The Second Japan-Africa Business Forum

Thematic Session: Promotion of SMEs and BoP Businesses

Moderator
Keiichi Shirato
General Manager, EMEA & Russia Department
Global Economic and Political Studies Division
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Mr. Shirato began by saying that the focus of the discussion was going to be on small and medium enterprises in Africa, how to nurture and develop SMEs in Africa and also BoP or Base of Pyramid.

Even with the economic development, a large number of people on the African continent are in the base of pyramid as they suffer from poverty. It is important to embrace those people as consumers for businesses and enhance their purchasing power thus translating into the advancement of the African nations.

Mr. Shirato invited the views of the panelists on what is actually needed, what are the businesses that can target those BoP people? One-time assistance may not result in sustainable success of businesses, whether it is a business or starting business, sustainability is essential. What can sustainable BoP business and sustainable SMEs do? What is the role to be played by the public sector? How should they partner with the members of the private sector?

JICA is an assistance organization, so *Mr. Kubo* will discuss how to best support the BoP business from the public sector perspective.

Eiji Kubo
Director of the Private Sector Partnership Division
Private Sector Partnership and Finance Department, JICA

Mr. Kubo discussed JICA's experiences in promoting the BoP businesses and their partnership activity in the private sector in Africa, their success stories and best practices and how they were able to partner with the members of the private sector.

He stated that although JICA indulged in various activities in Africa in order to respond to and achieve the goals related to challenges in the development, the main focus of his talk would be BoP-related assistance.

Primarily, the BoP Surveys were being conducted but after the SDGs were adopted by the UN, there is a proposal to develop the BoP Survey into the SDGs Business Pilot Survey Project that could be conducted where JICA will provide assistance to support the activities before their implementation.

Until last year, the BoP surveyed 114, where more than 30% were conducted in Africa and 38 projects were conducted in the region in the sectors of agriculture, healthcare, energy, and nutrients. This model was replicated in regions other than Africa. When it comes to BoP business, main sectors are agriculture and the nutrients.

These are some case studies. Ajinomoto is rapidly expanding its business of sourcing agricultural food which provides nutritional supplement to the people of Ghana. Kagome is a food producer processing company in Senegal that provides the cultivation methodology and technique for tomato crop to low-income farmers.

In Tanzania, the music instrument manufacturer Yamaha in Tanzania made the wood wind instrument from African Blackwood, which has been unlawfully and excessively cultivated. JICA supports the initiative to prevent the depletion of the material so that African Blackwood will be secured in the supply chain as sustainable materials.

Digital Grid Solutions originated from the University of Tokyo as a venture company with the model of utilizing IT technology to allow the pay-per-use basis electricity sale. This model was used in Kenya to provide the villages which were not covered by the electricity supply network.

JICA should not contain its efforts to BoP business but expand in areas where the Japanese stakeholders can make contributions to development in Africa in the areas of agriculture and nutrients. In the latest advanced technology areas, Japanese companies' technologies will be contributing to the development of Africa. Therefore, together with the private sector companies, JICA is ready to further extend support to Africa.

Tetsuo Kondo

Director UNDP Representation Office in Tokyo

The theme of *Mr. Kondo's* speech looked at how the UNDP was collaborating with the private sector to achieve the Sustainable Development Goals.

The development of Africa will determine the course of humankind's future. If public sector initiatives are the only things for development or investment, there is a limitation as these are not sufficient.

Both African people and the people from the private and public sector in Japan have learned the TICAD process, which began in 1993. In August, last year, the TICAD VI was held in Nairobi, Kenya. At that time, the UN, UNDP, African Development Bank and African countries' governments indicated the areas of support and development.

TICAD focused on the diversification of economy and establishment and promotion of a resilient insurance system or health system, Universal Health Coverage, and health emergency, tropical diseases, and social stabilization promotion and the removal of the instability effectors that threatened the society.

TICAD has a transparent monitoring system to verify whether there has been a development on the focus areas. In Mozambique, on August 24th, the Ministry meeting for TICAD will be held which is an opportunity for progress verification.

The SDGs have been promoted under the leadership of United Nations. Its predecessor, the MDGs from the year 2000 to 2015 primarily focused on social development. MDGs had 8 goals, but the SDGs have expanded to 17 goals, 169 targets and 230 indicators.

The companies looking for partners in Africa need to focus on the areas that require investment in Africa. Such areas were primarily under institutions like JICA, UNDP, the Japanese or the African governments, and development offices, but the MDGs are for everyone.

For Japanese companies, the SDG Holistic Innovation Platform provides support to the SDGs to be linked to the businesses. EXIM is one such example. Hopefully, this platform will be recognized throughout the world and in the future. Some companies that have successfully participated through this program in Japan are the weather insurance, solar panel, and Panasonic. These companies need to become more business-oriented not only from the charity perspective but also in terms of processing output to try to utilize their strengths to provide business support.

Atsuko Hirooka
Executive Officer, Sumitomo Chemical Company Limited

Mr. Hirooka spoke on the keywords *Africa* and *malaria*.

Olyset Net is the product that is developed, produced and promoted by Sumitomo.

In 2001, Sumitomo applied to the WHO and appealed that this is a good product for self-protection and the WHO endorsed that idea. Since then, Olyset Net has been distributed in the order of 200 million in different parts of the world and has contributed up to 68% reduction of the malaria disease.

This net is being manufactured under a joint venture in Tanzania in a factory called Arusha. At peak, 7000 people work in the plant of which 80% are women. This also helped in creation of employment.

Sumitomo is often referred to as a successful case but there is no complacency. There are key factors that have helped to set up a footprint and business expansion in Tanzania. A local partner and network should exist on the ground for the business operation or the business to be sustainable.

In 2003, the WHO said that this net could be recommended as a self-protection, and the WHO requested that Sumitomo produce it for inner land where they were suffering from this very disease.

The Acumen Fund in the United States volunteered to find a partner and PSI, an American NGO, and UNICEF also took part and started a joint project. Sumitomo's role is to provide a technology free of charge. The consequence was that in Arusha, A to Z Company was chosen as the local partner with whom Sumitomo has had more than a dozen years of relationship.

It is easier said than done to make this business sustainable. The scheme to purchase the net is a competitive bid. Currently, there are 12 suppliers or manufacturers competing with each other resulting in a very fierce price competition. Therefore, the scheme of availability in the locality needs to be changed to continue the businesses in 10 and 20 years' time.

A plant was set up in Tanzania believing it to be the right place but so far, Sumitomo has not capitalized on that advantage or has not created a competitive edge. Constantly thinking about innovating schemes together with the local partners and the local government to make the business sustainable is the key.

Thomas Viot
Officer-in-Charge
Manager – Industrial and Trade Development, AfDB

Mr. Viot talked about the role and the mandate of the African Development Bank in developing the private sector, SMEs and the BoP business to develop Africa.

Even though there is a lot of talk about large companies like Toyota and Google, SMEs still form the backbone of a developed or a developing economy if one looks at its contribution to employment and GDP. Africa has about 400 large companies where there are 5 million SMEs that constitute 90% of the formal employment in Africa.

The African Development Bank has been operating in Africa for 50 years, and the Africa-Japan Business Forum can tell that it is a very good time to do business in Africa.

The overall trend is that the Japanese investments in Africa alone have more than doubled over the last 2 years which is good news for the African SMEs because they can benefit from technology transfer from Japan.

Investments in Africa have increased more than 10 times over the last 15 years, from US $6 billion per year in the year 2000 to more than US $80 billion last year as investors reply to opportunities.

The return on investment in Africa is in the range of 8% to 9%. This is more than the global average which is less than 8%. This reflects that investment in Africa is likely to have a higher return than in other parts of the world.

This makes Africa the second largest investment destination after Asia-Pacific. Even though Asia-Pacific is still doing well, Africa is not doing badly either. This leads to the confidence in Africa in the next decades.

The relative size of the labor force compared to the total population is important. Demographically, Africa has a young population and a young growing labor force, which will be larger than it is in China and India in 20 years' time.

Urbanization in Africa is at the highest rates in the world. Fifteen large cities in Africa will become megacities in the next 10 years. This reflects of the opportunities that will arise for infrastructure development and services. Africa has a growing middle class, which consumes more and more, leading to 5% increase in the internal market per year.

Africa is the fastest growing digital market, which is expected to have 600 million digital consumers by the year 2035. This really changes the way business is done in Africa, the way bills are paid electronically and the way medical treatment is provided. In places where there are no doctors, Japanese technology can do remote diagnostics. These are the opportunities that exist in Africa.

Lack of infrastructure, regulatory framework and corruption are some of the challenges faced by SMEs in Africa. But the number one challenge for African SMEs is access to finance which is very difficult.

The role of the African Development Bank is to try to bridge the financing gap. In the year 2015, AfDB approved projects to the tune of US $9 billion. Out of this, 2.2 billion were for private sector, for African companies or investors coming to Africa.

AfDB can do that because they have AAA rating that enables them to mobilize capitals from the financial markets to be lent to their clients at very competitive rates.

AfDB has taken some initiatives where they have opened lines of credit in different banks on the continent, specifically for African SMEs. This amounts to more than $200 million actually. Another $240 million has been allocated as lines of credit for SMEs specifically in countries facing political conflict.

AfDB has developed financial products such as credit risk guarantees that covered the risks for other lenders. AfDB can attract other lenders and commercial banks and provide coverage for the risks they take because they have low appetite to finance African SMEs.

AfDB, in partnership with UNIDO, has a new industrialization strategy whereby they want to develop better industrial policies and work with African countries to develop better industrial policies. AfDB wants to increase their private sector lending from 1.5 billion per year to 7 billion per year for private sector in Africa. AfDB wants to develop financial markets so that African companies can raise capital from financial markets in Africa. AfDB wants to open more lines of credit for African SMEs and develop industry clusters and special economic zones.

The African Development Bank believes that private sector development is at the center of the development of Africa, and wants to work in partnership with Japan, as Japanese investments can promote that.

Ziad Oueslati

Founding Partner, AfricInvest

Mr. Oueslati spoke about the needs and the challenges faced by the SMEs, Main Africa, or the BoP business in Africa and the need to convert the potential into business with the support of private sector money.

He stated that he came from a private equity house that has been covering Africa for the last 23 years. The private equity is targeting SMEs or family-owned companies where investment is made into their equity, meaning providing long term and stable capital to allow them to grow and to go to the next level. There are a lot of challenges in this as compared to banking finance.

AfDB is one of the key players in Africa supporting SMEs. When one looks at the potential and relevance of SMEs in Africa, demographically there will be more than 600 million new entrants into the labor force over the next 15 years. That is a huge number and a lot of challenges for the different countries in Africa and they will have to cope with it. There also have been unrests in many places of Africa, so the different governments in Africa will have to keep that in mind as well.

By 2035, the new entrants to the workforce in Africa will outnumber those for the rest of the world. That is another number which is quite important, which means that Africa is the next one.

SMEs account for about 50% of the workforce in Africa, but the new hires account for 80%. Although large corporations and public sectors are important, what is more important for Africa is to foster and nurture SMEs because these are the institutions that are sustainably hiring people.

One of the main challenges is that SMEs in Africa are mostly family-owned and run companies and lack governance, transparency, qualified mid-management and technicians. This is one of the hurdles that are sought to be solved once investment is made into those companies. As they are a family-owned lifestyle company, they lack strategic vision. The families live off of the large-sized companies by just sustaining what they have without looking to grow the business or go to other markets.

In terms of lack of financial means or access to finance, the banking sector in Africa generally finances large corporations, but there are no programs to finance SMEs, except in a few small countries in Africa. The large countries are not being covered by SMEs which actually gives room for some specialized private credit-type institutions that can play a major role to support the SMEs.

In some highly-regulated countries, regulations are a hurdle for the growth of SMEs. FX controls sometimes hurt many companies and do not allow them to grow outside of their countries. Other regulations allow investment in some countries. Some countries do not allow foreigners to own majority which is now decreasing.

An analysis done by the Financial Times about obstacles to firms' operation and growth compares international and African firms. The only places where obstacles in Africa exceed the ones in the rest of the world are access to finance and energy, and political instability. People, in the developed world, including Japan, always mention corruption, which is at number five in Africa and is at the same level as the rest of the world. Perceptions about corruption do exist like in any other place in the world.

People should not think that when they go to Africa, they are going to be screwed up or that people are all thieves and are going to fleece them off their money. People should go there with the right partners, like in any part of the world.

Mr. Shirato mentioned the fact that the event is being organized in Japan is meaningful as it illustrates that Africa has a lot of expectations vis-à-vis Japan. Africa wants Japan to go to Africa and to invest in Africa.

He invited the two public institutions of JICA and UNDP to talk about their support to the entry by Japanese businesses in the area of SMEs and BoPs and what they can do to facilitate the Japanese businesses making investments in Africa with a particular focus on BoP and SME?

On the BoP, *Mr. Kubo* covered two points. There are two roles that can be played. First is to use JICA's scheme before starting the business. JICA can assist them in conducting studies and investigations before starting the business. At all times, JICA is open to the businesses and can provide advice to discuss what they might do in Africa. JICA can share the information about Africa, their experiences in BoP business and the lessons that many companies have learned.

JICA has a catalytic role as seen in the example of Ajinomoto in Ghana. It was not an effort of JICA alone but the USAID also took part in supporting Ajinomoto. The UNDP, other multilateral organizations and JICA are always working together and have a network that businesses can take advantage of.

It is not just for the BoP business but also the SMEs in Ethiopia. For more than a decade together, JICA with the Ethiopian government are providing assistance and guidance instructions about how to implement the Kaizen, the improvement of quality and quality assurance. JICA would like to assist the Japanese businesses expanding footprint in Africa.

Mr. Kondo stated that the community of sellers and buyers in one of the factors needed for a business to succeed. As a seller and buyer and as a UN organization, the factors that need to be valued are development, human rights, peace, and social stability.

Gender equality is achieved when women participate in the labor market as an active consumer. At TICAD, it was appealed that a society that has gender equality has a faster-growing economy. The Human Rights of Children, agriculture from different aspects, and the members of the UN are working in a concerted manner to support the businesses in Africa in order to achieve SDG goals and achieve the African Development Goals of 2035. The catalytic role of the United Nations system should be utilized to take a leap forward.

Mr. Hirooka talked about businesses that are present in the locality. Doing BoP business in the United States is easier said than done. It is a typical case. Doing business in Africa is much more costly than the other parts of the area. Africa has a high-cost structure fabric. This impediment has not been overcome yet. The businesses need to make a constant effort in reducing cost as much as possible not just in Africa but in all other areas as well.

Since it is a special product endorsed by the WHO, the specifications put forth by the WHO need to be abided with. To satisfy the specifications set by the WHO, day by day costs are being reduced as much as possible by even one cent or even a tenth of a cent.

Since the personal cost is high and infrastructure is expensive, the productivity cannot be increased as much. A different mindset approach which says that lower the price the better generally leads to a loss. Therefore, the country should have the will to develop an industry with the support of the government as well as the self-help efforts of the Japanese businesses as well.

Mr. Viot spoke about the Development Bank of Africa's expectations vis-à-vis the Japanese businesses and the sectors and areas the Japanese businesses can come into.

It is very important to discuss foreign investments, especially at a time where a lot of countries are looking inwards and stop promoting international trade and foreign investments. When it comes to Japanese investments in Africa, it is certainly beneficial. It helps with technology transfer and promotes good quality standards when it happens through direct investments or joint ventures with the African partners.

The Japanese companies operate with the best international standards possible, so it can only be beneficial for African companies.

Joint ventures are mutually beneficial both for the foreign investors as well as the local partners. Even though Japanese companies possess the technology and the capital, it is an intangible and an invaluable asset to have someone who knows the law of the lands, who knows how to navigate the system, and who has a local network.

When African companies partner with international Japanese investors, it helps with transfer of technology, know-how, experience, quality and standard.

For example, the Moroccan government encouraged foreign companies to establish joint ventures with local companies to develop a mining servicing industry. This was beneficial for all the international companies because now Morocco serves as a regional platform to access the West African market. They have a very good established presence which was beneficial for the Moroccan SMEs as well. They partner with international companies, build their capacity and are able to conquer foreign markets in their own way. What Morocco did in the first priority sector is also well-documented.

Japanese companies benefit from a very good reputation in Africa and they should capitalize on this.

The African Development Bank identifies certain sectors with a high-growth potential in Africa that can be very transformative. These sectors should be looked at in particular as the Japanese companies have a comparative advantage.

The sectors, which are identified as priority sectors and where Japanese companies can have an impact are the ICT and technological innovation sector, natural resources processing, automotive car assembly, cement and construction material, transport and logistics, and agro-processing.

Mr. Oueslati commented on the role that the private sectors investors can play in promoting businesses and the expectations from Japanese companies.

He mentioned about the hurdles that the SMEs are facing in Africa and how the private sector not only in terms of the banks but also other players in terms of services are providing equity to those companies. There are more than 30 players who do private equity investing, which had raised over 2.5 billion last year. Although over 3.5 billion has been invested, a lot needs to be done as this is nothing compared to the needs of Africa. AfricInvest does more than only investing.

AfricInvest is a shareholder into the company and as a partner goes to some of those companies and does some hand-holding to bring those companies to another level in terms of governance and strategic vision, and actually make them good partners for the companies from the developed world that they can partner and do business with, but also make acquisition as more and more companies are actually coming to Africa and making acquisition.

Although Japanese companies were late in realizing Africa's potential, of late a lot of Japanese companies coming to Africa.

Both Japan and African can benefit in terms of stratification and transfer of know-how and by providing financing to local banks, which should be financing small and medium enterprises and not only big corporations. This is what should be done in Africa.

Since there are not enough SMEs in Africa, the costs are high. Egypt and Tunisia are the countries where SMEs have developed with medium costs. It is one of the cheapest countries in Africa compared to other places because there are SMEs that provide basic needs for those countries. For Africa to not just stay just a commodity continent but also become a manufacturing hub, costs need to be brought down.

Today, Morocco and Tunisia are the major hubs for not only assembly but also automotive components, meaning that there is know-how into it and a lot of Japanese companies are investing in those two countries. South Africa and Egypt and two other countries where there is a strong know-how and expertise. These countries can also help other countries in Africa. They are going to Sub-Saharan Africa in order to develop synergies with local SMEs.

Japan can also help a lot in the education sector. Japan has a very solid education system. JICA is financing a lot of training and exchange of students. This should continue, especially in the ICT sector which is one of the easiest ways to bring growth into Africa as it does not cost a lot. A lot of things need to be done.

Programming and providing services to European, American and Japanese companies is not needed. What is needed is basic infrastructure that costs much less than building highways or bridges and can be done very quickly. Japan can help on that side, along with education and agribusiness as Africa is a very fertile continent. Processes and production need to be improved. This can come through IT, using IT and technology in general. Several countries are doing it already in Africa but it should be generalized into other countries as well.

Japan can play a major role. As of now, the investment done by Japan is nothing. Besides all the commitments that have been mentioned by Prime Minister Abe, the investment of Japan in Africa comes after investment of Japan in Luxembourg, which is the size of Cairo.

A lot needs to be done not because people love Africa but because Africa is the next frontier and people can not only make money but also have a strong impact on the African continent.

Q&A

Male Questioner asked how the goals of different organizations like NGOs, local governments, Sumitomo Chemical and UNICEF International Organizations coordinated?

Atsuko Hirooka responded by talking about the ACUMEN Project, where the WHO wanted to start a Health and Sanitary Program to eradicate malaria and ACUMEN was looking for a partner in Africa because they have the expertise in Africa. ACUMEN wants Population Service International, PSI, which is an international organization, to provide education on utilizing bed nets to prevent malaria.

UNICEF's goal was to buy the bed nets, which are locally produced and Sumitomo will provide the technology free of charge. Previously, another player, EXXON was supposed to provide the raw materials but in the end they did not join. Everyone has different roles and personal objectives in participating.

Mr. Sakata stated that he was an architect and together with LIXIL, he was developing waterless toilet in Kenya. He questioned if there were any movements towards creating a change in the pricing system as the UN chooses lowest-priced products after tender bidding. He stated that the system needs to be changed to avoid it from falling into a negative vicious cycle of price cutting.

Atsuko Hirooka stated that the pricing competition has been so intense that the businesses may be collapsing. The IVCC, which is an NPO, led by Gates Foundation, not only developed propriety products but also provided support for purchasing. It is not their own fund but Unitaid's fund. Movements such as these are emerging where large foundations are partnering to support the purchasing side. This is done in the pharmaceutical sector as well.

Mr. Kofi, from Ivory Coast, questioned the AfDB presenters and the Japanese holders about their definition of SMEs because maybe what is SME in Japan is a big company in Africa. He also wanted to know if Japanese companies are really willing to share the transfer of technology with Africa and not hide it.

Atsuko Hirooka stated that Sumitomo Chemical is a large company and is somewhat different from some of the smaller companies. But when it comes to the bed net business, Sumitomo wants to make profit and in that sense it is the same. Being a large company, some people think that if other departments can make up for the costs then it is okay but if Sumitomo is going to do business, it needs to earn a profit from that business to continue to do it, and this applies to all companies.

In Sumitomo, transparency is on a top-down basis. On this basis, Sumitomo has decided to take technology to the local area which was quite significant. One of the reasons why this was decided is because there was a significant emphasis on whether one can support one's partner.

It is true that Sumitomo has had some difficult experiences in various areas but if it is able to find a good trustworthy partner then the technology transfer would be easier.

Thomas Viot stated that the question was not only important but also difficult. If one looks at all the economic literature, there is no clear-cut definition of what an SME is or is not, for example if it is defined based on turnover or the number of employees. What is important to know is that there are 5 million SMEs in Africa and they constitute the main bulk of employment. That is where this has more impact on development of the continents. This is a sector that the African Development Bank must and does target.

So far, it has been difficult to increase financing from 1.5 to 7 billion to the private sector per year, as most of the financing goes to large companies because they are used to dealing with big organizations that ask for big tickets.

New tools are being developed that are very important to target SMEs, lines of credit in financial banks and linkages projects. When big companies want to invest in Africa, AfDB helps them to work with local SMEs as it is not an additional burden and they have dedicated resources to do that.

AfDB tries to develop financial markets and systems in institutions in Africa, so that local banks and capital markets can provide additional facilities for companies in Africa. There is no clear-cut definition but that is a sector that needs to be targeted and is an important one in terms of impact on development.

To tackle SMEs, one has to go through intermediaries as one is not able to do it directly. The definition of SMEs is very broad as it differs in every country like Togo or Nigeria.

For AfDB, an SME is a company that still needs some guidance and handholding. There are companies that are making 100 million in terms of turnover but in terms of structure and governance, it is the structure of a very small company. Hence, the definition of an SME needs to be kept broad even though there is a definition from the World Bank and the European Union.

With this, *Mr. Shirato* concluded the session.