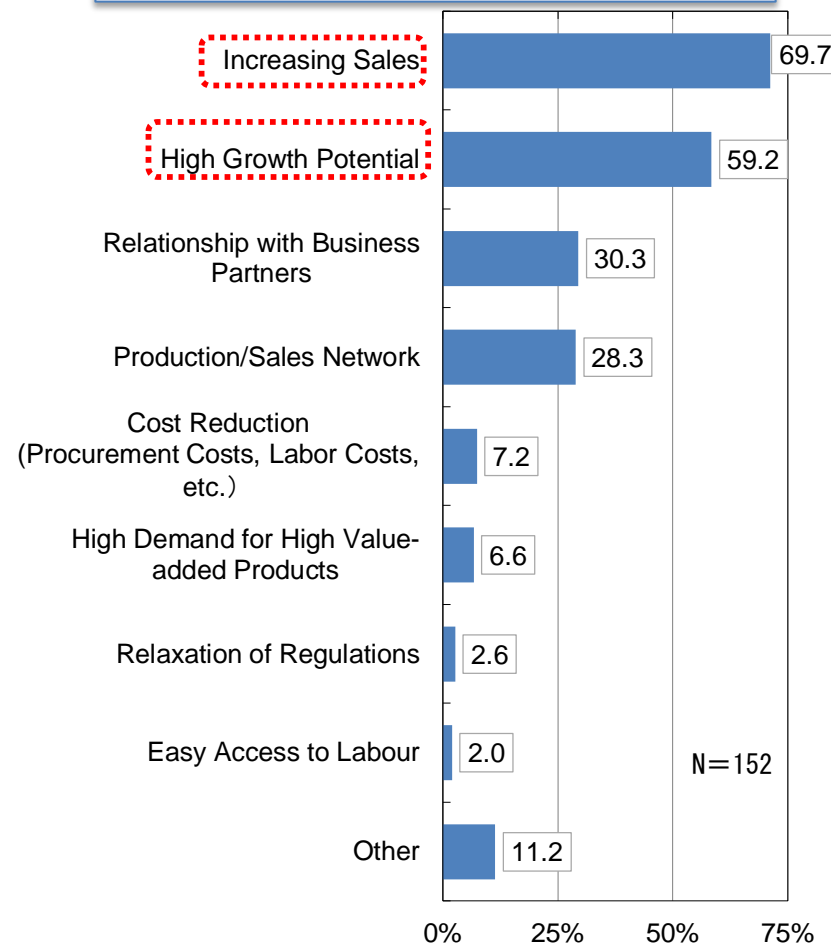
Business Outlook for Next 1-2 years



By Country



Reasons for Expansion

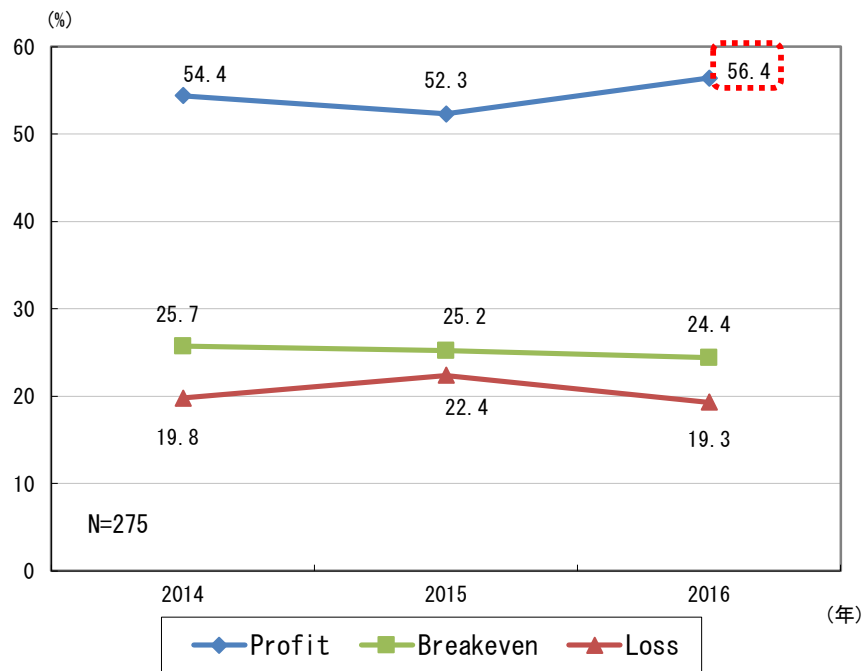


Operating Profit Forecast: 56.4% Surplus

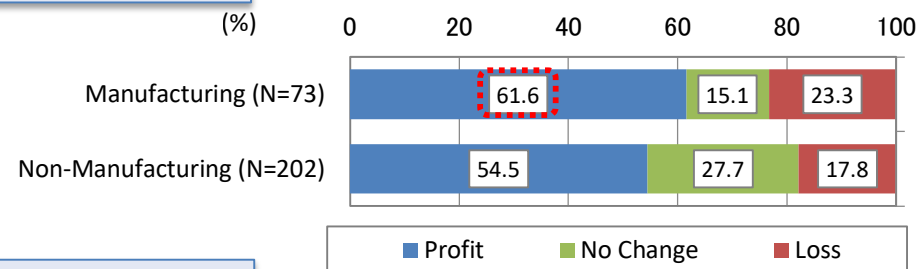
South Africa Maintains Strong Manufacturing Centre

56.4% of respondents estimate that 2016 Operating Profit will have a Surplus, increasing by 4.1 points from last year. By Industry, the transport equipment parts manufacturing and sales sectors are the largest majority reporting a surplus at 61.6 %. By country Ghana topped at 70 % followed by South Africa —home to a large number of Japanese companies engaged in the above industries—marked 69.9%, much higher than the average rate.

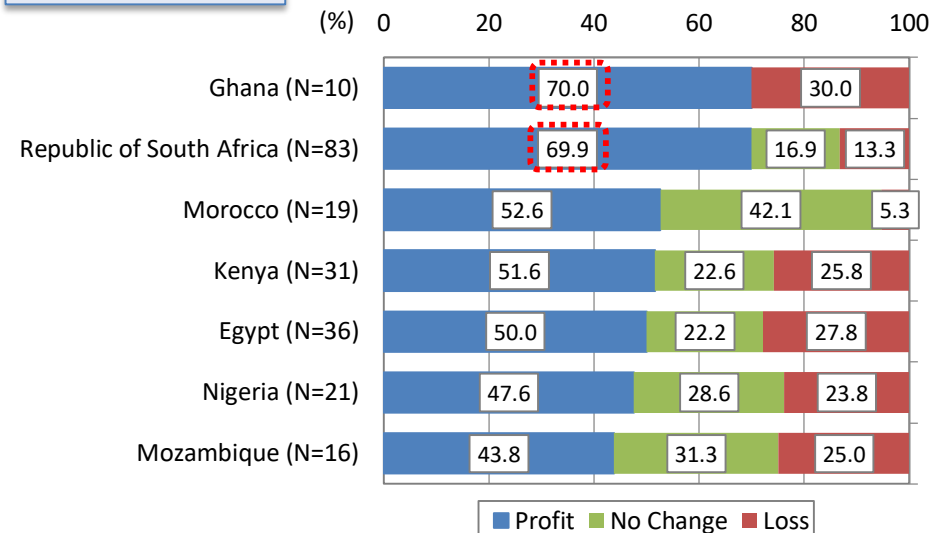
Operating Profit Performance



By Industry



By Country



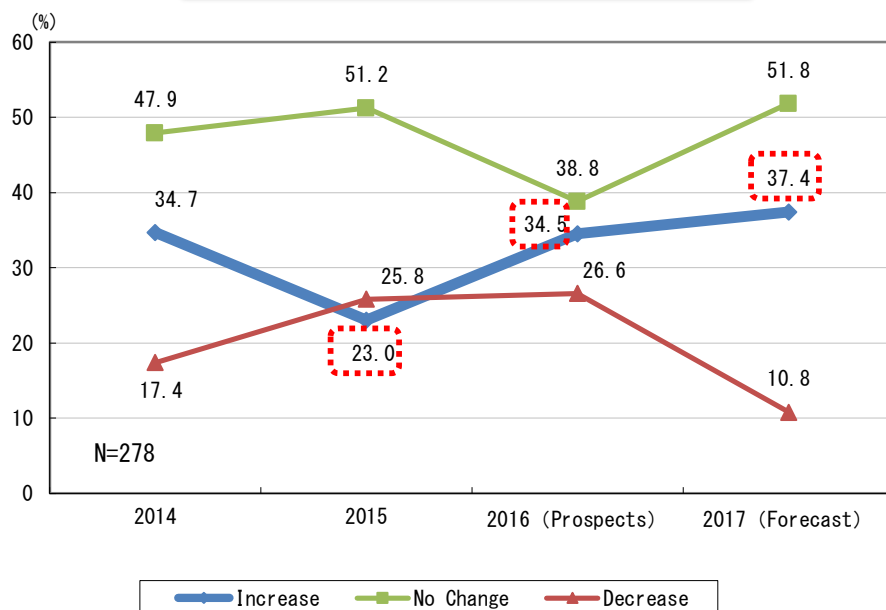
*Countries with less than 10 responses are not included in this chart

Operating Profit Prospects Compared to Previous Year ①

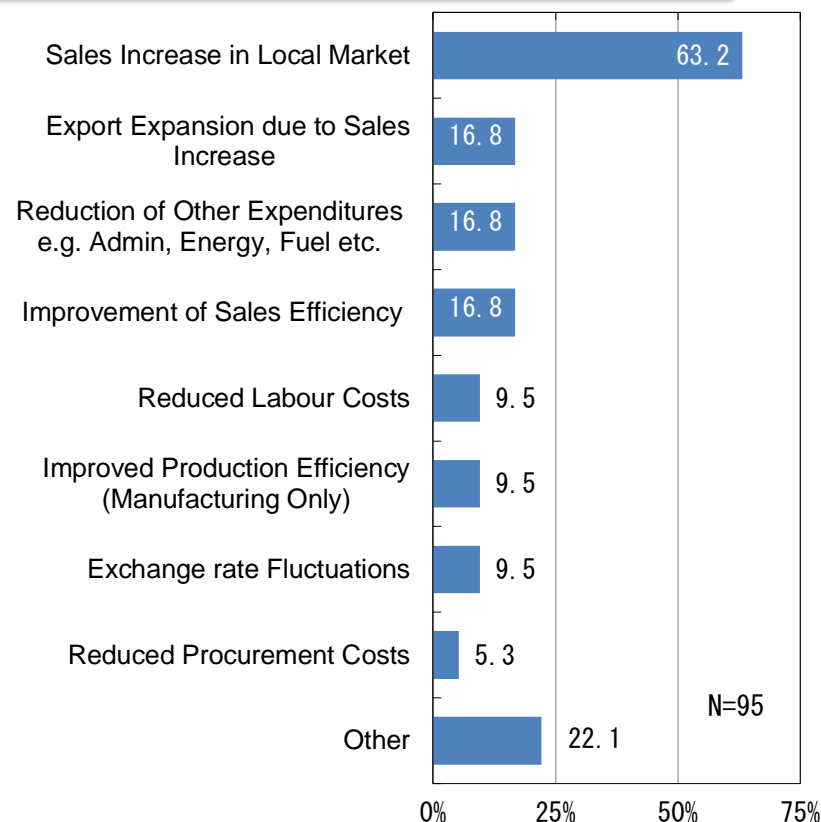
Companies Responded “Increase” Much More than last year.

The number of respondents expecting their 2016 operating profits to “increase” rose by as much as 11.5 points to 34.5% compared to the previous year. The reason for the increase was due to “Sales Increase in Local Market” topped at 63.2%. Furthermore 2017 forecasts show the proportion of companies expecting profits to increase rose further by 2.9 points to 37.4%.

Operating Profit Forecast Performance



Reasons for Improved 2016 Operating Profit Prospects

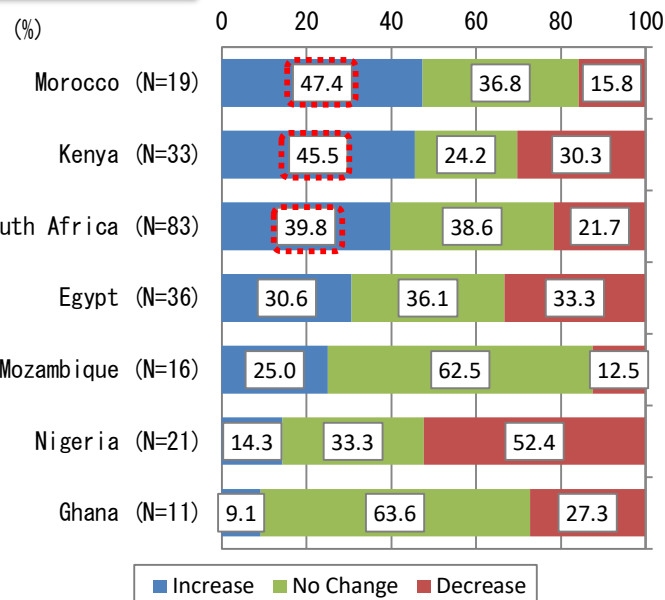


Operating Profit Prospects Compared to Previous Year ②

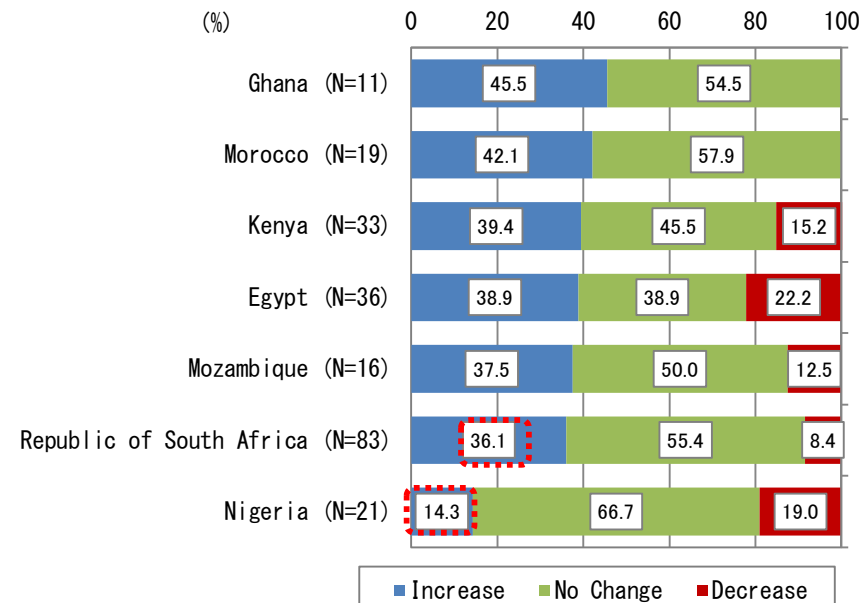
By Country and Industry

2016 Operating Profit Forecast

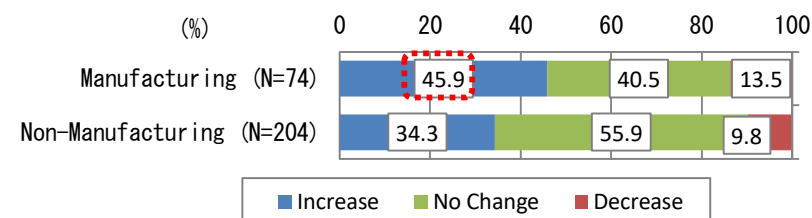
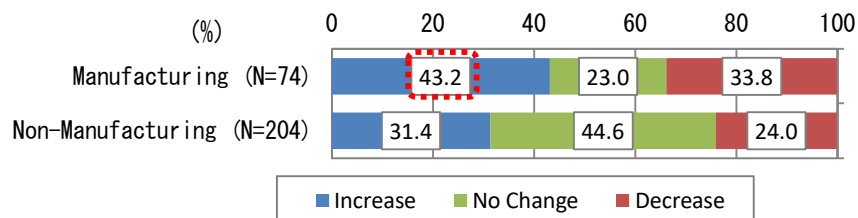
By Country



2017 Operating Profit Forecast



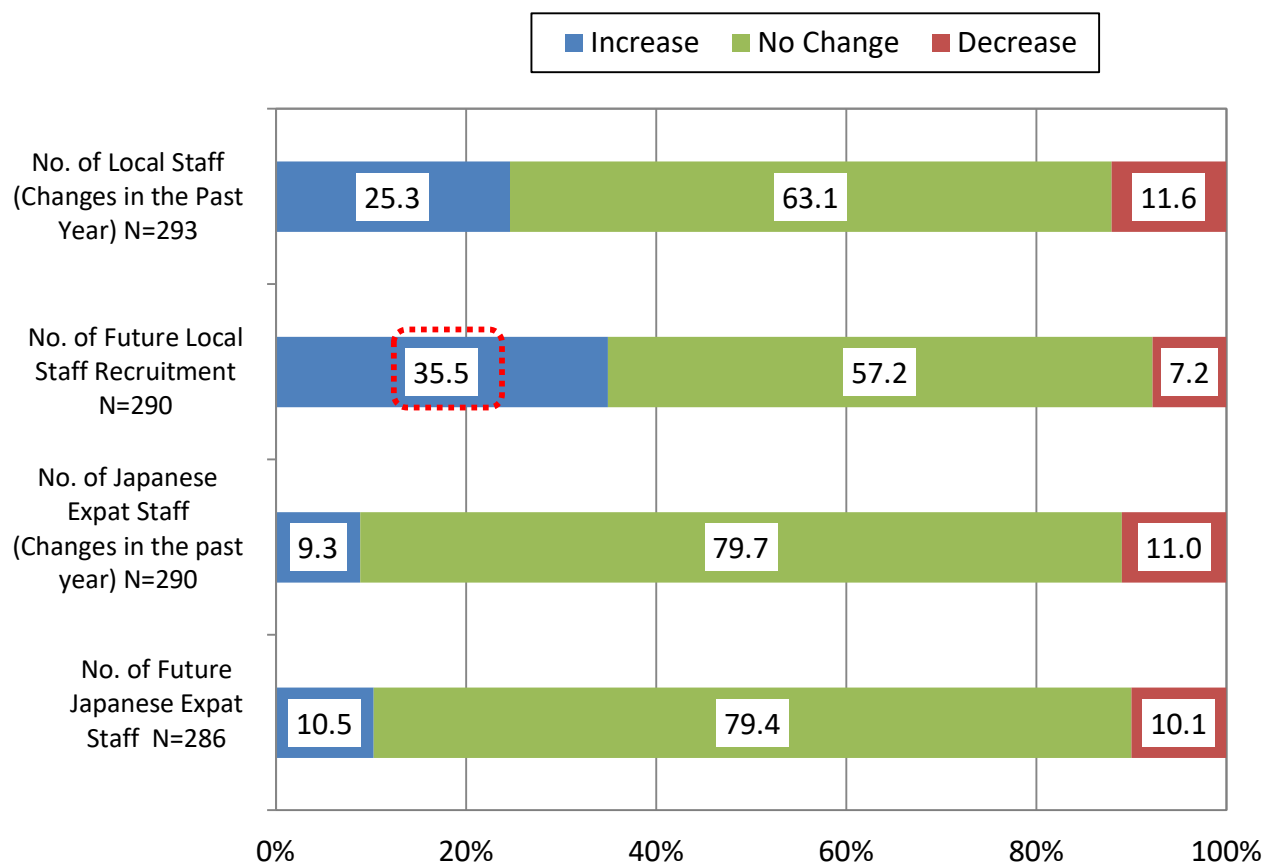
By Industry



Number of Employees ①: More than 30% of Companies Intend to Increase Local Staff

25.3% of companies replied that they had increased local staff in the last year and 35.5% also said that they were planning to increase in the future. Regarding Japanese expat staff, 79.7% responded that there had been no change in the past year and 79.4% said that there would be no change for the future.

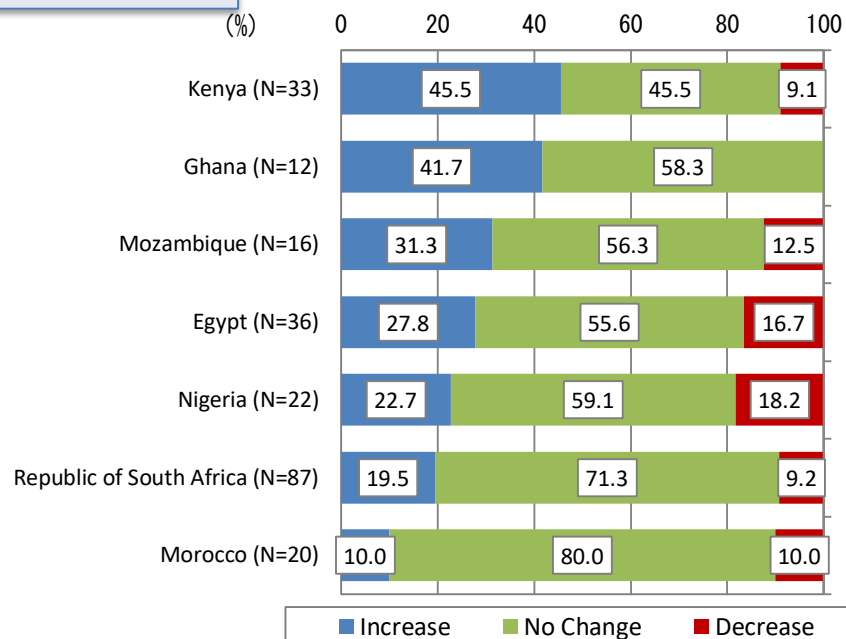
Changes to Local and Japanese Expat Staff



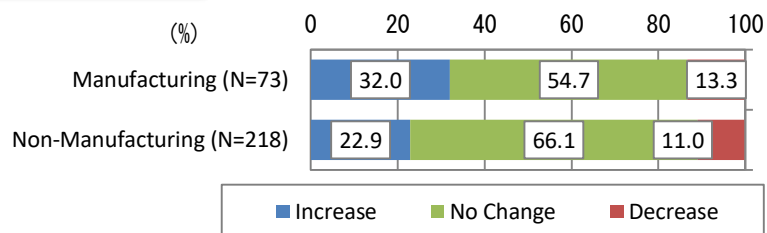
No. of Employees ②: Local Staff by Country & Industry

Changes to Local Staff in the Past Year

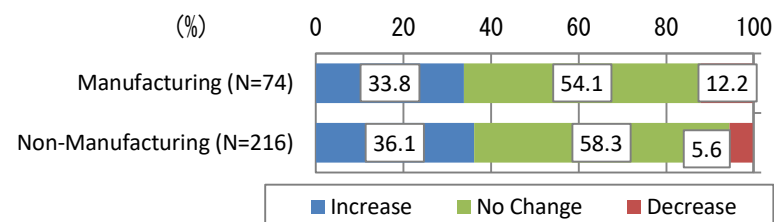
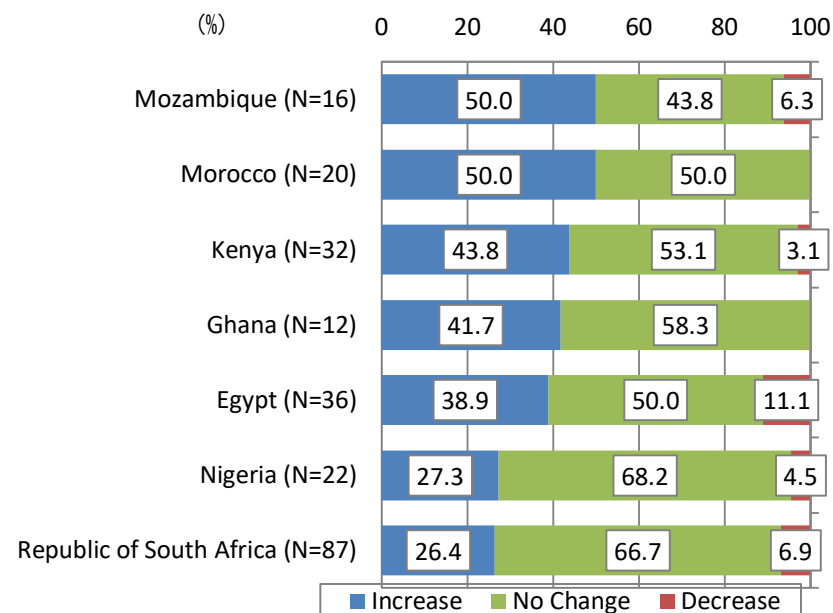
By Country



By Industry



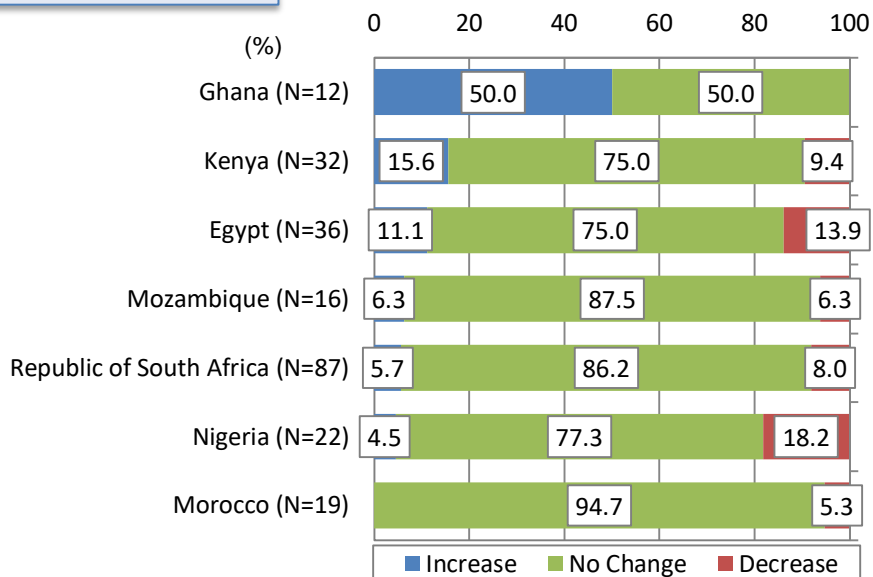
Future Local Staff Recruitment



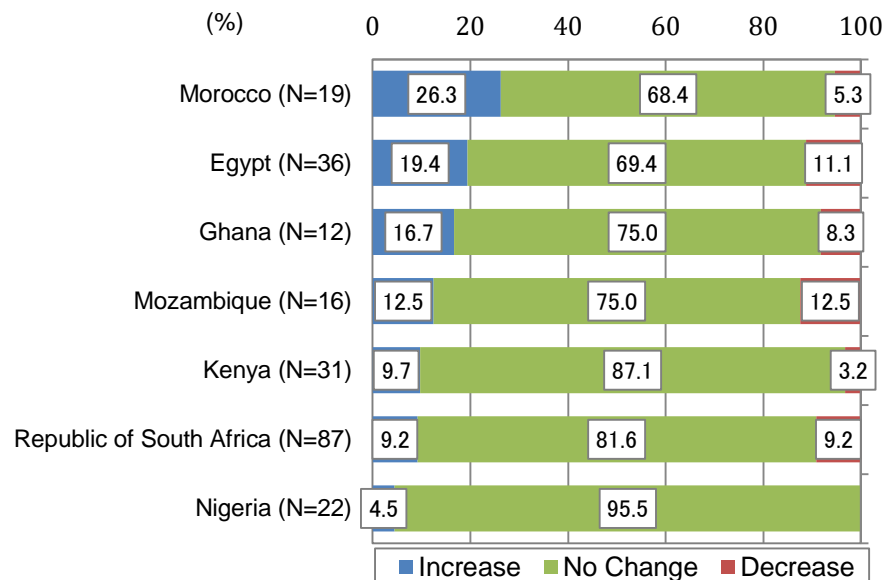
No. of Local Staff ③: Japanese Expat Staff by Country & Industry

By Country

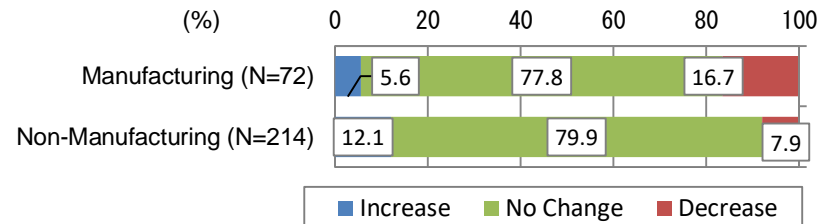
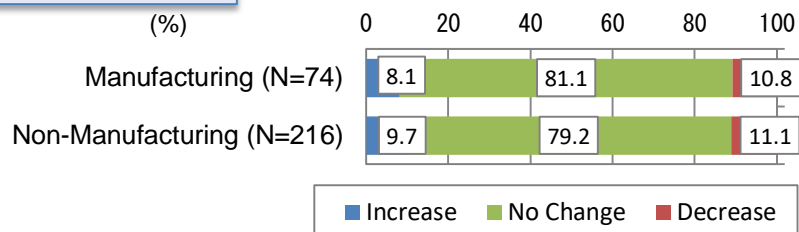
Changes to Japanese Expat Staff in the Past Year



Future Increase of Japanese Expat Staff



By Industry

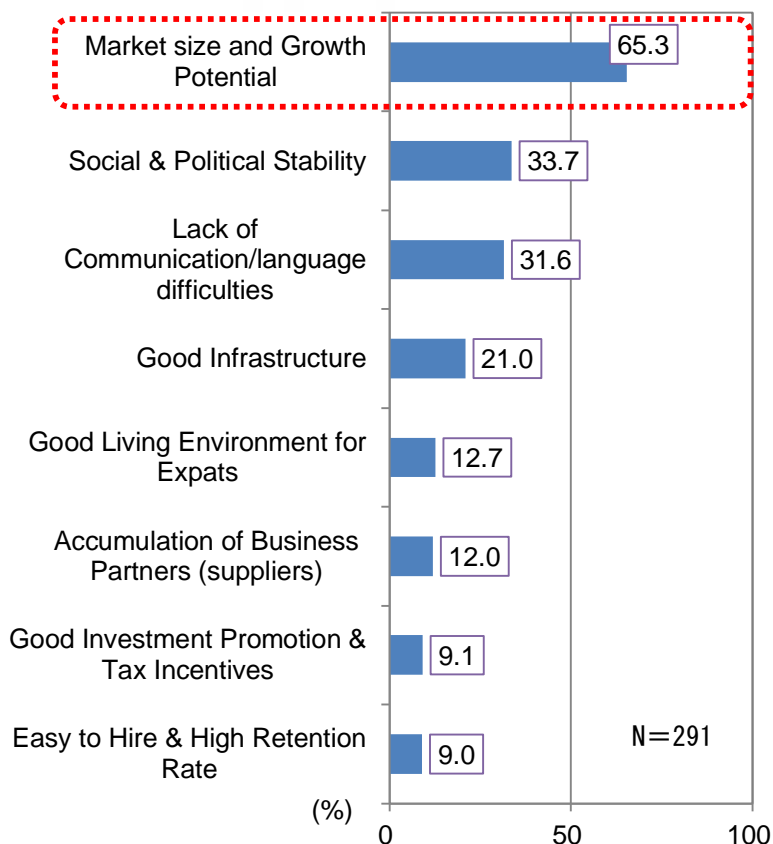


Africa Investment Advantages

Highest marks given to “Market Size and Growth Potential”

“Market size and growth potential” marked at 65.3% as the biggest advantage in local investment environment. Looking at each country response rate, Nigeria (90%) and Egypt (86.1%) were especially high, along with Kenya (75.8%)—a business hub in Eastern Africa. Ghana was marked at 100% for “Social and Political Stability” and Morocco followed at 90.5%.

Investment Environment Advantages



By Country

(%)	Market Size & Potential Growth	Social & Political Stability	Lack of Communication/language difficulty	Good Infrastructure	Good Living Environment for Expats	Accumulation of Business Partners (suppliers)	Good Investment Promotion & Tax Incentives	Easy to Hire & High Retention Rate
Overall (N=291)	65.3	33.7	31.6	21.0	12.7	12.0	9.1	9.0
Nigeria (N=20)	90.0	0.0	10.0	0.0	0.0	10.0	2.5	0.0
Egypt (N=36)	86.1	16.7	16.7	13.9	2.8	8.3	9.7	9.0
Kenya (N=33)	75.8	27.3	69.7	18.2	6.1	12.1	0.0	5.3
Republic of South Africa (N=87)	65.5	32.2	43.7	31.0	24.1	17.2	11.5	9.2
Morocco(N=21)	52.4	90.5	9.5	28.6	19.0	9.5	7.2	9.5
Mozambique (N=16)	50.0	6.3	0.0	6.3	6.3	12.5	6.3	4.7
Ghana (N=12)	33.3	100.0	75.0	8.3	25.0	0.0	12.5	6.3

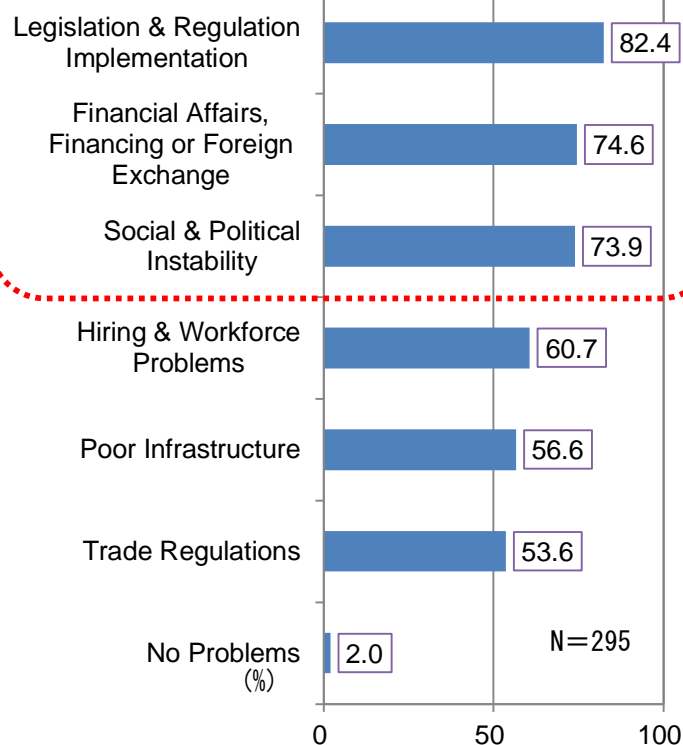
(*1) The blue shadow exceeds the ratio of the whole (average).

(*2) Excluding countries where the number of responding companies is 10 or less.

Africa Investment Risks ①: Still Harsh Investment Environments – The Biggest Challenge for Legal Development and Application

In terms of Investment risks, “Legislation and Regulation Implementation” (82.4%), “Financial Affairs, Financing or Foreign Exchange” (74.6%) and “Political and Social Instability” (73.9%) were commonly cited as concrete issues. As concrete issues, “Complex Administrative Procedures,” “Exchange Rate Fluctuations of Local Currencies” and “Deteriorating Security” were reported.

Investment Environment Disadvantages



By Country

(%)	Legislation & Regulation Implementation	Financial Affairs, Financing or Foreign Exchange	Social & Political Instability	Hiring & Workforce Problems	Poor Infrastructure	Trade Regulation	No Problems
Overall (N=295)	82.4	74.6	73.9	60.7	56.6	53.6	2.0
Nigeria (N=21)	95.2	90.5	95.2	57.1	95.2	71.4	4.8
Egypt (N=36)	94.4	94.4	86.1	61.1	38.9	55.6	2.8
Mozambique (N=16)	93.8	87.5	87.5	62.5	75.0	56.3	-
Kenya (N=36)	80.6	41.7	75.0	58.3	41.7	41.7	-
Morocco (N=20)	80.0	40.0	35.0	50.0	15.0	45.0	5.0
Republic of South Africa (N=87)	77.0	73.6	86.2	74.7	54.0	39.1	-
Ghana (N=12)	75.0	83.3	8.3	25.0	75.0	66.7	8.3

(*1) The red shadow exceeds the ratio of the whole (average).

(*2) Excluding countries where the number of responding companies is 10 or less.

Africa Investment Risks②: Comments from Japanese Companies

Algeria: Fiscal deterioration caused by stagnation of oil price, human resources shortage due to outflow of excellent talent, frequent occurrence of labor strikes, power and water cuts. Also difficulty sending money overseas and goods take time to clear customs.

Ghana: Frequent blackouts, high inflation & interest rates, inefficient port management, sudden changes of import tax rates.

Cote d'Ivoire: Poorly developed communication Infrastructure.

Nigeria: Lack of foreign currency exchange, policies are often changed every 4 years under a new president, kidnapping/terrorism risk, high security costs, bribes demands from administrative officials, increased production costs due to back-up generators for power outages and serious traffic congestion.

Zambia: Soaring prices due to increasing fuel costs and foreign exchange fluctuations.

South Africa: Frequent labor strikes, increasing costs for expat staff, anxiety towards system changes e.g. mining charter, sudden regulation changes, shortage of specialized personnel, frequent changes of the automobile certification system.

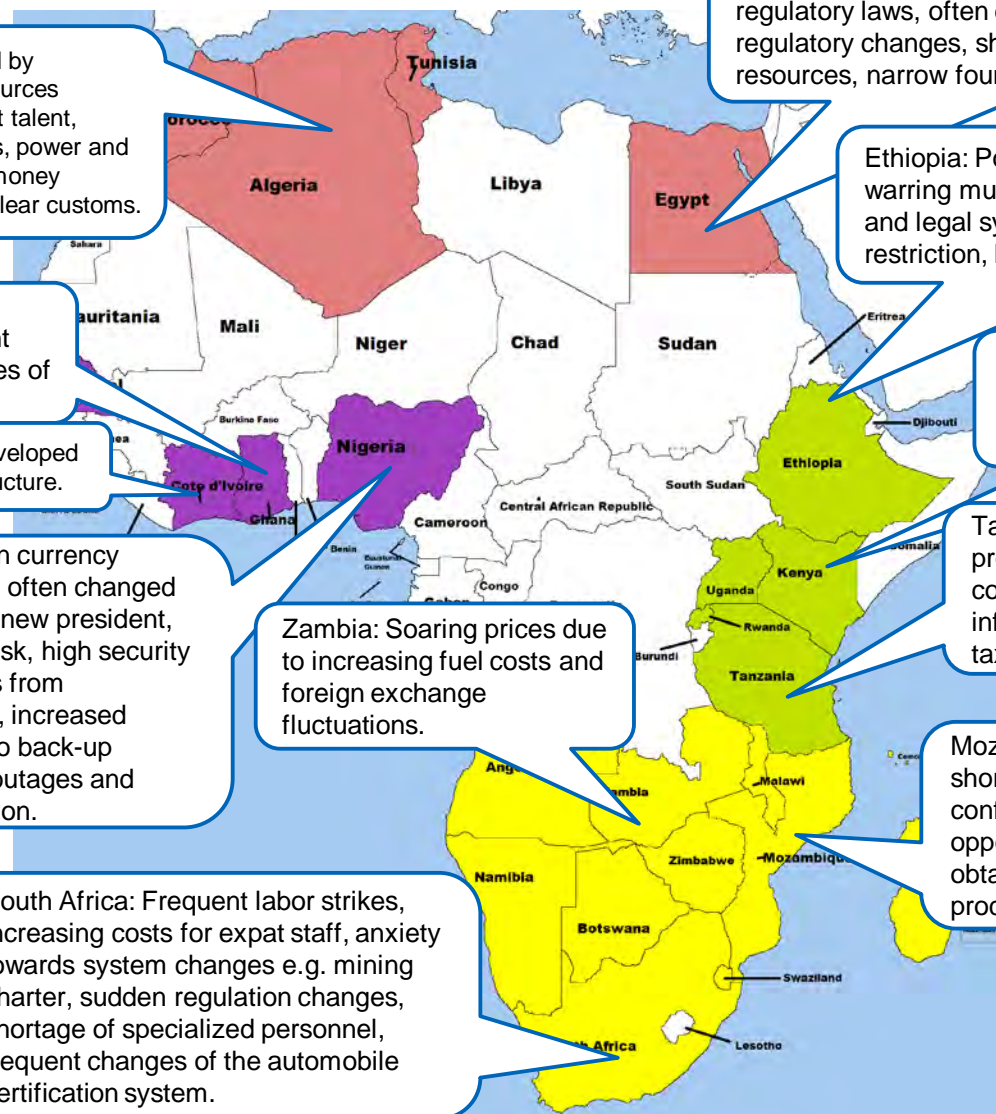
Egypt: Lack of foreign currency exchange, uncertainty of regulatory laws, often dealing with repeated system and regulatory changes, shortage of high quality human resources, narrow foundation for manufacturing industry.

Ethiopia: Political & security risks linked to warring multi-ethnic state, inadequate taxation and legal system, government communication restriction, lack of foreign currency exchange.

Kenya: East African Community (EAC) Free Trade is not working, flimsy laws and risk of terrorism.

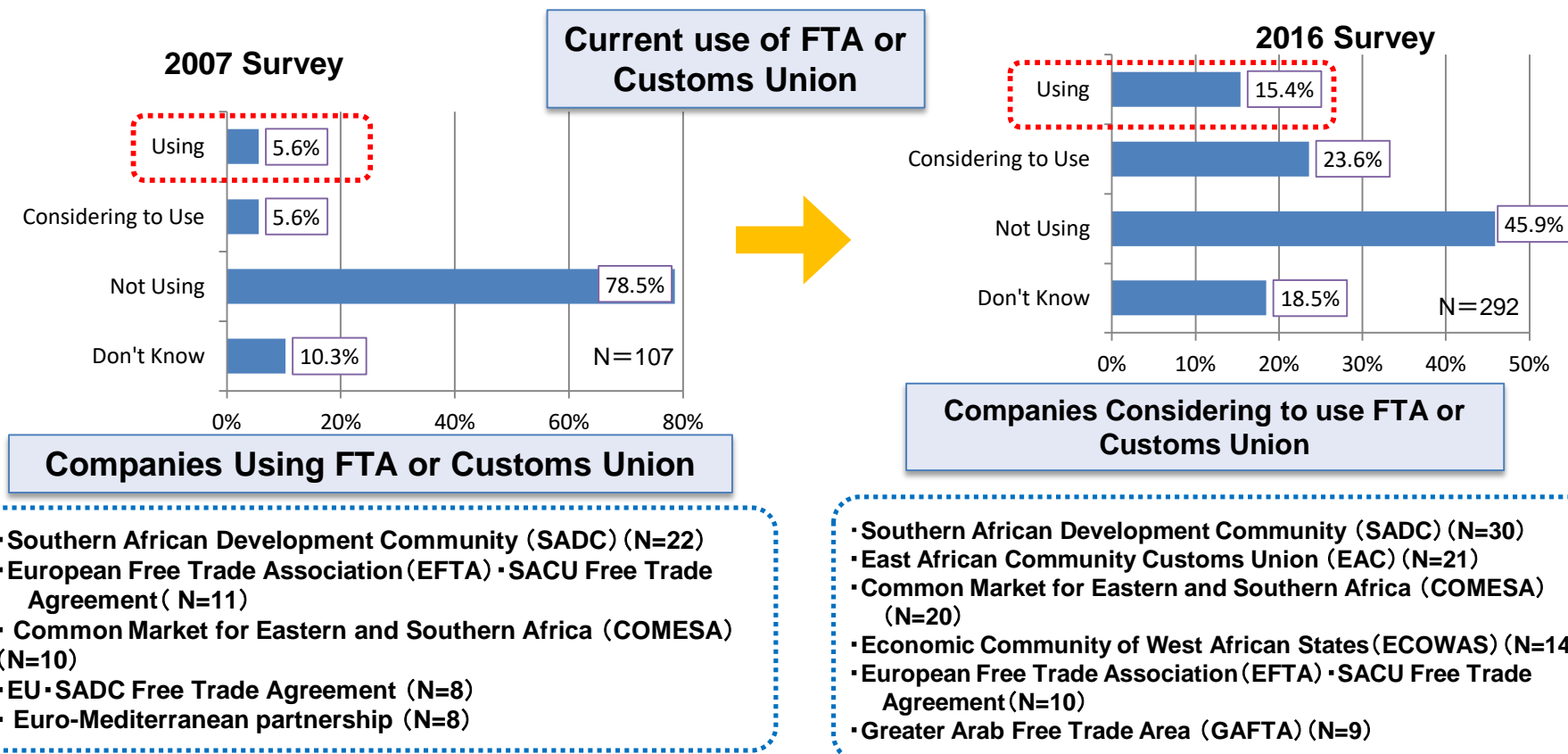
Tanzania: Uncertain licensing procedures, high skilled personnel labor costs, power shortages, poor road infrastructure, variable experiences with tax authorities.

Mozambique: Extreme talent shortage, serious (armed) conflict between ruling and opposition parties, difficulty in obtaining government procurement permission.



FTA & Customs Union Utilization ①: FTA Utilization is Steadily Growing

Among respondents, Although still a low percentage 15.4% (45 out of 292 companies) are using either FTAs or customs unions. This is a huge surge since the 2007 survey marked at 5.6% (6 out of 107 companies). 69 Companies (23.6%) said that they were considering to use FTAs in the future. FTAs marked as being used the most were “Southern African Development Community” (SADC), “European Free Trade Association (EFTA) • Southern African Customs Union(SACU) Free Trade Agreement” and the “Common Market for Eastern and Southern Africa” (COMESA).



FTA & Customs Union Utilization ②: By Country & Industry

By Country

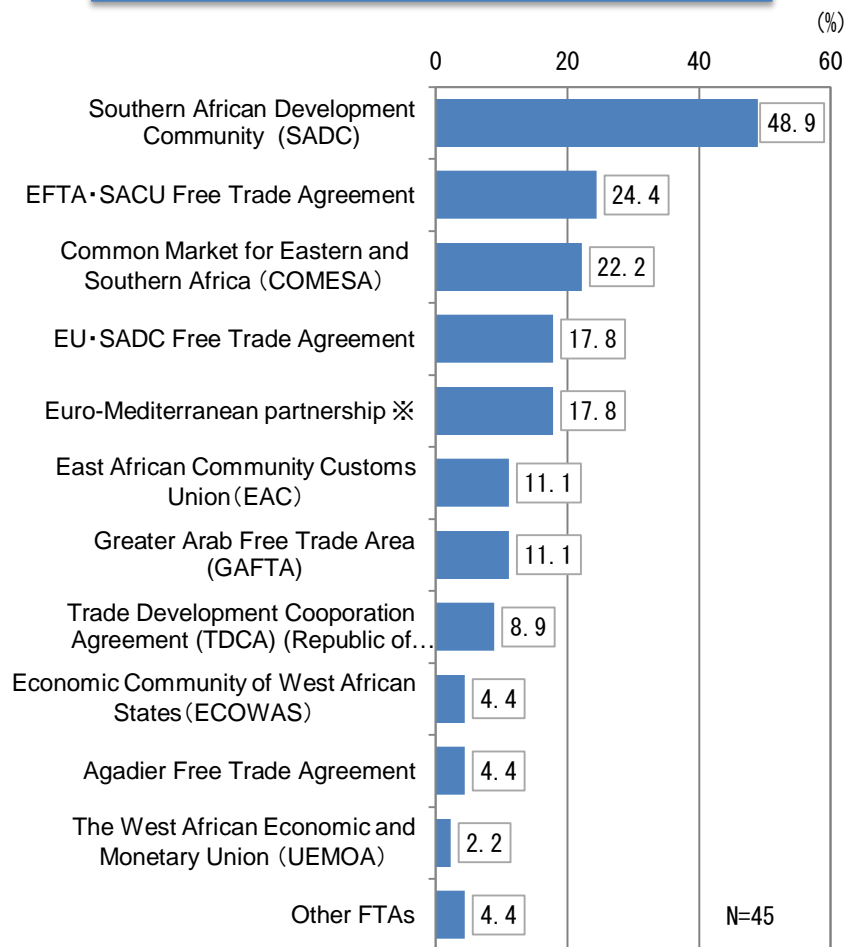
(%)	Using	Considering to Use	Not Using	Don't Know
All (292)	15.4	23.6	45.9	18.5
Republic of South Africa (N=87)	23.0	16.1	42.5	23.0
Morocco (N=19)	21.1	26.3	15.8	42.1
Egypt (N=36)	13.9	33.3	52.8	8.3
Mozambique (N=16)	6.3	25.0	18.8	50.0
Kenya (N=34)	5.9	35.3	55.9	2.9
Nigeria (N=22)	0.0	31.8	45.5	22.7
Ghana (N=12)	0.0	16.7	75.0	8.3

By Industry

(%)	Using	Considering Using	Not Using	Don't Know
Manufacturing (N=76)	31.6	26.3	28.9	21.1
Non-Manufacturing (N=216)	9.7	22.7	51.9	17.6

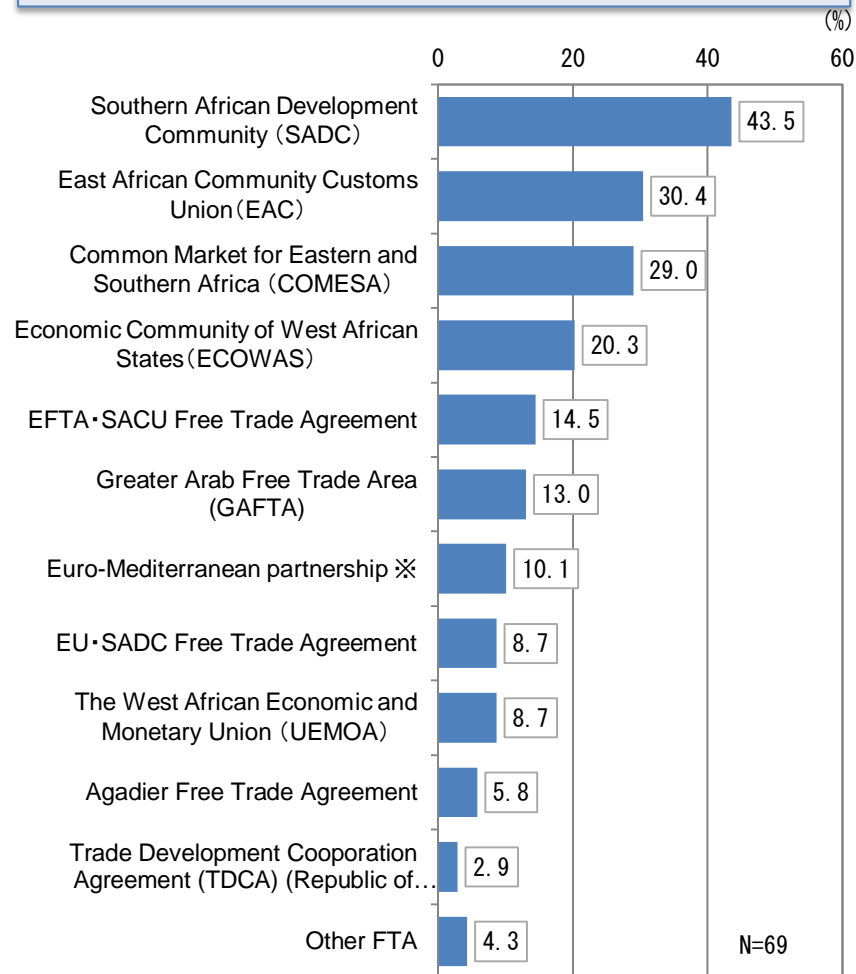
FTA & Customs Union Utilization ③: Currently Using & Considering to Use

Using FTA or Customs Union



※Egypt, Tunisia, Algeria, Morocco etc.

Considering to Use FTA or Customs Union



※Egypt, Tunisia, Algeria, Morocco etc.

Future Investment Destinations ①: Kenya, Nigeria & South Africa continue to be highly attractive

Companies maintain high expectations for Kenya, Nigeria and South Africa ranking as the top three investment destinations, same as last year. Ethiopia rose to 4th place from last years 7th place.

	Country	(%)	Investment Destinations- Company Comments	N=251
1	Kenya	35.9	East Africa's best market, market size and stable growth, potential infrastructure development projects incl. power generation business such as geothermal power. Active Japan governmental support, drawing attention to the market by hosting the Sixth Tokyo International Conference on African Development (TICAD VI).	
2	Nigeria	31.9	Potential future consumer market, major power in West Africa, high market potential as oil price recovers, expansion of infrastructure business opportunities, large potential growth capacity in the agricultural sector	
3	Republic of South Africa	29.5	Africa's only country with a well-established social capital, development potential in the manufacturing sector, expansion of infrastructure development incl. electric power, mineral resources. Maintains a high standard of living.	
4	Ethiopia	23.9	Expanding business opportunities due to growing population, market growth, cheap labor costs and growth of textile and garment industry.	
5	Cote d'Ivoire	21.5	Business opportunities due to economic recovery, bullish economic growth & good investment environment (Legal/Infrastructure Development).	
6	Tanzania	20.7	Energy resources, solid economic growth, expanding business opportunities infrastructure and market growth potential.	
7	Mozambique	19.1	Growing demand for infrastructure such as natural gas resources, railways, harbors and electricity, expect rapid growth.	
8	Ghana	18.3	Stable political situation and good security, oil & gas industry potential, increasing demand for infrastructure.	
9	Angola	15.9	Economic development potential centered on oil and gas development, increasing demand for construction construction e.g. industrial plants.	
10	Egypt	15.1	The largest population in the Arab region, rising middle class, strong demand for infrastructure and abundant resources.	

Future Investment Destinations ②: Companies Comments for Other Destinations

Country	Investment Destinations- Company Comments
Zambia	Farming (particularly the coffee industry), future market expansion, infrastructure prospects.
Morocco	Good expansion base in French speaking area of West Africa, expansion of automotive market, collaboration with Europe, Changing over from agricultural country to industrialized country
Uganda	Potentially will have a unified market with Kenya it's neighbouring country, solid economic growth and accelerating of infrastructure investment.
Algeria	Resource country, market size / growth potential, active infrastructure investment, location close to Europe.
Zimbabwe	Agricultural potential, high education level, future market expansion, increasing infrastructure demand.
Democratic Republic of Congo	Abundant natural resources, large population, market potential, future expectations for economic growth.
Madagascar	Increasing construction projects, abundant mineral resources, expectation for future market expansion
Cameroon	Diverse industrial construction, capacity for economic growth



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