2019 Survey on Business Conditions of Japanese Affiliated Companies in Africa

March 2020

Japan External Trade Organization (JETRO)
Overseas Research Department
Middle East and Africa Division

Survey Categories for this Year

Important Survey Findings

Market expectations become clear, 80% of companies have entered the market in Africa because of "future market potential"

- Increased Interest from the 7th Tokyo International Conference on African Development (TICAD7) -

1 **[Operating Profit Forecast and Future Business Outlook]**
More than half of companies maintain profitability, with 60% considering business expansion. The importance of Africa in global strategies is increasing.

2 **[Changes to Investment Environment]**
Although business management risks remain, companies seek to expand their business by avoiding risks through new methods such as coordination with third-country companies.

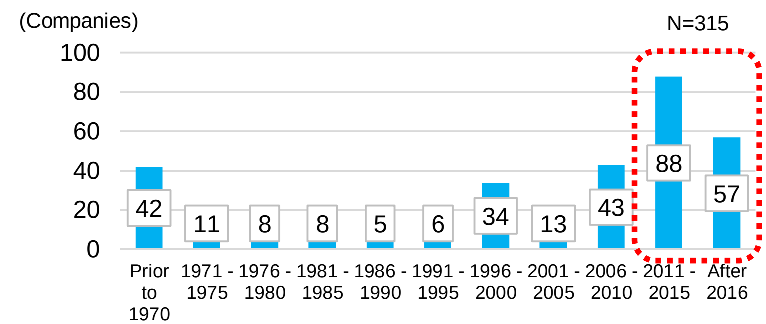
3 **[Future Market Expectations]**
80% responded "future market potential" as their reason for entering the market. There are also high expectations for consumer markets and regional integration.

Survey Overview & Company Profile

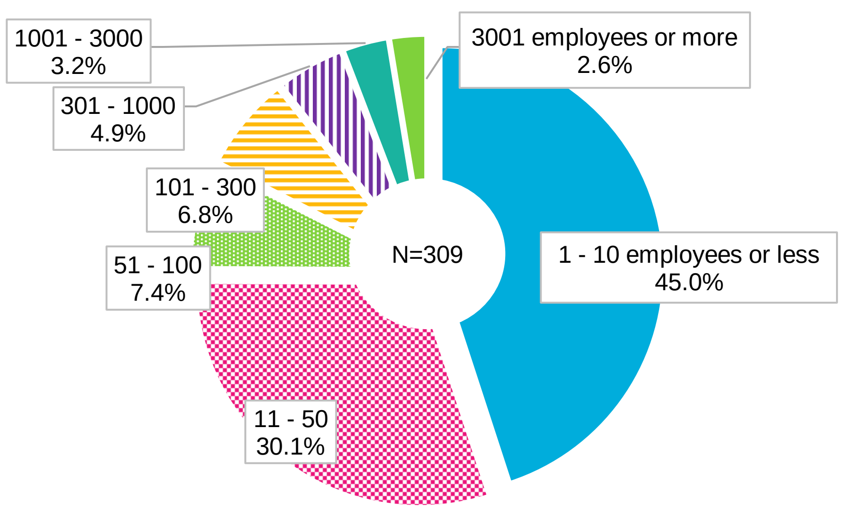
2019 Survey on Business Conditions of Japanese Companies in Africa

- **Survey Period: September 24th - October 25th, 2019**
- **Response rate: 74.5%**
  (Targeted 24 countries, 315 valid responses out of 423 companies surveyed)
  *See details on the next page
- **Survey target: Japanese companies in Africa**
  ※ A Japanese company in Africa, is a company that receives capital contribution from any Japanese company, regardless of the investment ratio or number of Japanese expats present.
  ※ Please note in graph 'N' refers to number of companies

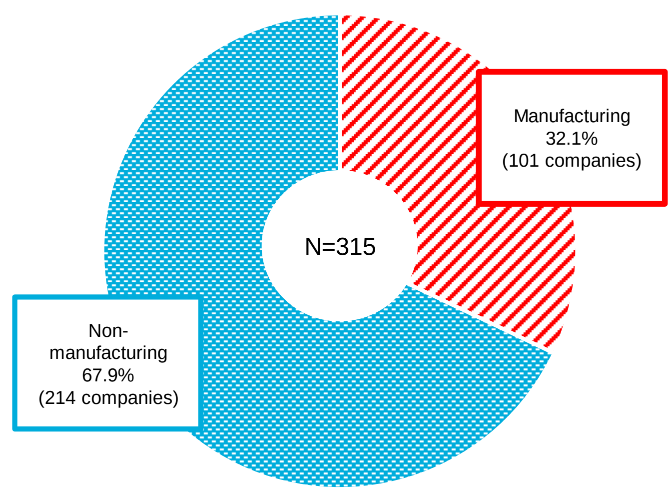
Years of Establishment: Approximately Half of Companies Expanded into Africa from 2011



Number of Employees: Most are Small-scale Enterprises



Industry: 1/3 of Respondents were Manufacturing Companies



Survey Target: 315 Companies from 24 Countries Responded

		# of Companies surveyed	# of Companies responded		Valid response rate
			# of Valid Responses ( ) = Manufacturers	% share	
Total count		423	315 (101)	100	74.5
North Africa		112	72 (29)	22.9	64.3
	Morocco	55	35 (17)	11.1	63.6
	Egypt	45	29 (10)	9.2	64.4
	Algeria	6	5 (1)	1.6	83.3
	Tunisia	6	3 (1)	1.0	50.0
West Africa		52	50(15)	15.9	96.2
	Nigeria	22	22 (8)	7.0	100.0
	Ghana	12	12 (3)	3.8	100.0
	Cote d'Ivoire	12	10 (1)	3.2	83.3
	Senegal	5	5 (2)	1.6	100.0
	Burkina Faso	1	1 (1)	0.3	100.0
East Africa		85	63 (20)	20.0	74.1
	Kenya	47	38 (10)	12.1	80.9
	Tanzania	13	6 (2)	1.9	46.2
	Ethiopia	11	10 (4)	3.2	90.9
	Uganda	7	4 (2)	1.3	57.1
	Rwanda	7	5 (2)	1.6	71.4
Southern Africa		174	130 (37)	41.3	74.7
	South Africa	123	91 (28)	28.9	74.0
	Mozambique	22	18 (4)	5.7	81.8
	Zambia	10	6 (2)	1.9	60.0
	Angola	6	4 (0)	1.3	66.7
	Madagascar	5	5 (0)	1.6	100.0
	Malawi	2	2 (1)	0.6	100.0
	Mauritius	2	2 (0)	0.6	100.0
	Zimbabwe	2	1 (1)	0.3	50.0
	Namibia	1	1 (1)	0.3	100.0
	Botswana	1	0 (0)	0.0	0.0

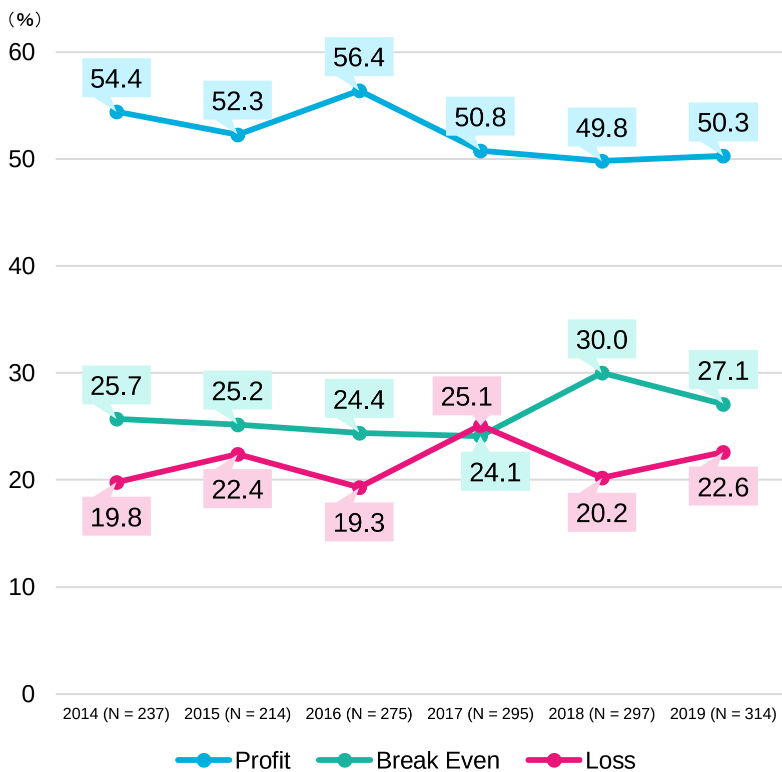
(Note 1) The component percentages in the tables and charts have been rounded off to the 2nd decimal place, therefore the percentage of each answer may not amount to 100%.
(Note 2) "N" written in the report is the number of valid responses (parameter).

1. Operating Profit Forecast and Future Business Outlook

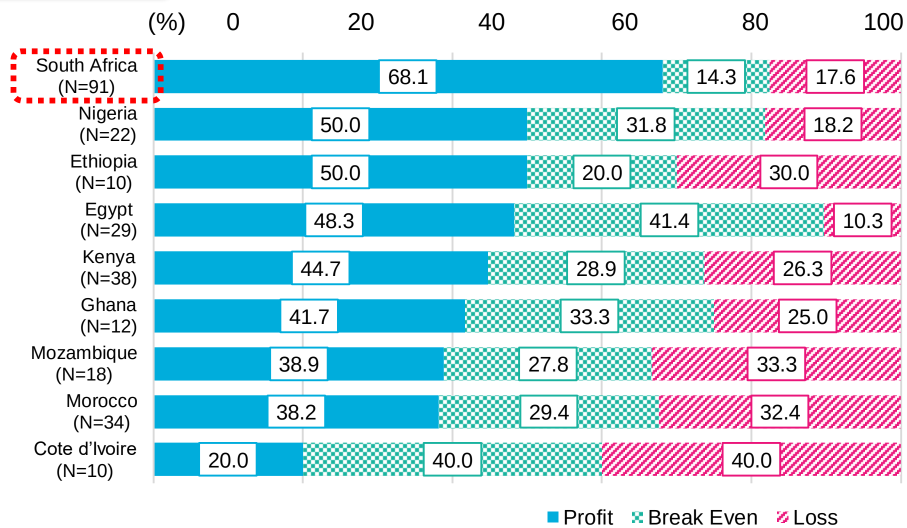
2019 Operating Profit Forecast ①: South Africa Sustains its Strong Performance with 70% of Companies Reporting Profit

- The percentage of companies reporting profit slightly increased from the previous year, at more than 50%. The percentage of companies reporting loss was 2.4 points higher than the previous year.
- In South Africa, Nigeria, and Ethiopia, the ratio of profitable companies is more than 50%.
- Cote d'Ivoire's loss ratio was 40%, higher than that of other countries.

2019 Operating Profit Forecast

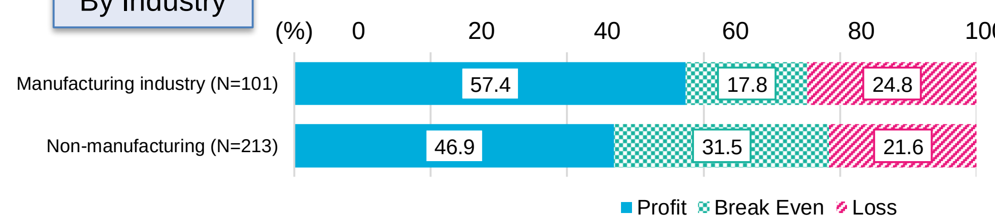


By Country



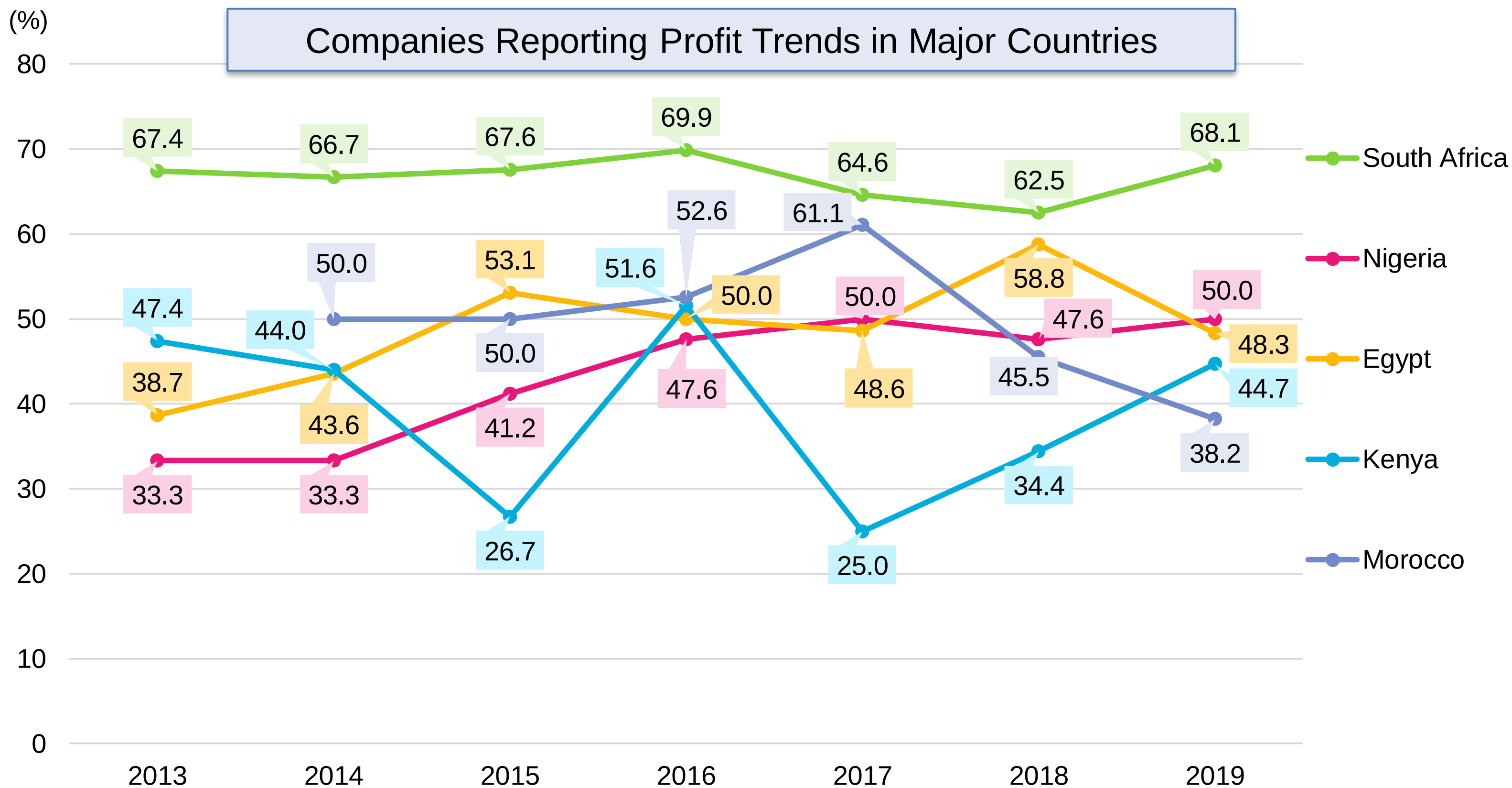
(Note) Excludes countries where less than 10 companies responded.

By Industry



2019 Operating Profit Forecast ②：

- Looking at the ratio of profitable companies in major countries, at nearly 70%, South Africa showed a strong performance and steady increase from the previous year.
- Kenya has also shown a significant increase by over 10 points from the previous year, marking two years of a major increase.
- Egypt showed the most increase in previous years, but saw a major decrease from last year. Morocco saw a decrease for the second consecutive year.

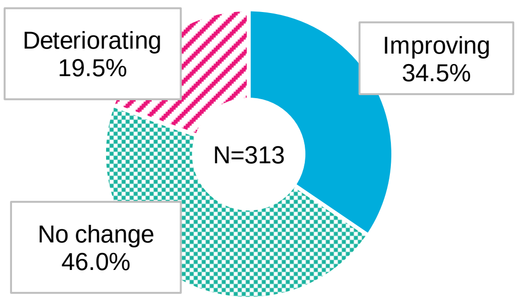


(Note) Morocco was not covered 2013's survey.

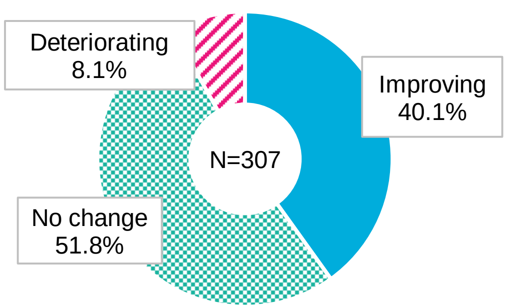
Operating Profit Forecast Compared to Previous Year ①:
"Improving" outlook is increasing towards 2020

- When companies were asked to compare operating profit forecasts between 2018 and 2019, 34.5% responded that it had improved.
- At the same time, 40.1% of respondents gave a brighter outlook for the 2020 operating profit forecast, saying that they expect it to improve.
- 8.1% of respondents selected "deteriorating" for 2020, which was much lower than 2019's 19.5%.

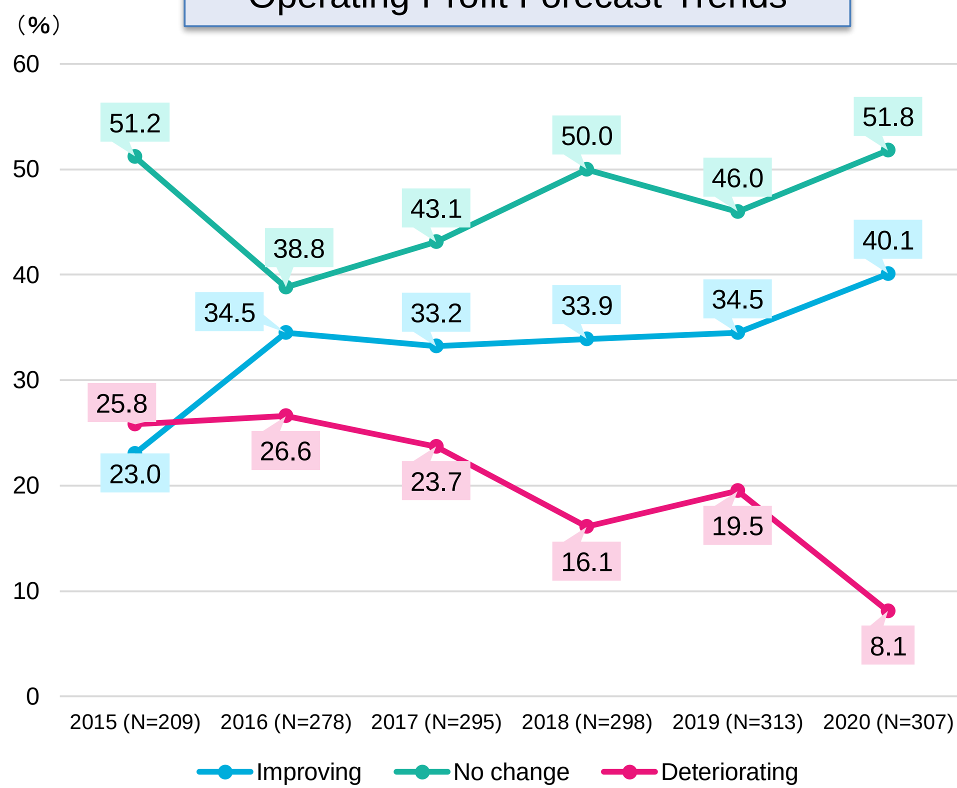
2019 Operating Profit Forecast (Compared to Previous Year)



2020 Operating Profit Forecast



Operating Profit Forecast Trends



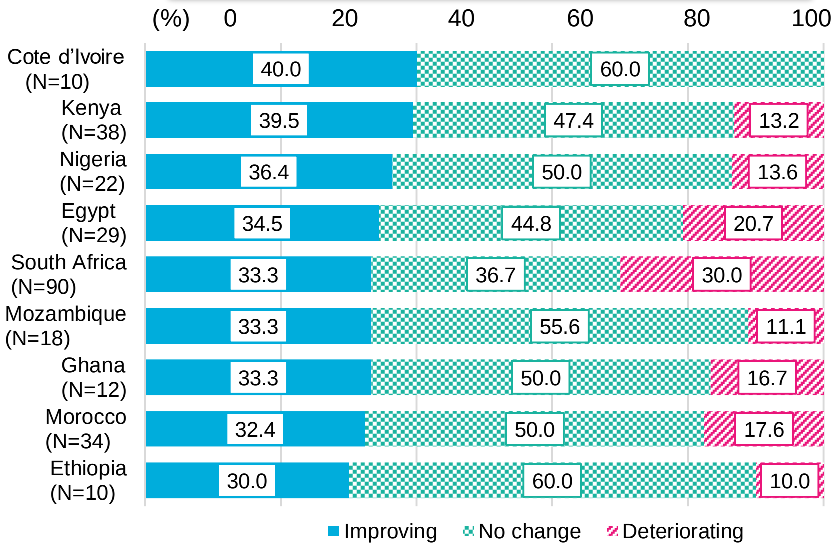
(Note) 2015 - 2019: Estimate; 2020: Outlook.

Operating Profit Forecast Compared to Previous Year ②: Breakdown by Country and Industry

- In 2019, Cote d'Ivoire, Kenya and Nigeria had the largest number of companies who responded that their operating profit forecast was "improving."
- For 2020, they were Morocco, Cote d'Ivoire, and Ghana.

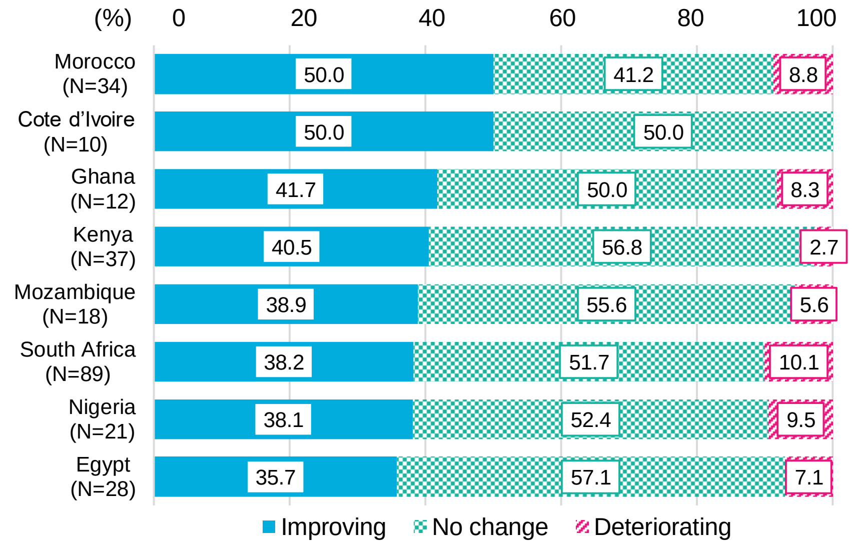
By Country

2019 Operating Profit Forecast (Compared to Previous Year)



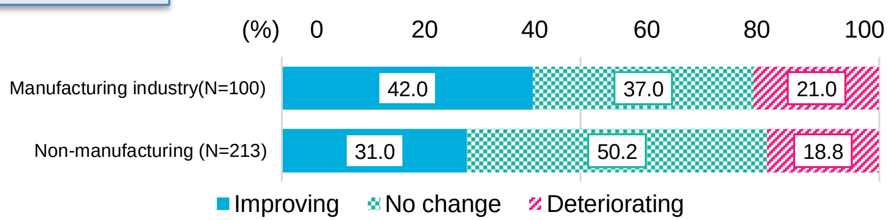
(Note) Excludes countries where less than 10 companies responded.

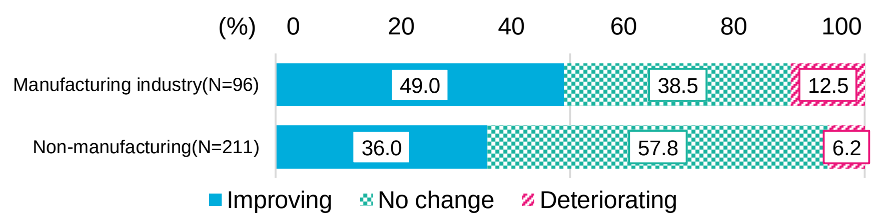
2020 Operating Profit Forecast



(Note) Excludes countries where less than 10 companies responded.

By Industry

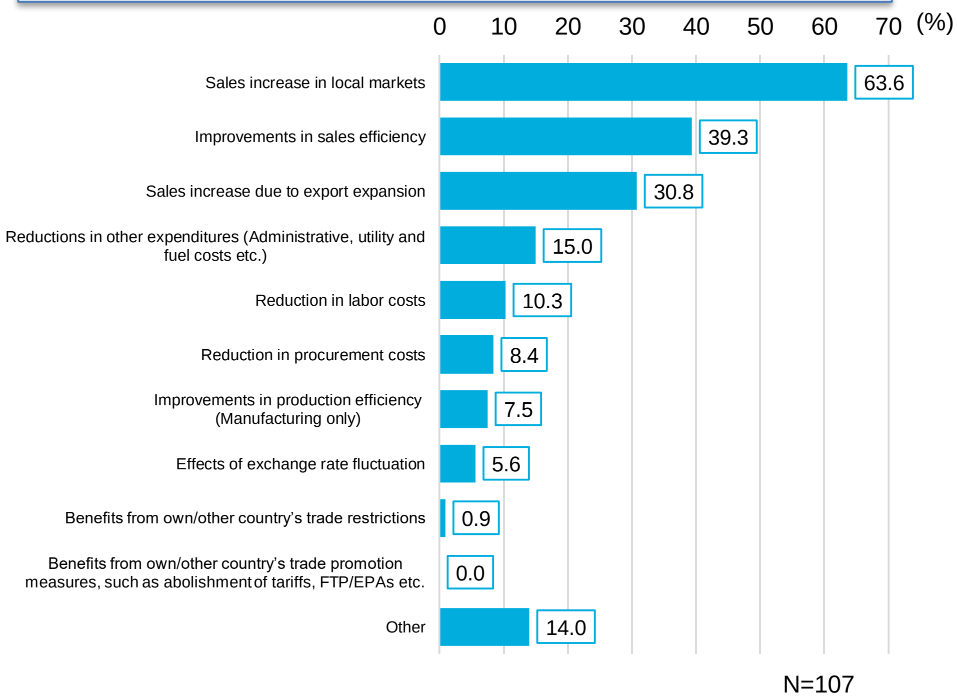




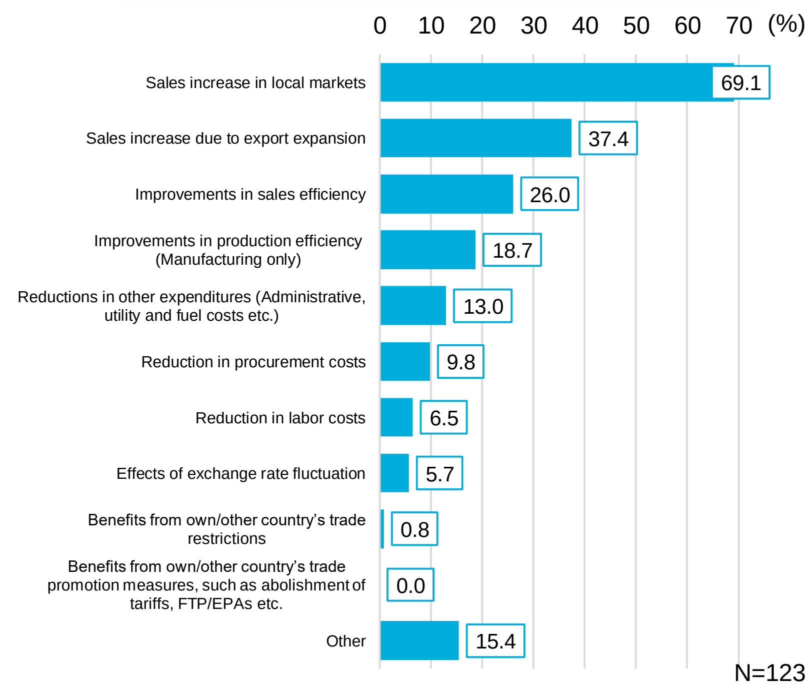
Operating Profit Forecast Compared to Previous Year ③: Reasons for Improvement

- Same as last year, the most common reason given by respondents for improvement of their forecast was due to "increased sales in the local market."
- 40% responded "improvements in sales efficiency" and 30% responded "increased sales due to export expansion."
- The proportion responding "increased sales in local markets" was even higher for 2020, demonstrating how companies are eager to see economic recovery in these local markets.

2019 Operating Profit Forecast
Reasons for improvement compared to the previous year
(multiple answers)



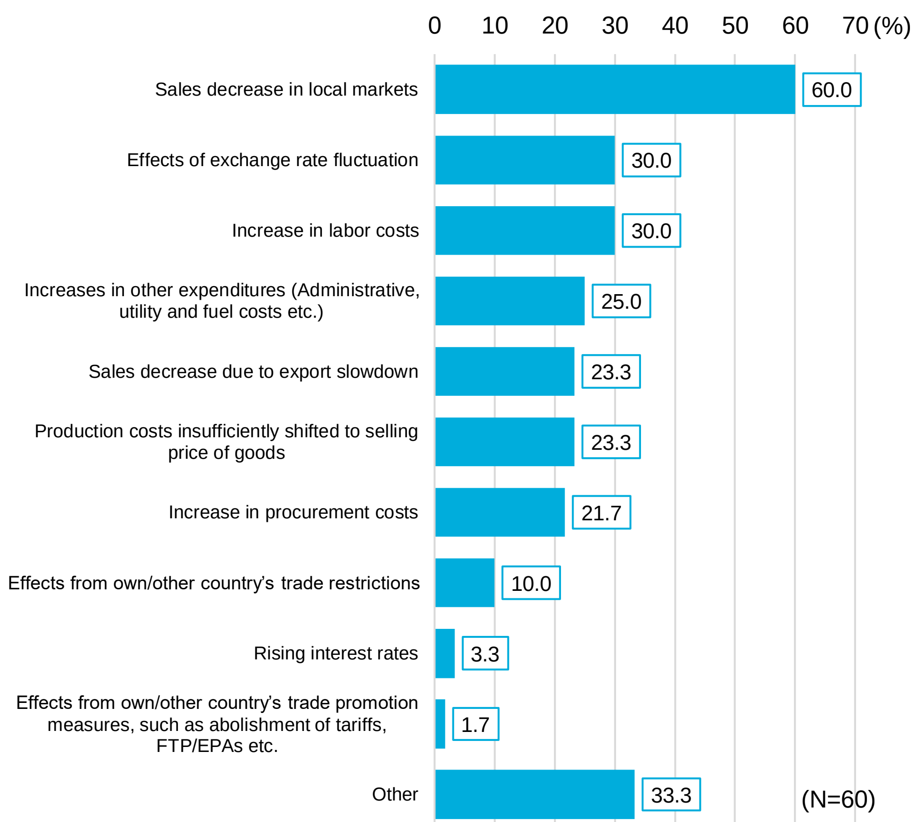
2020 Operating Profit Forecast
Reasons for improvement
(multiple answers)



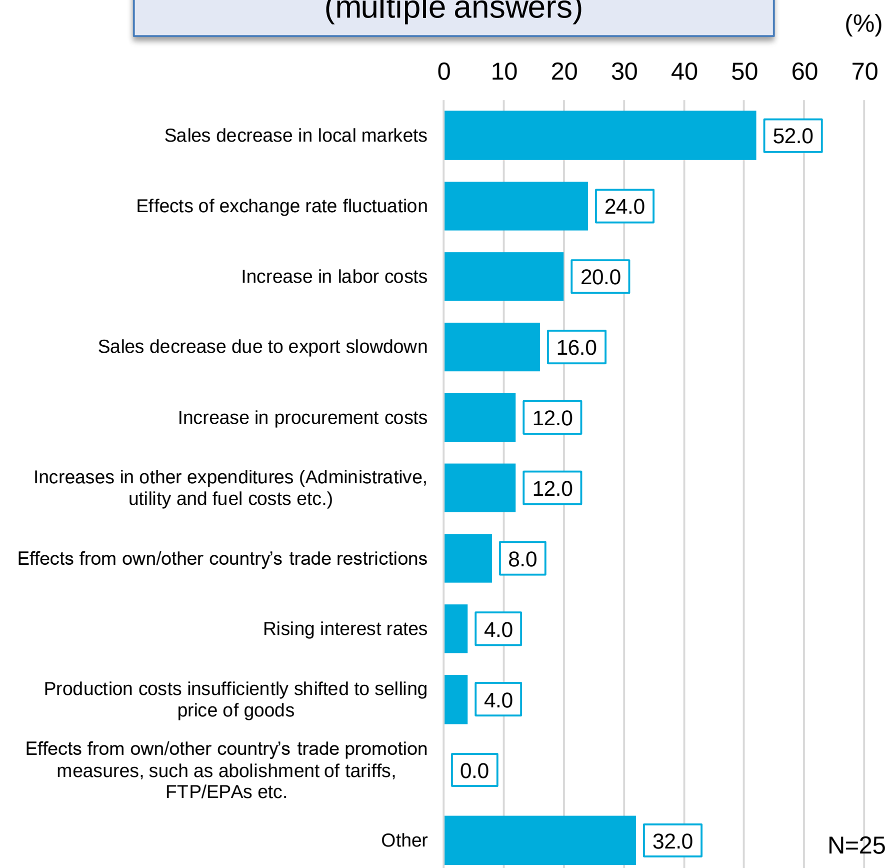
Operating Profit Forecast Compared to Previous Year ④: Reasons for Deterioration

➢ For both 2019 and 2020, the most common reason for an estimated decline in operational profit was “decreased sales in the local market,” then “effects of exchange rate fluctuations” and “increase in labor costs.”

2019 Operating Profit Forecast
Reasons for deterioration compared to the previous year
(multiple answers)



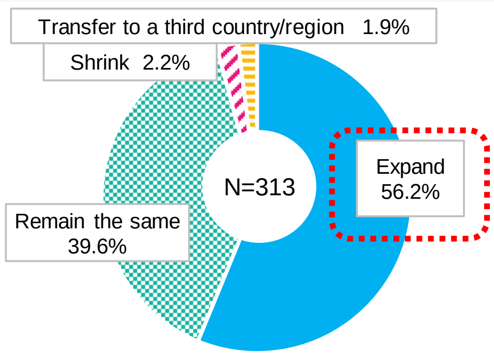
2020 Operating Profit Forecast
Reasons for deterioration
(multiple answers)



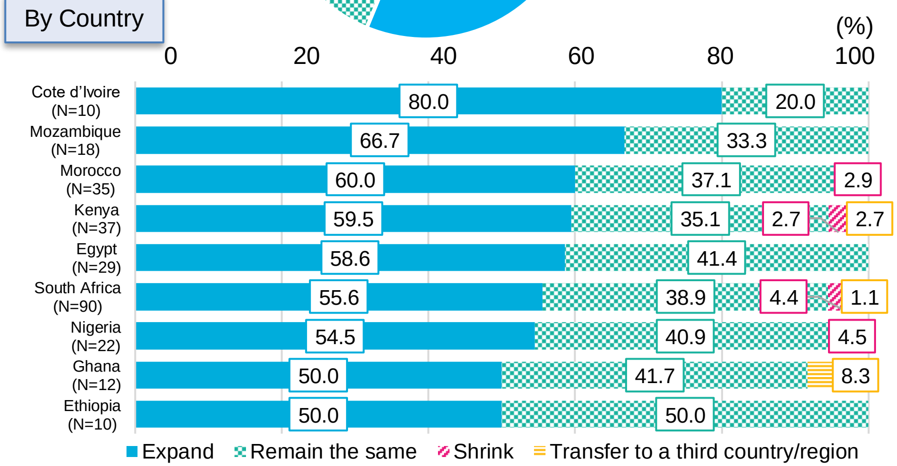
Future Business Outlook: More than 50% seek to "Expand Business" for the sixth consecutive year

- Approximately 56% of companies responded that they are considering expanding business over the next 1-2 years. This trend has continued for the past six years.
- Over 95% of respondents expressed their intent to expand or maintain the current level of business in Africa.
- High percentages of companies in Cote d'Ivoire, Mozambique and Morocco responded that they are eager to expand business.

Business Outlook for Next 1-2 years

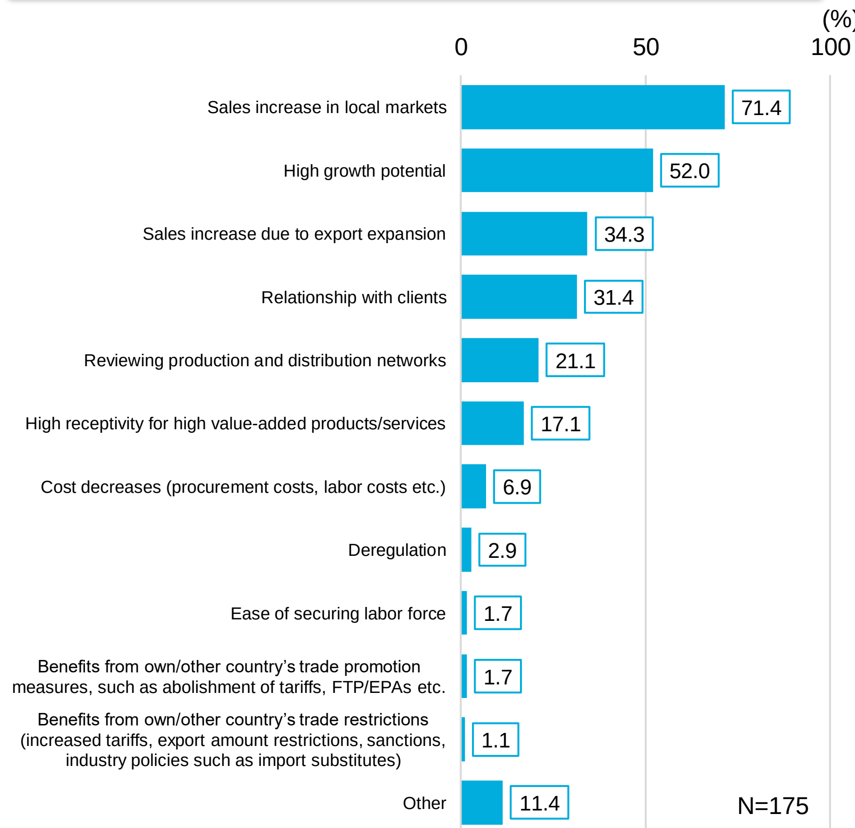


By Country



(Note) Excludes countries where less than 10 companies responded.

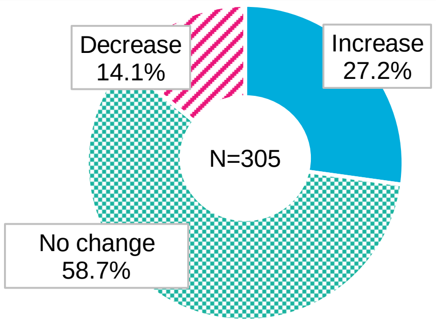
Reasons for expansion (multiple answers)



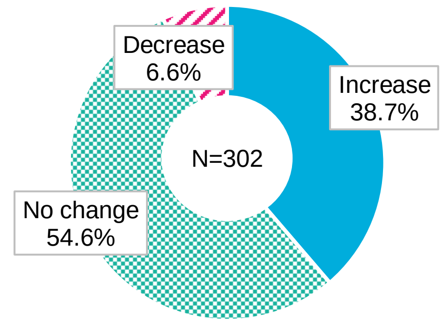
Number of Employees ①: Nearly 40% of Companies Plan to Increase Local Staff

- Nearly 30% of all respondents said they have increased the number of local employees over the past year. This trend is expanding, as 40% of companies responded that they will increase the number of local employees in the future.
- For Japanese expats based in Africa, "no change" was selected the most, and no significant increases or decreases could be seen.

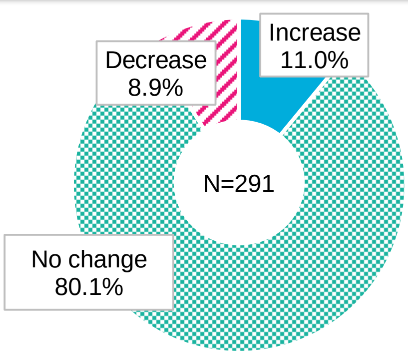
Changes to # of Local Staff Over Past Year



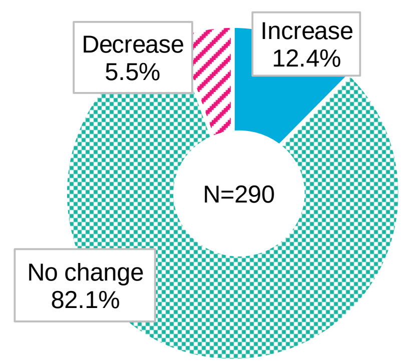
Future Changes to # of Local Staff



Changes to # of Japanese Expat Staff Over Past Year



Future Changes to # of Japanese Expat Staff

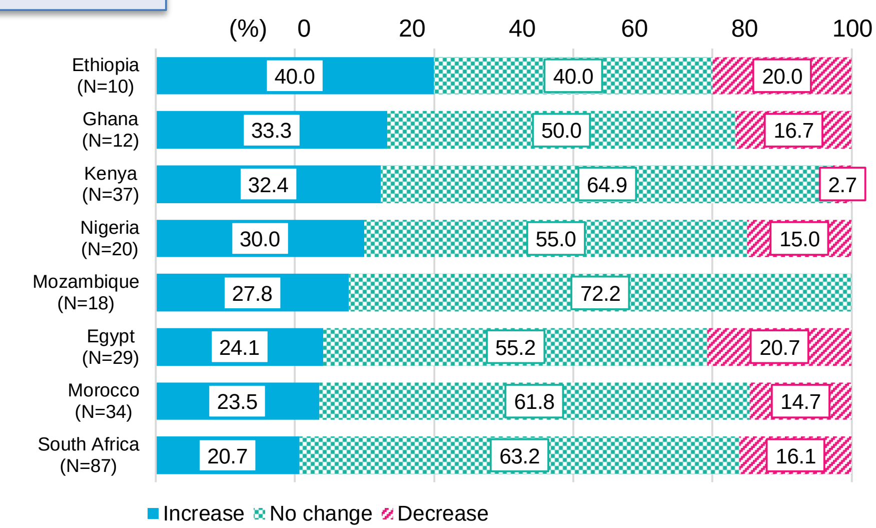


Number of Employees ②: Local Staff by Country and Industry

- In the past year, 40% of companies in Ethiopia increased their employment of local employees.
- More than 50% of companies in Morocco and Kenya responded that they are planning to increase their number of local employees.

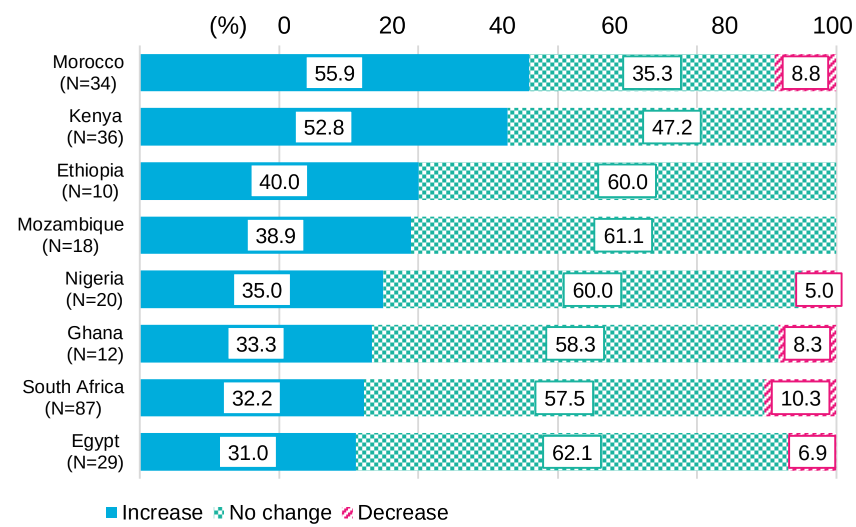
By Country

Changes to Local Staff Over Past Year



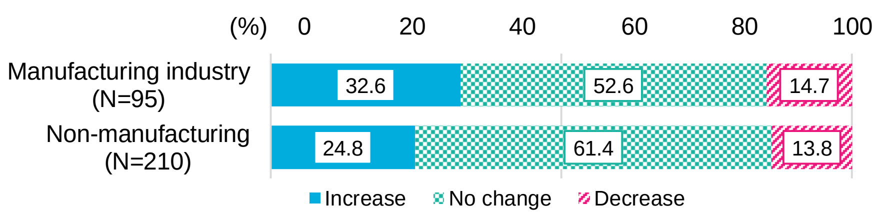
(Note) Excludes countries where less than 10 companies responded.

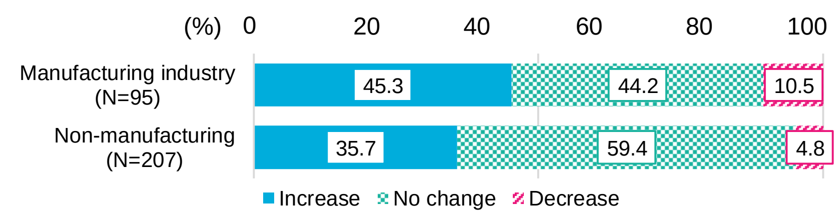
Future Changes to Local Staff



(Note) Excludes countries where less than 10 companies responded.

By Industry



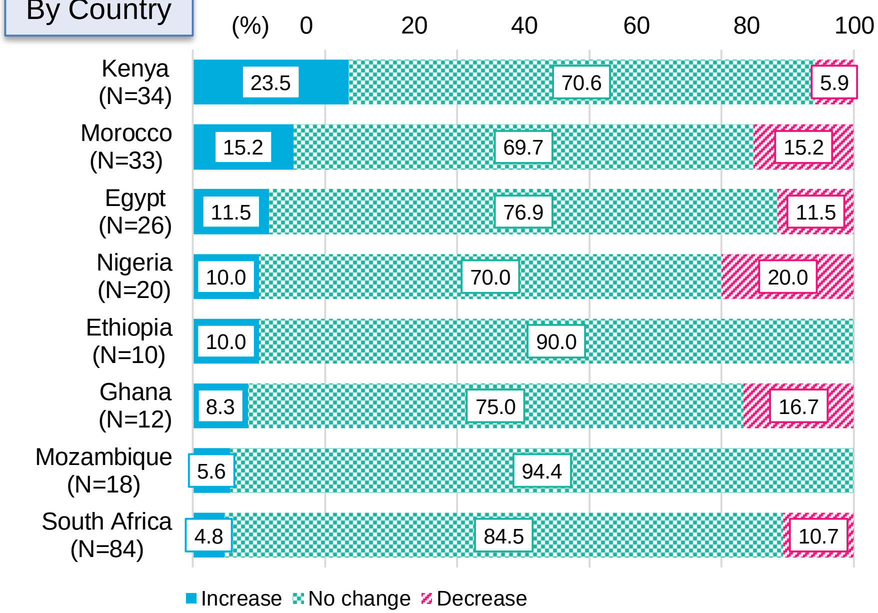


Number of Employees ③: Japanese Expat Staff by Country and Industry

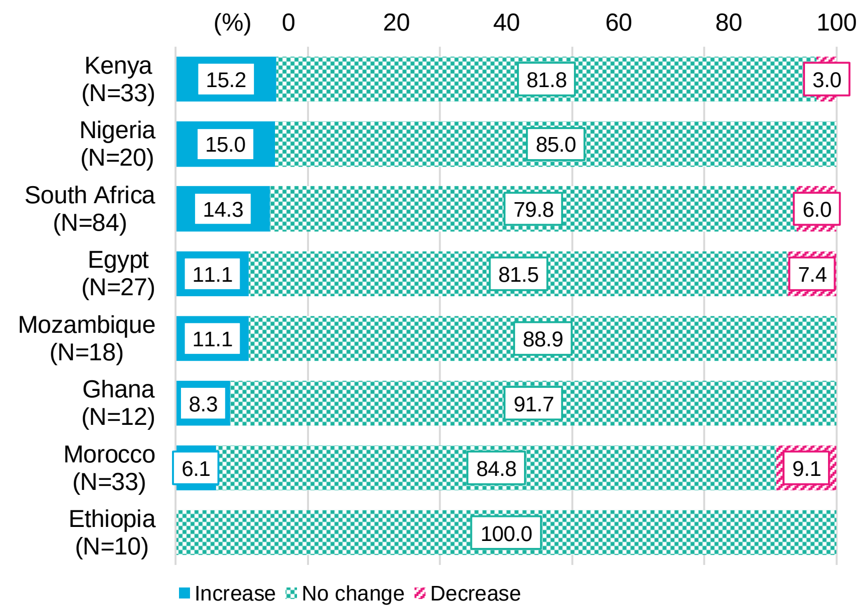
Changes to Japanese Expat Staff over Past Year

Future Changes to Japanese Expat Staff

By Country

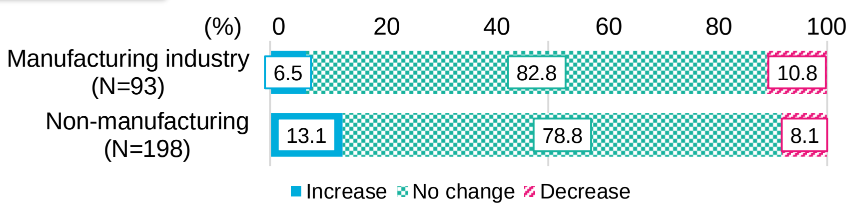


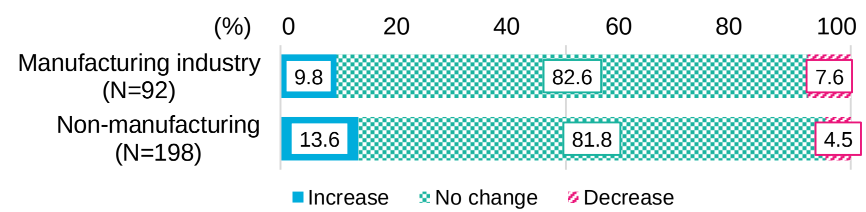
(Note) Excludes countries where less than 10 companies responded.



(Note) Excludes countries where less than 10 companies responded.

By Industry

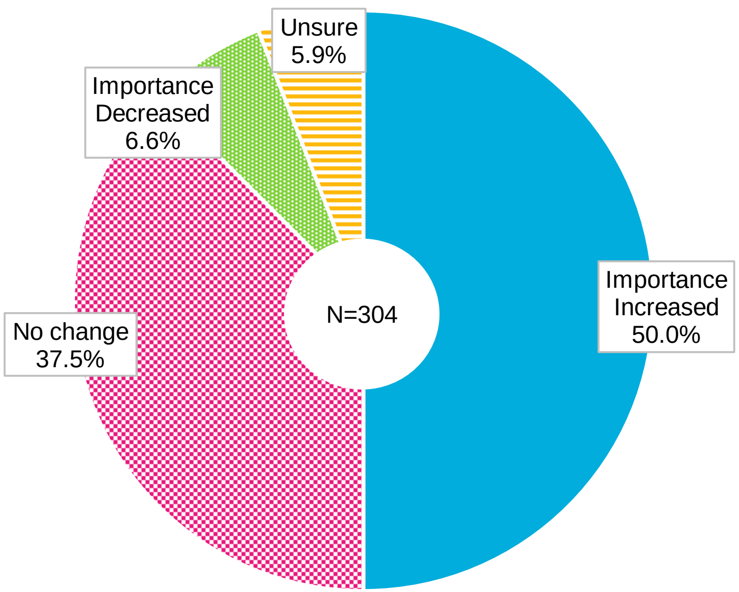




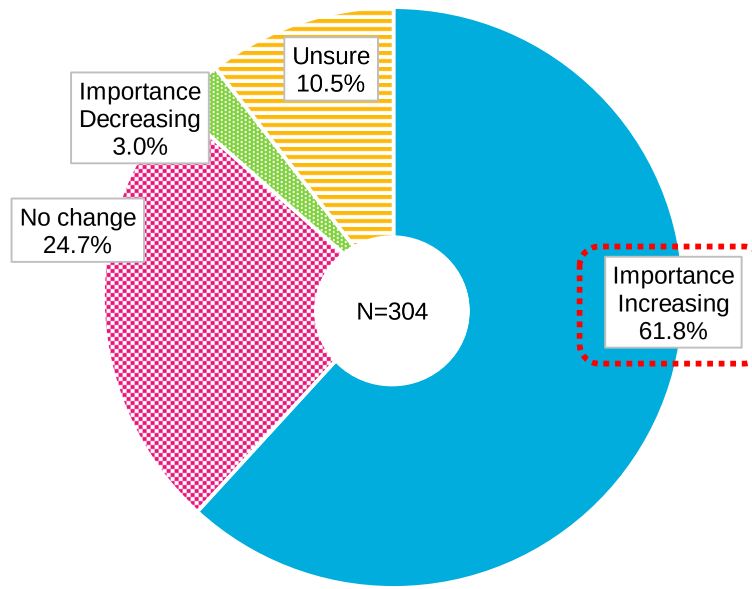
Africa's Position in Global Strategy：
Over 60% responded that importance of Africa will be increasing

➢ 50% of companies responded that the “importance of Africa had Increased” compared to five years ago. More than 60% responded that the “importance of Africa will be increasing” over the next five years. This showed an increasing focus on Africa.

[Positioning Compared to Five Years Ago]



[Positioning Over Next Five Years]

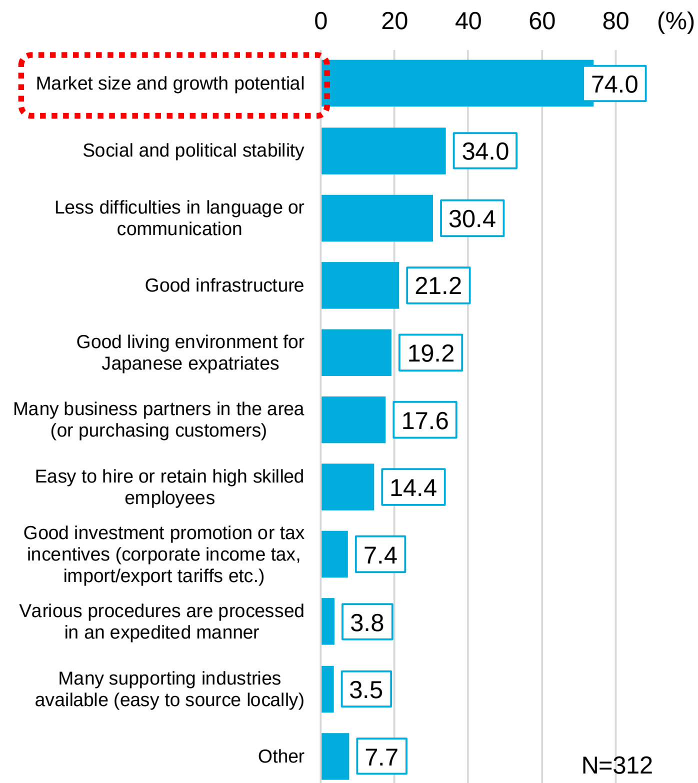


2. Changes to Investment Environment in Africa

Investment Environment Advantages：
High Expectation for “Market Size and Growth Potential”

- Three-quarters of companies responded that they saw benefits relating to "market size and growth potential."
- Ghana and Morocco received much higher evaluations than the average due to “social and political stability”

Investment Environment Advantages (Multiple Answers)



By Country

(%)	Market size and growth potential	Social and political stability	Less difficulties in language or communication	Good infrastructure	Good living environment for Japanese expatriates	Many business partners in the area (or purchasing customers)	Easy to hire or retain high skilled employees	Good investment promotion or tax incentives (corporate income tax, import/export tariffs etc.)	Various procedures are processed in an expedited manner	Many supporting industries available (easy to source locally)	Other
Overall (N=312)	**74.0**	**34.0**	**30.4**	**21.2**	**19.2**	**17.6**	**14.4**	**7.4**	**3.8**	**3.5**	**7.7**
Nigeria (N=22)	90.9	4.5	9.1	0.0	4.5	9.1	4.5	0.0	0.0	4.5	4.5
Cote d' Ivoire (N=10)	90.0	30.0	10.0	50.0	10.0	20.0	20.0	0.0	0.0	10.0	10.0
Egypt (N=29)	89.7	24.1	13.8	13.8	6.9	20.7	13.8	6.9	10.3	0.0	3.4
Kenya (N=37)	83.8	27.0	67.6	16.2	32.4	8.1	10.8	0.0	0.0	2.7	8.1
South Africa (N=90)	73.3	16.7	42.2	24.4	22.2	30.0	10.0	8.9	2.2	2.2	3.3
Mozambique (N=18)	72.2	33.3	5.6	22.2	5.6	5.6	5.6	5.6	0.0	11.1	27.8
Ethiopia (N=10)	70.0	0.0	0.0	0.0	0.0	0.0	20.0	0.0	0.0	0.0	30.0
Ghana (N=12)	66.7	91.7	50.0	16.7	33.3	16.7	8.3	8.3	8.3	0.0	8.3
Morocco (N=34)	64.7	79.4	17.6	26.5	14.7	17.6	23.5	17.6	2.9	8.8	2.9

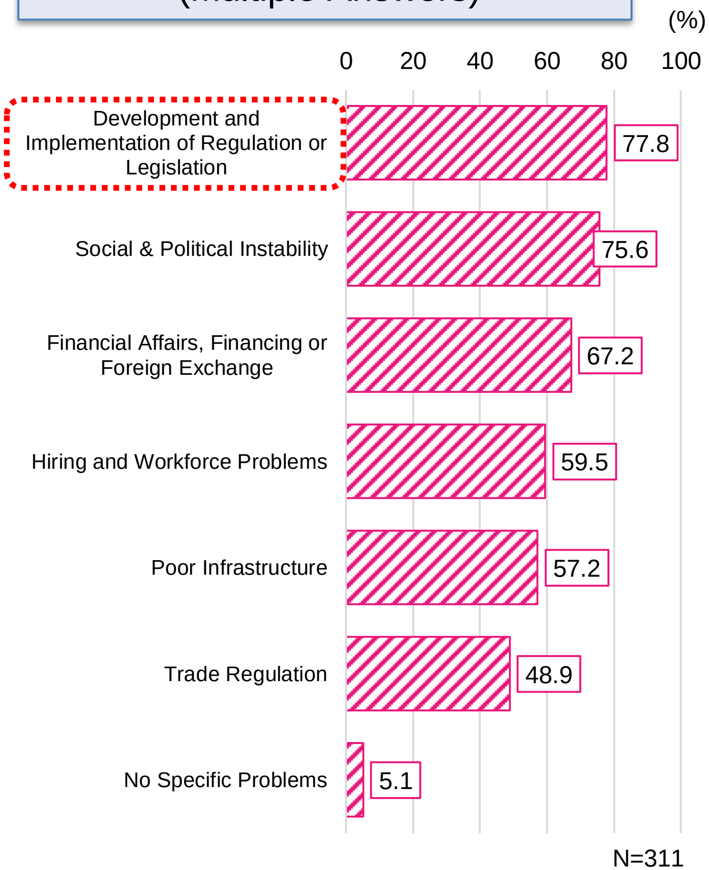
(Note 1) Figure highlighted in blue means it exceeds the average for this factor.
(Note 2) Excluding countries where only 10 companies or less responded.

Africa Investment Risks ①:

Great Challenge, "Despite Improvements in Development and Implementation of Regulation or Legislation"

- "Development and implementation of regulation or legislation" saw a decrease of approximately 10 points over the previous year, but nearly 80% of companies continue to perceive this as a risk.
- Morocco is below average for many items.

Investment Environment Risks (Multiple Answers)



By Country

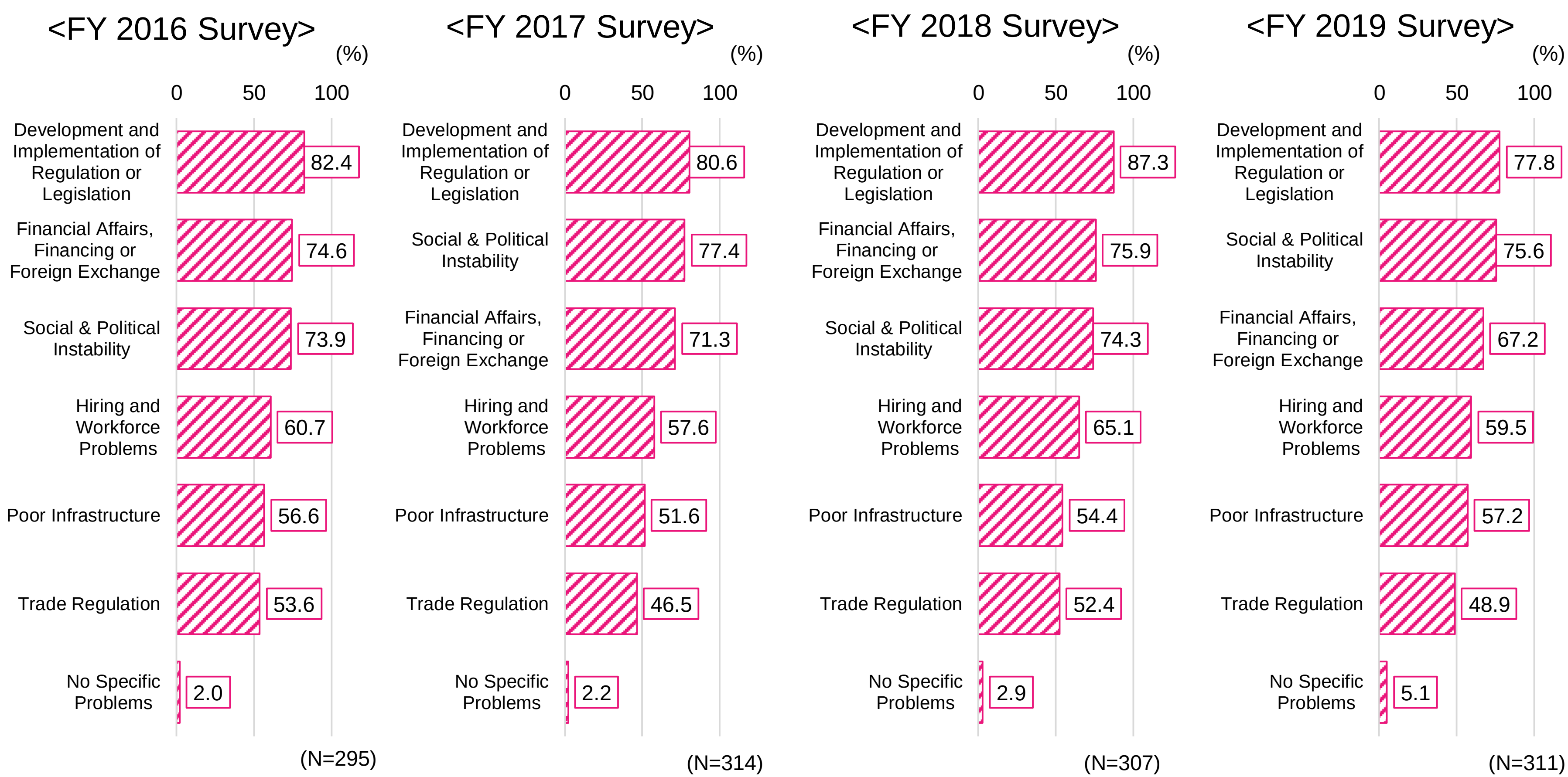
(%)	Development and Implementation of Regulation or Legislation	Social & Political Instability	Financial Affairs, Financing or Foreign Exchange	Hiring and Workforce Problems	Poor Infrastructure	Trade Regulation	No Specific Problems
Overall (N=311)	**77.8**	**75.6**	**67.2**	**59.5**	**57.2**	**48.9**	**5.1**
Mozambique (N=18)	100.0	83.3	88.9	72.2	77.8	66.7	0.0
Ethiopia (N=10)	100.0	100.0	90.0	70.0	100.0	90.0	0.0
Nigeria (N=22)	95.5	90.9	72.7	63.6	81.8	68.2	4.5
Ghana (N=12)	91.7	33.3	91.7	50.0	58.3	41.7	0.0
Egypt (N=29)	86.2	82.8	75.9	51.7	58.6	51.7	3.4
Kenya (N=37)	81.1	83.8	43.2	62.2	51.4	45.9	8.1
Cote d'Ivoire (N=10)	80.0	90.0	60.0	60.0	30.0	70.0	0.0
South Africa (N=90)	66.7	90.0	66.7	68.9	60.0	30.0	2.2
Morocco (N=34)	64.7	32.4	47.1	44.1	23.5	52.9	14.7

(Note 1) Figures highlighted in red exceed the average for this factor.
(Note 2) Excluding countries where only 10 companies or less responded.

Africa Investment Risks ②: Improvement has been seen in some items

- Although "development and implementation of regulation or legislation" continues to be high, over the past three years it fell below 80% for the first time, with "financial affairs, financing or foreign exchange" also falling to below 70% for the first time.

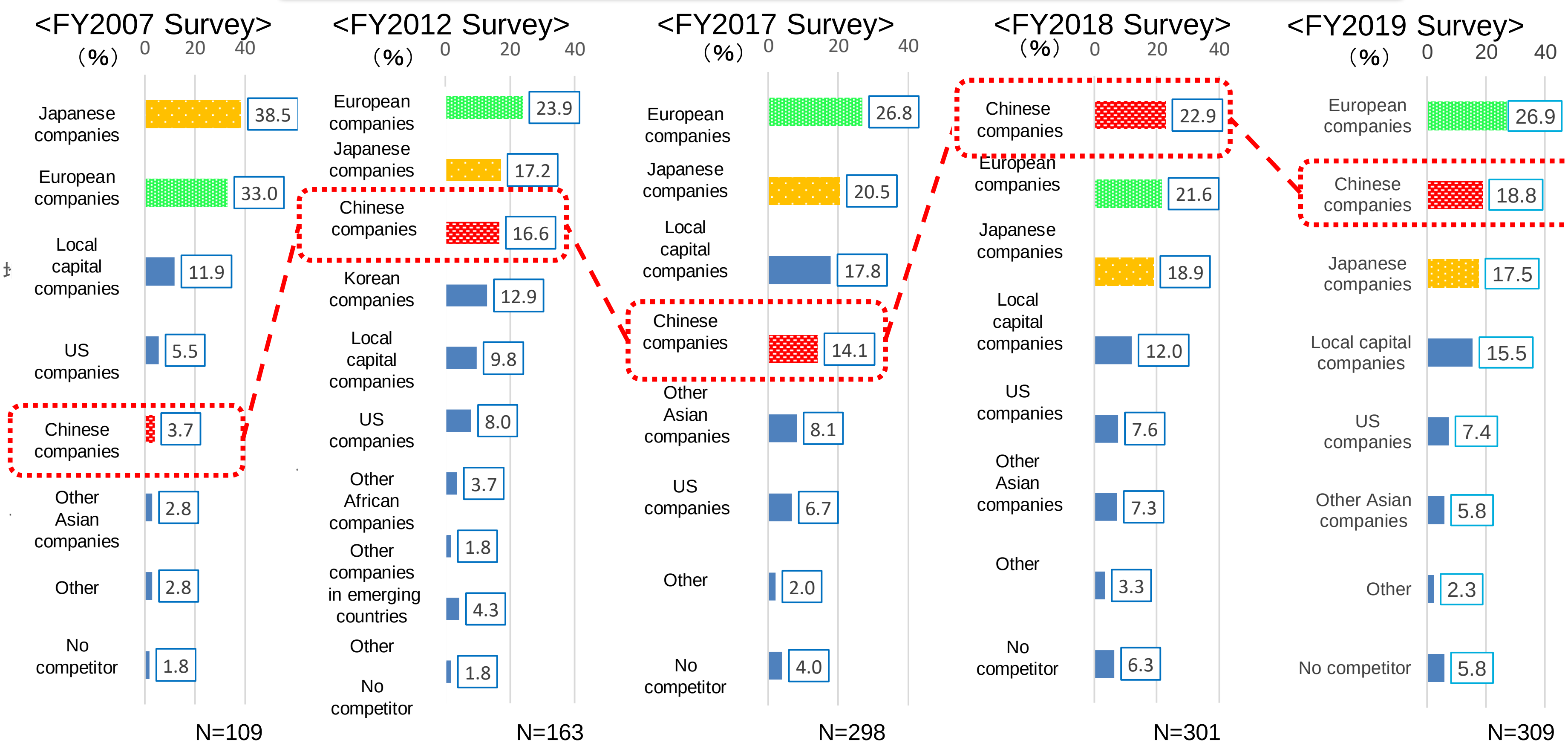
Investment Environment Risks (Multiple Answers)



Competition with Third-Country Companies ①: European Companies Become Top for the First Time in Two Years

- ➢ Chinese companies saw a decrease of approximately 4 points over the previous year, with European companies becoming the top competitors for the first time in two years.
- ➢ Continuing from last year, Japanese companies were ranked 3rd. Local capital companies (4th) saw an increase over the previous year.

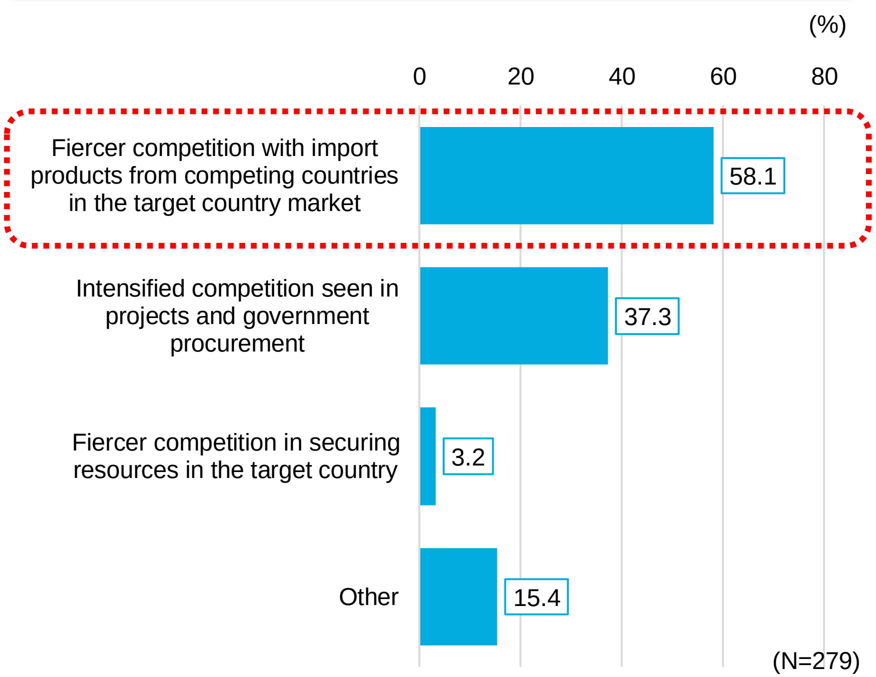
Trends in Percentage of Companies with the Most Competitive Relationship



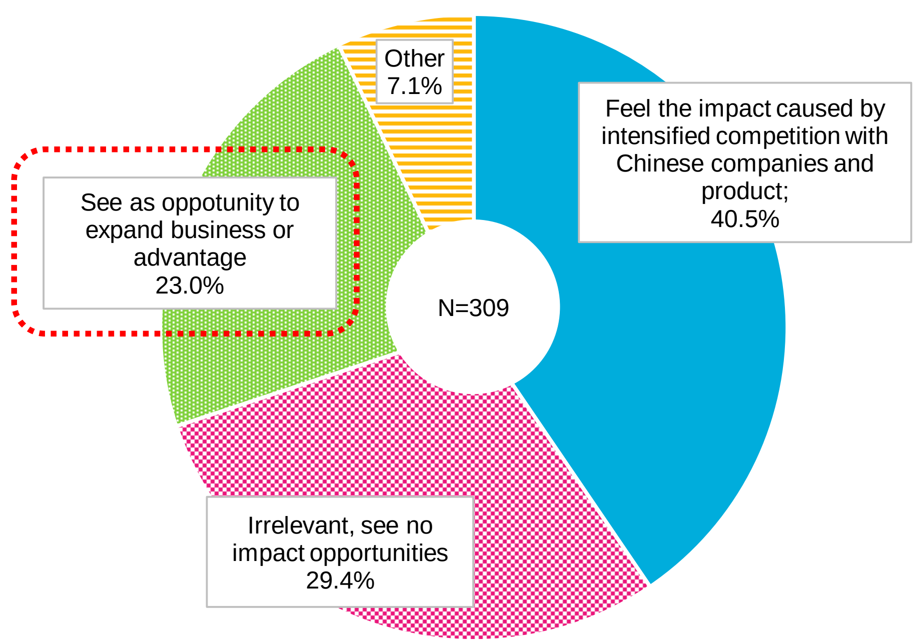
Competition with Third-Country Companies ②:

- Around 60% of companies responded “fiercer competition with import products” as an influence brought by companies of competing countries.
- When asked about their thoughts regarding China, while 40% of companies are worried about "fiercer competition," over 20% see an "opportunity to expand business or advantage."

Impact from Companies of Competing Countries (Multiple Answers)



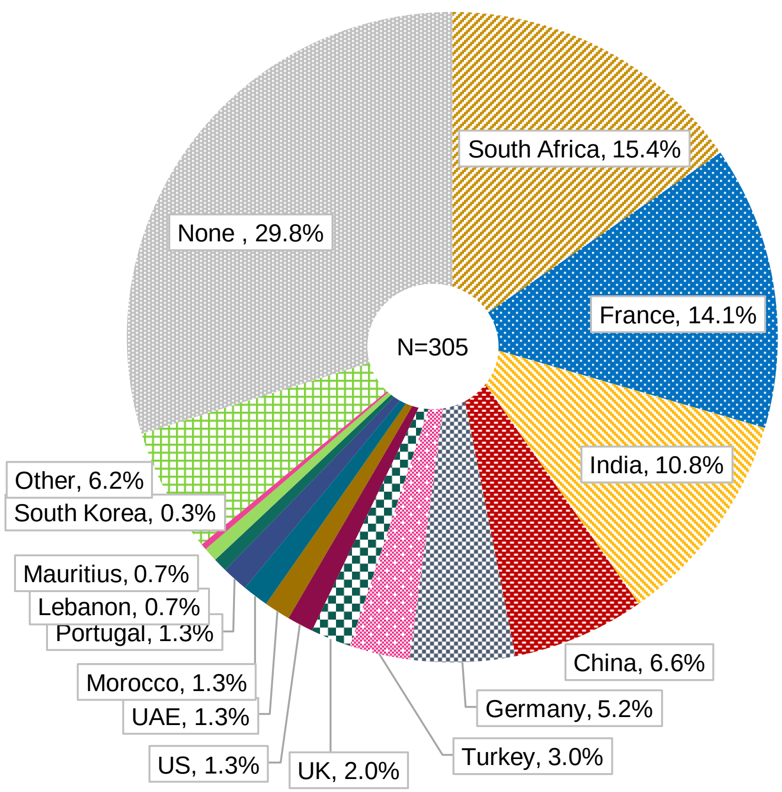
Position towards China Strengthening Economic Relationships with African Countries



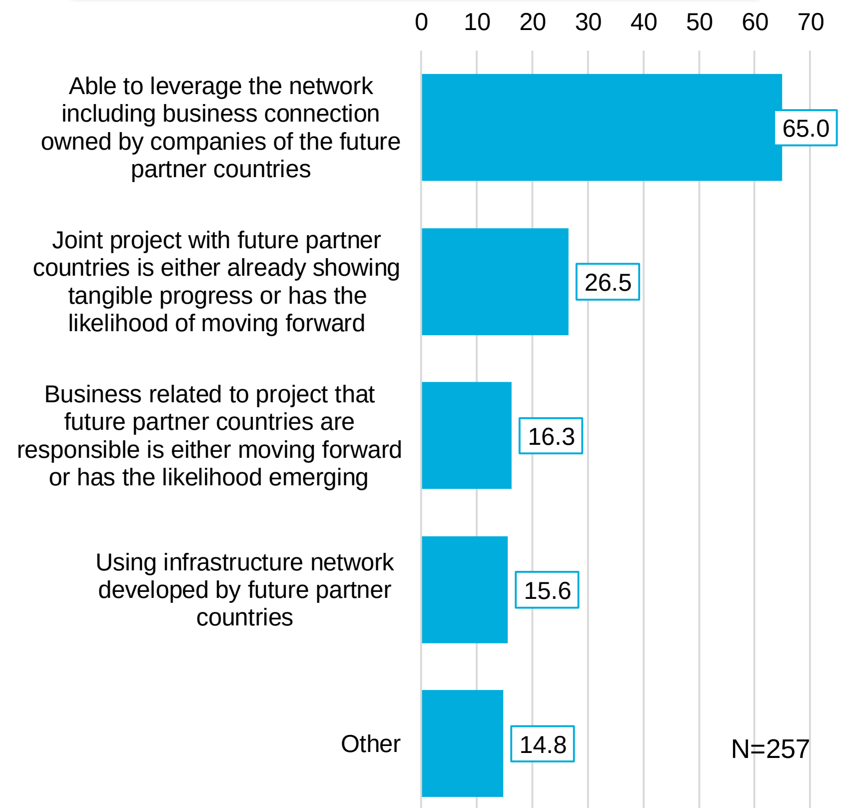
Collaboration With Third-Country Companies: Promising Alliance with South African, French, and Indian Companies

- South Africa, France and India were the top three answers for countries with which collaboration is made.
- 29.8% of companies responded "none," a reduction from 38.3% in the previous year, revealing increased interest in collaboration.

Partner Countries in the Third-Country



Opportunities and Advantages (Multiple Answers)

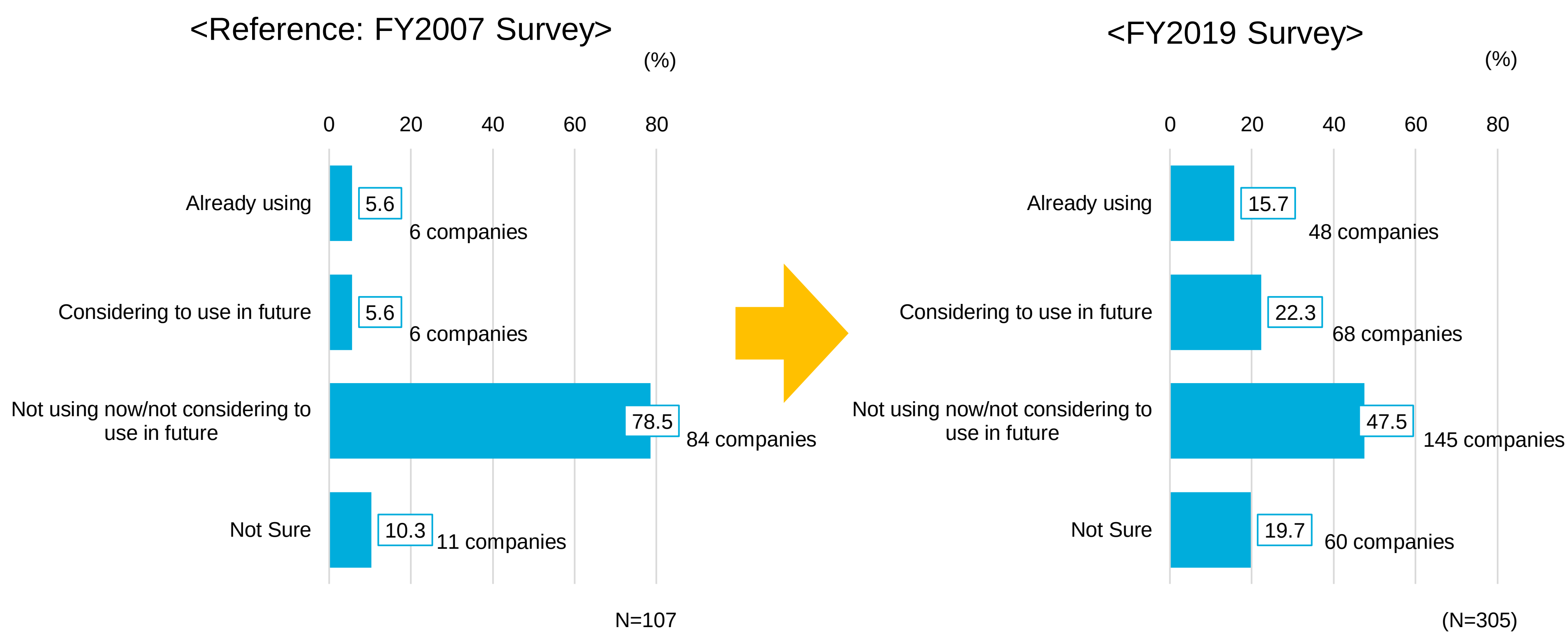


3. Future Market Expectations

FTA & Customs Union ①:
Approximately 40% Currently Using or Considering to Use FTA & Customs Union

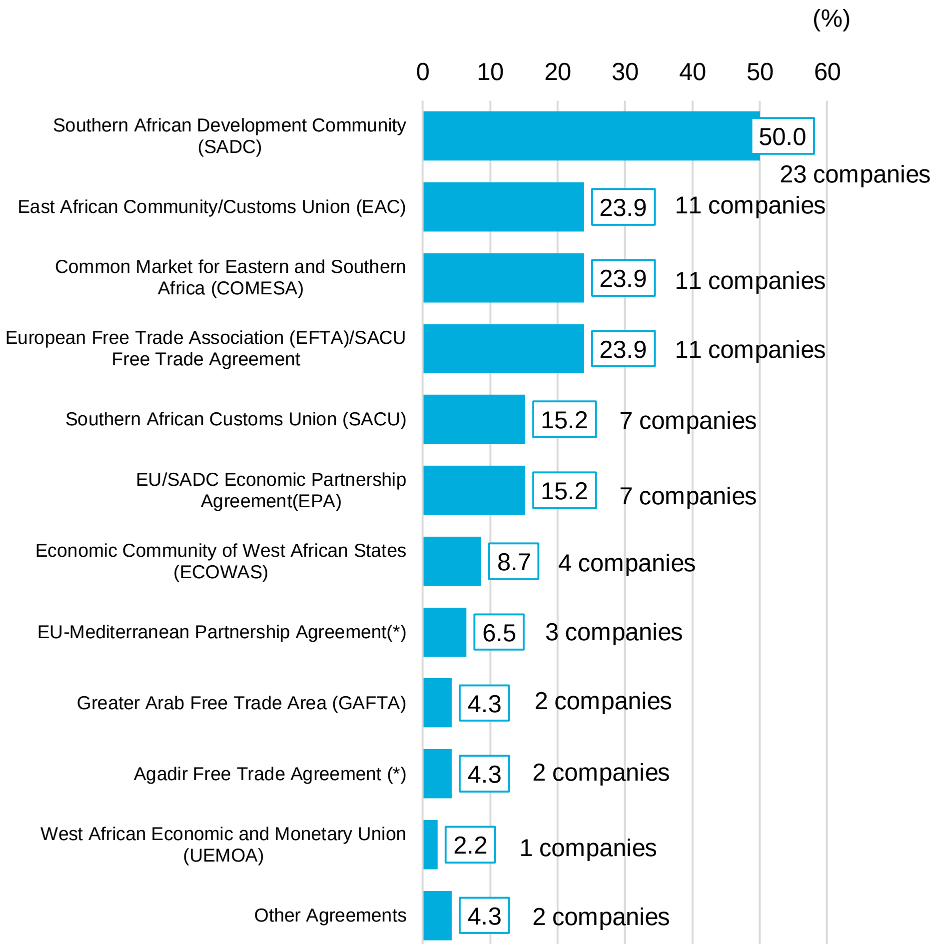
- A large increase was seen in companies utilizing FTAs or customs unions compared to 2007. Combining this with companies considering use of these systems produces a total of approximately 40%.
- The most used FTA was the Southern African Development Community (SADC).
- The African Continental Free Trade Area (AfCFTA), which came into effect in May 2019, received the highest number of choices for "considering use in future," showing a high level of interest.

Current Usage of FTA & Customs Unions (Multiple Answers)



FTA & Customs Union ②:
High Interest in the African Continental Free Trade Area

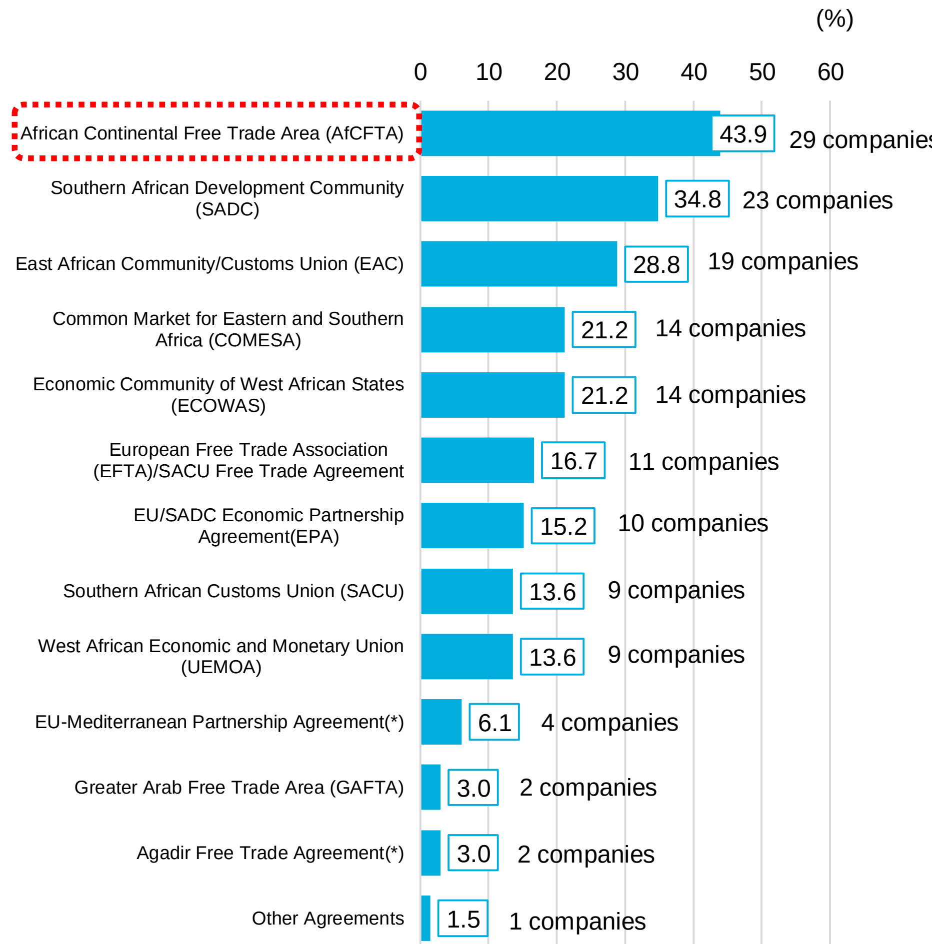
FTA or Customs Union Currently Used (Multiple Answers)



*Egypt, Tunisia, Algeria, Morocco, etc.

N=46

FTA or Customs Union Considering to Use (Multiple Answers)



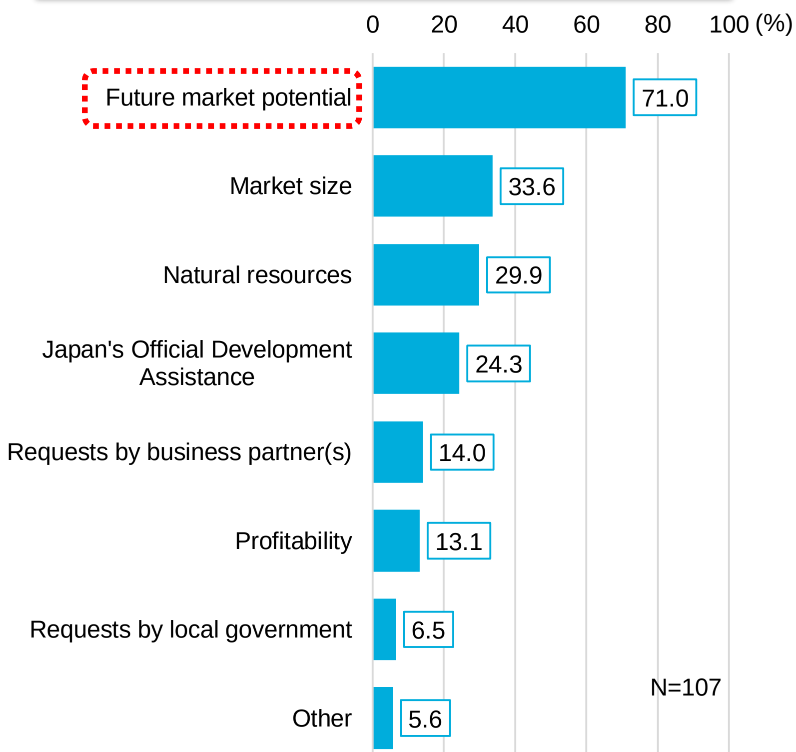
*Egypt, Tunisia, Algeria, Morocco, etc.

N=66

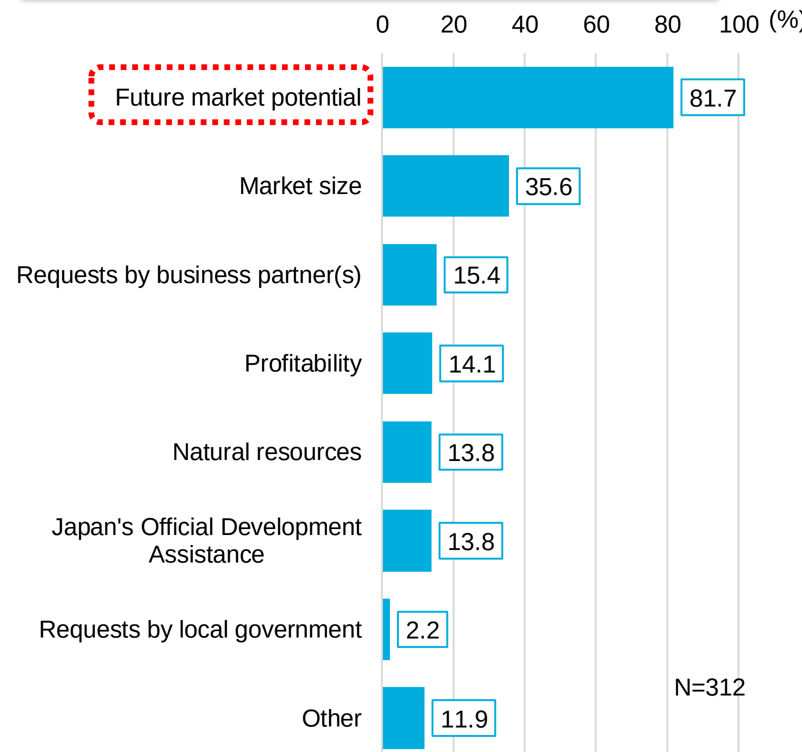
Reasons for Maintaining Presence in Africa：
High Expectations for Future Market Potential

- More than 80% of companies answered "future market potential" as their reason for entering the African market, revealing their aim to create opportunities in the market.
- There was a marked decrease in the proportion answering "natural resources" or "Japan's Official Development Assistance" compared to 2007.

Reference: FY 2007 Survey
(Multiple Answers)

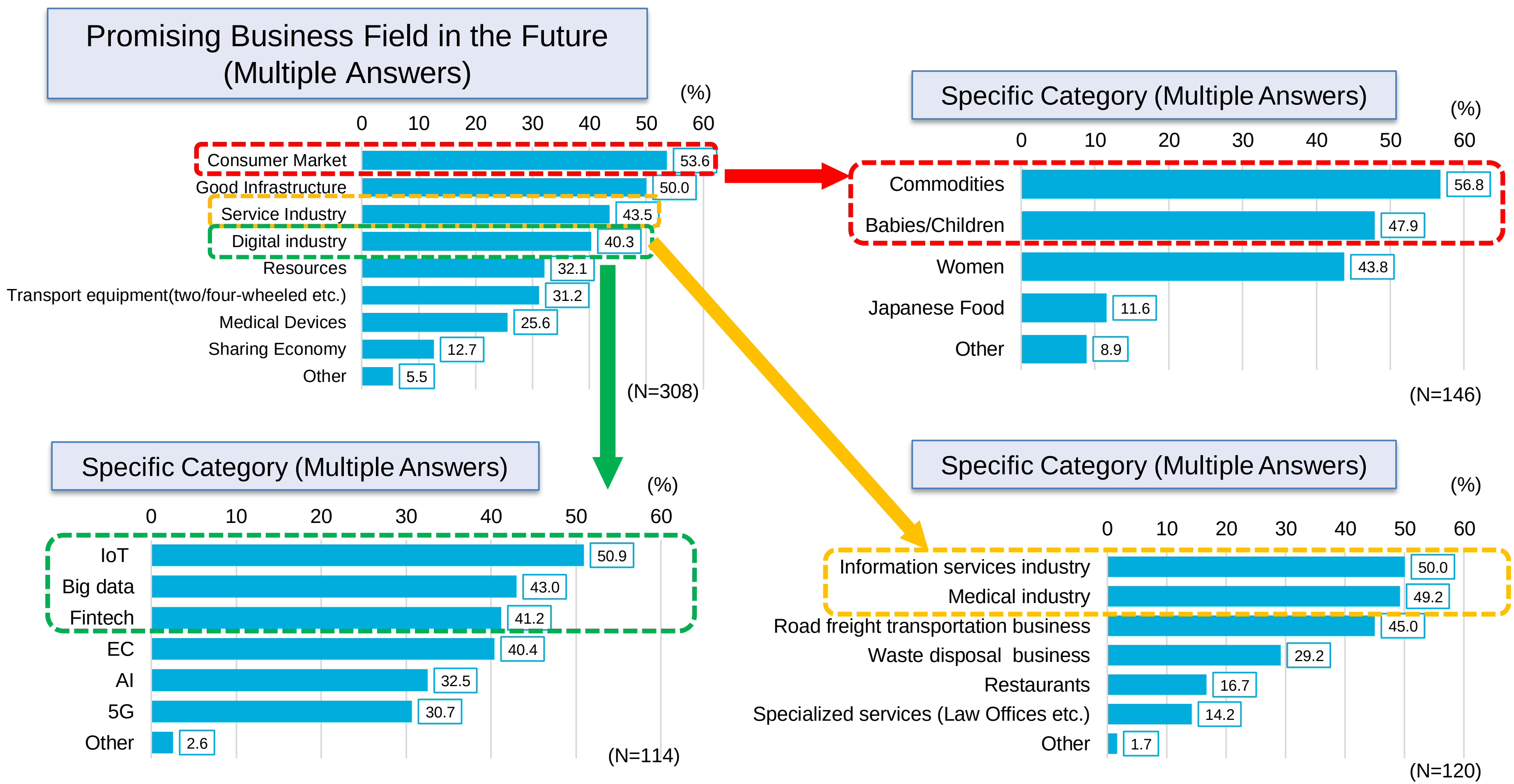


FY 2019 Survey
(Multiple Answers)



Promising New Business Fields in the future：
High Interest in Consumer Market (Commodities)

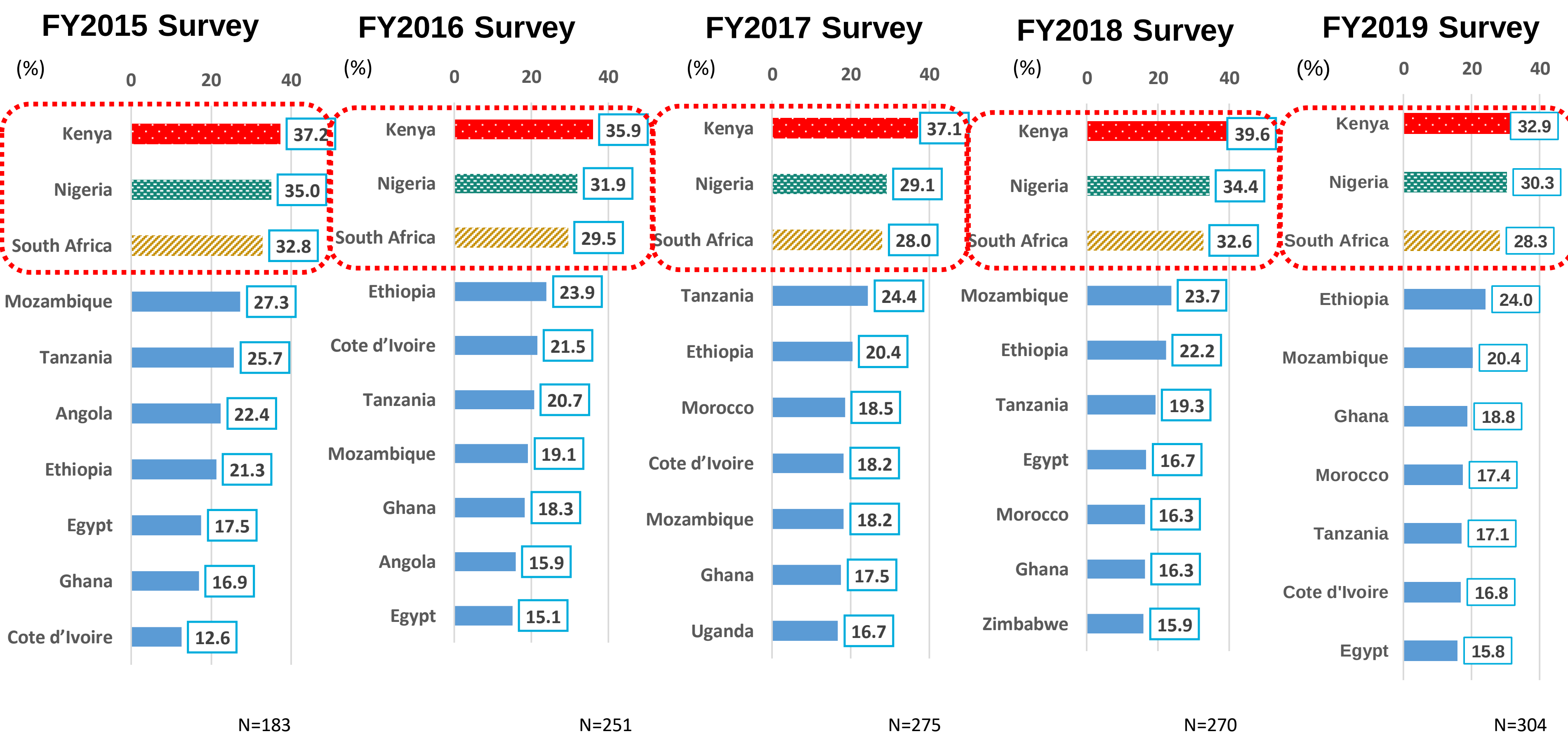
- One area of promise was “consumer market”. This was followed by “infrastructure” and “service industries”.
- Amongst service industries there was particular interest in information services and medical services.
- A high level of interest was also seen in IoT, big data and fintech amongst digital industries.



Future Investment Destinations ①: Kenya, Nigeria and South Africa Rank Top 3 for 5 Consecutive Years

- Kenya, Nigeria, South Africa were ranked as the top 3 countries of note for 5 consecutive years.
- Ethiopia moved up in rank from 5th to 4th place from the previous year, Ghana jumped up from 9th to 6th place, and Morocco climbed from 8th to 7th place.

Top 10 Future Investment Destinations (Multiple Answers)



Future Investment Destinations ②:

(Reference) Company Comments towards Investment Destinations Ranked 1 - 10 (Multiple Answers)

N=304

	Country	Share (%)	Investment Destinations (Company Comments)
1	Kenya	32.9	Emerging startup companies and potential for collaboration, expanding demand for infrastructure, potential of geothermal power, the hub function of East Africa, economic stability, increase in middle class, the growth of the automobile industry, market size and future potential growth
2	Nigeria	30.3	Population increase and market size; overwhelming market scale, high potential of consumer goods market; enhancement of personal purchasing power; abundant energy resources; increase in startup companies; growth of automobile industry
3	South Africa	28.3	A base of economic, manufacturing and exportation in Africa; the most developed country in sub-Saharan Africa; a certain level of infrastructure development; abundant mineral resources; industrial power in the development of the automobile industry; the most mature market in Africa; expansion of consumer market
4	Ethiopia	24.0	Population growth, inexpensive labor, cheap electric power, increase in companies in the textile industry, the development of light industry, reform by Prime Minister Abiy, privatization of state enterprises
5	Mozambique	20.4	The largest deposit of natural gas in the world, expanding demand for infrastructure including electric power, expectation for economic development
6	Ghana	18.8	Stable politics, economy, and legislative system; relatively good security; liberalization of economic management; good entrepreneur environment; the hub of West Africa; expansion of market size and future growth potential; increase in middle class; the progress of automotive policy
7	Morocco	17.4	Development of automobile industry; a key country in North Africa, a base for manufacturing and exportation; access to European markets; access to African markets; stable public security and business environment; implementation of policy for introducing foreign capital and transparency of investment-related systems; expanding demand for infrastructure
8	Tanzania	17.1	Progress of infrastructure development, expanding power demand, economic development utilizing natural resources, future growth potential
9	Cote d'Ivoire	16.8	A key country among French-speaking countries in Africa, entry base of land-locked countries, expanding demand for infrastructure development, restoration of public security, expectation for economic growth, relatively developed infrastructure
10	Egypt	15.8	Huge consumer market, traditionally active market that has been around for a long time, population growth, a regional hub, geographical advantage, large scale urban development, expanding demand for infrastructure as urbanization progresses, development of natural resources

Future Investment Destinations ③：
(Reference) Company Comments towards Investment Destinations Ranked 11 and below

	Country Name	Share (%)	Investment Destinations (Company Comments)
11	**Uganda**	**13.8**	Expanding demand for infrastructure, expansion of consumer market associated with population growth
12	**Angola**	**10.5**	Economic development supported by oil industry, future growth potential, strong infrastructure demand
13	**Zambia**	**8.9**	Potential of agricultural industries, business opportunities related to ODA, rich resources, expectation for economic growth
14	**Algeria**	**8.6**	The development of the automobile industry, abundant resources, expectation for population growth and economic development, improved investment environment due to policies created by new administration
15	**Rwanda**	**8.2**	ICT prowess, the development of infrastructure, business opportunities related to ODA, stable public security, expectations for economic growth
16	**Mauritius**	**7.6**	Stability of legal system and economy, excellent infrastructure development, hub of African finance/logistics
17	**Zimbabwe**	**7.6**	Future growth potential, expanding demand for infrastructure projects, quality of local staff
18	**Madagascar**	**6.6**	Expanding demand for infrastructure development, the development of harbor, business opportunities related to ODA, the development of mineral resources
19	**DR Congo**	**5.3**	Abundant resources, population increase and market size
20	**Cameroon**	**3.6**	Business opportunities relating to forestry and health/medical services, market size

Middle East and Africa Division
Overseas Research Department
6F ARK Mori Building, 1-12-32 Akasaka,
Minato-ku, Tokyo 107-6006
Tel: +81-3-3582-5180
Fax: +81-3-3587-2485
E-mail: ORH@jetro.go.jp

[Disclaimer]

Any use of information in this report shall be at the user's discretion and its own responsibility. JETRO makes every effort to provide accurate information and data. However, JETRO cannot be held liable whatsoever for damages or losses arising from the use of information in this report.