

Japan-Africa Business Forum 2014

Plenary 4: Risk Management

June 10, 2014

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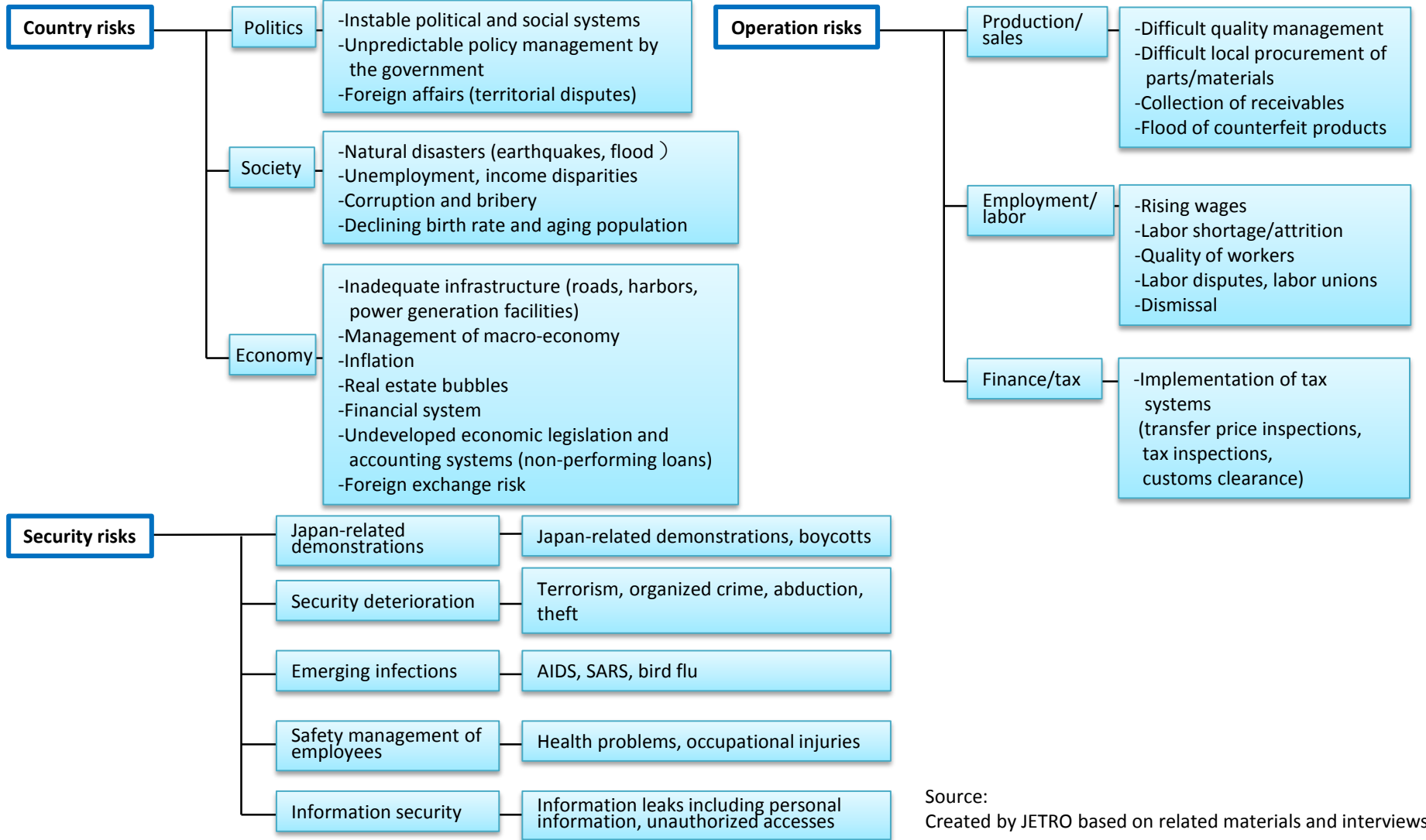
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Japan External Trade Organization

Themes of this session

- 1. How should we understand the risks in business with Africa?**
- 2. To reduce and appropriately manage the risks:**
 - What approaches and knowledge are needed?
 - What can be expected from business partners and the public sector?
- 3. How should we respond to unpredictable situations?**

Systematic classification of risks and examples



Source:
Created by JETRO based on related materials and interviews

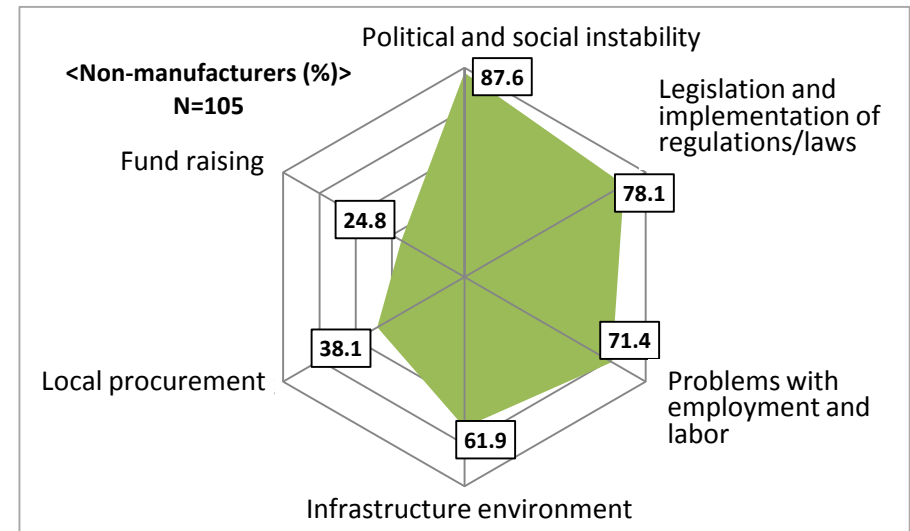
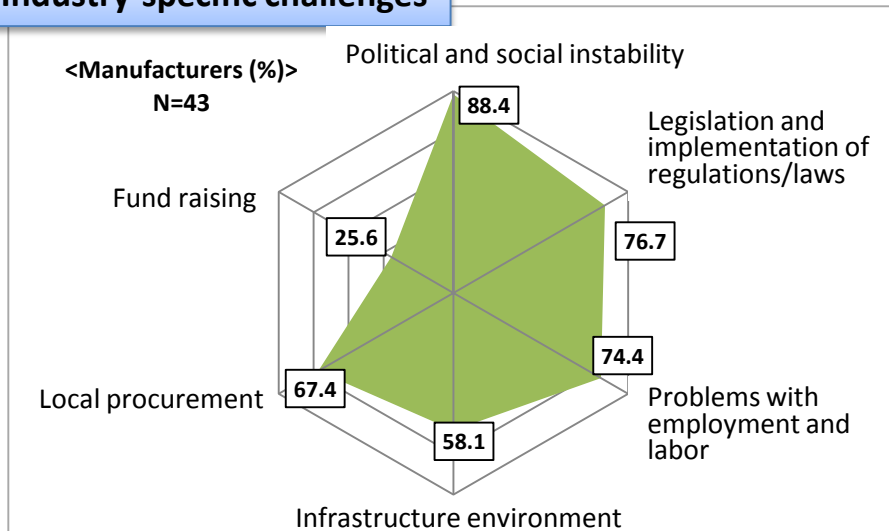
Challenges of Japanese companies operating in Africa (1)

(Multiple answers allowed)

Challenges (%)		FY2012 (N=148)	FY2007 (N=111)	Increase/ decrease rate (points)
1st	Political and social instability	87.8	72.1	15.7
2nd	Legislation and implementation of regulations/laws	77.7	85.6	-7.9
3rd	Employment and labor	72.3	79.3	-7.0
4th	Infrastructure environment	60.8	64.9	-4.1
5th	Local procurement	46.6	62.2	-15.6
6th	Fund raising	25.0	23.4	1.6
	Other	51.4	32.4	-

- The rate of companies that cited “**political and social instability**” as a challenge significantly increased from that in the FY2007 survey, to 87.8% out of 148 companies.
- Approx. 70% of respondent manufacturers consider “**local procurement**” as a challenge. Some pointed out that “local supporting industries have not yet been developed enough, which represents an issue for manufacturers in expanding business in Africa.”
- In addition to comments such as “No considerable improvement can be seen in the African business environment,” there were also constructive views such as “Through long-term business commitments, we can find solutions to our challenges” and “We adapt our business plans by anticipating issues likely to occur locally.”

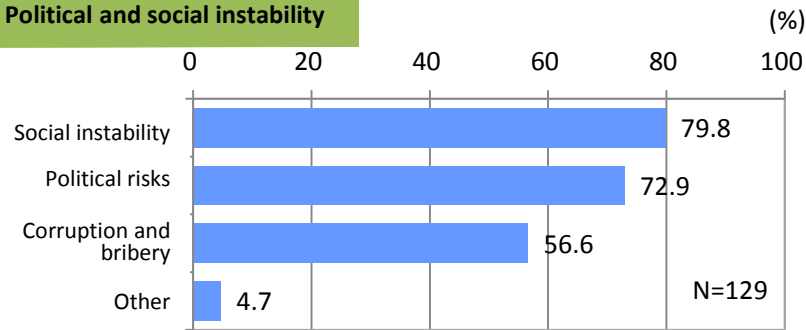
Industry-specific challenges



Challenges of Japanese companies operating in Africa (2)

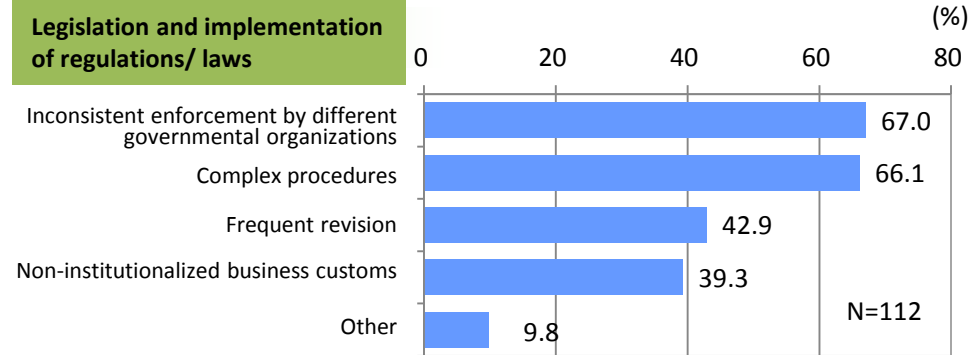
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Political and social instability



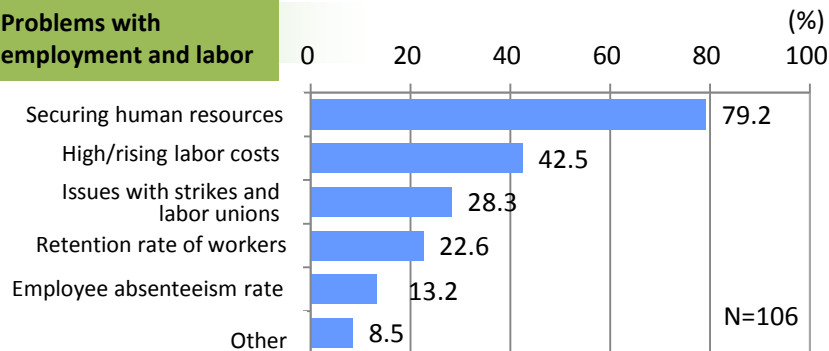
- Many cited “**social instability**” and “**political risks**” as issues in business.
- In the interviews with Japanese companies, some said it adds cost to prepare safety measures, and others said they cannot make long-term investment plans due to the effects of political changes.

Legislation and implementation of regulations/ laws



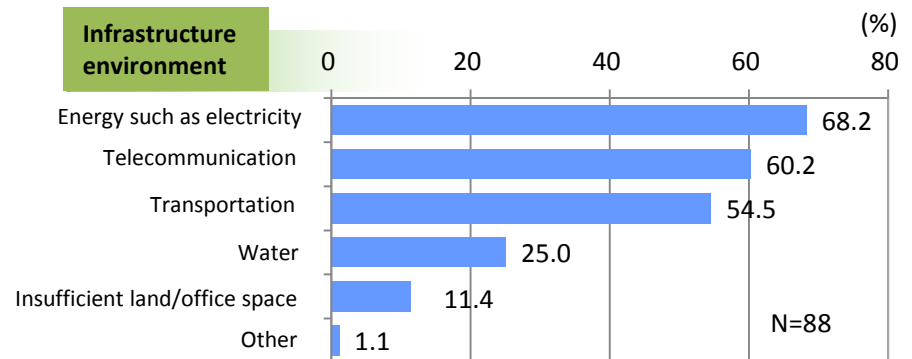
- In interviews with companies, some pointed that there are sudden changes in settlement procedures and foreign capitalization ratios without prior notice of act amendment. Also, others said that related ministries do not understand their own systems.
- Other issues cited include “arbitrariness of legal interpretation” and “legal complication of customs-house business and VAT refund procedures.”

Problems with employment and labor



- About 80% of firms consider “**securing human resources**” as a challenge. Some respondents said that even when local employees have higher education, sometimes their business ability is lower than the Japanese of equal educational background.
- The proportion of respondents that consider “**high/rising labor costs**” as a issue was 42.5%, which increased from 24.4% in the FY2007 survey (N=86).

Infrastructure environment

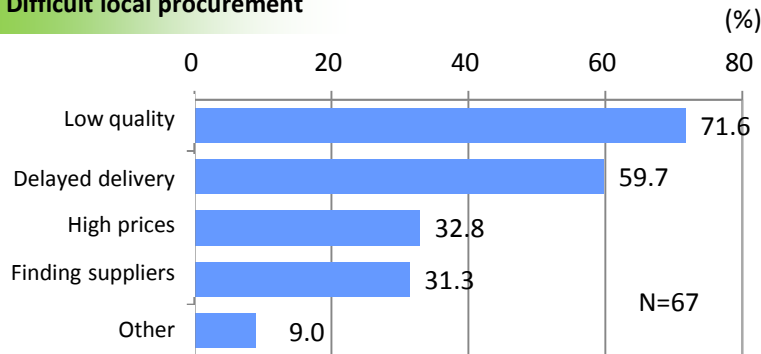


- “**Energy such as electricity**” was cited the most with approx. 70% of the total, and by approx. 80% of the 24 respondent manufacturers.
- While “**telecommunication**,” which was cited the most in the FY2007 survey (N=71, 76.1%), decreased this time, “**energy such as electricity**” increased from the previous survey (N=71, 59.2%).

Challenges of Japanese companies operating in Africa (3)

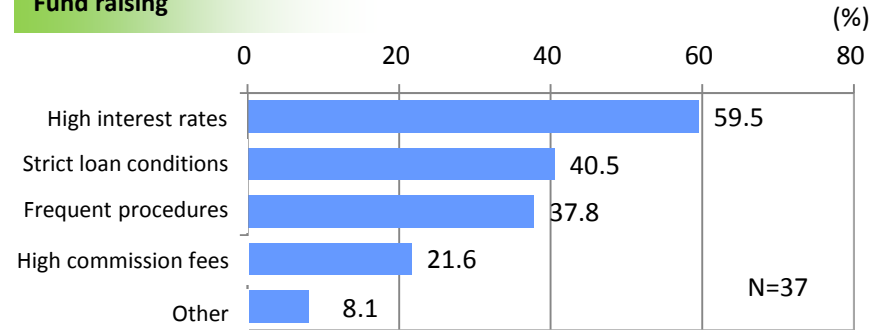
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Difficult local procurement



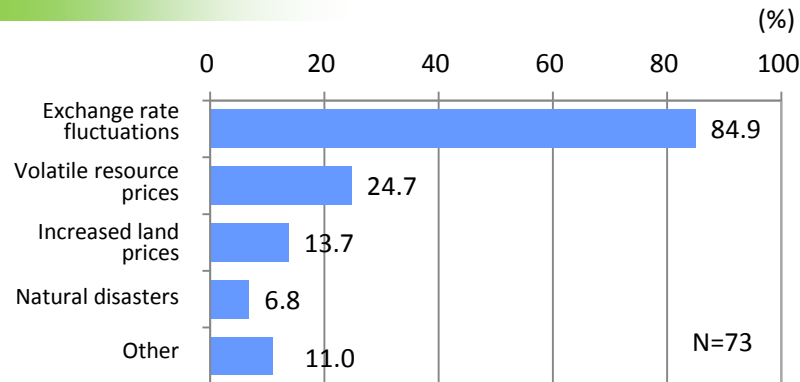
- **“Low quality”** ranks first with over 70% of companies citing, followed by **“delayed delivery”** with nearly 60% of respondents. Among 39 non-manufacturers, nearly 70% face the **“delayed delivery”** issue.
- In FY2007 survey, both **“low quality”** (N=69, 60.9%) and **“finding suppliers”** (60.9%) ranked first. However, the percentage of companies considering the latter as an issue decline to approx. 30%.

Fund raising



- **“High interest rates”** ranks first with approx. 60% of companies citing, followed by **“strict loan conditions”** with 40.5% of respondents.
- Comments regarding **“high interest rates”** include **“High interest rates impede the growth of SMEs and manufacturers”** and **“In response to this issue, our company uses a bank in a third country as our main bank.”**

Other



- Other managerial issues include **“exchange rate fluctuations”** with over 80% of companies citing. In South Africa, the large fluctuations in the exchange rate of the South African rand (ZAR) to US dollar and euro was highlighted.
- Comments from resource-rich countries include **“The economy of our county relies on resources, in which volatile resource prices have significant impact on exchange rates.”**
- Some companies cited cultural difference issues such as **“coexistence with Islamic culture”** as challenges.

Thank you for your attention.