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Conseil Canadien pour l'Afrique
Promotion du commerce et du développement économique entre le Canada et l'Afrique depuis 2002

Africa Study Group | Groupe de réflexion sur l'Afrique

November 2015

Survey of Issues Influencing Canadian Firms Operating in Africa

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Canadian firms interviewed in 2015

- CPCS (consultants, rail and ports)
- CRC Sogema (taxation systems and cadastre)
- Bombardier Aerospace (aircraft manufacturing)
- Kestrel Capital Management Corp. (investment holdings, heavy equipment, mining)
- Sherritt International (mining)
- Windiga Energy Corporation (solar energy production)
- SNC Lavalin

This is a trial survey

- Personal interviews with CEOs or VPs Africa of seven Canadian companies based in Ontario and Québec   (one to two hours per person)
- 104 questions, not all questions to all firms.
- A more complete survey would involve: more firms, from more provinces, from more sectors, and with a larger selection of Africa countries.
- Despite the small sample, the comments from the firms were similar and consistent on most issues. They indicate a certain trend in Canadian corporate thinking on African ventures.

African countries where these firms are operating now

- Nigeria, Ghana, Kenya, Uganda, Tanzania, South Africa, Rwanda, Morocco, Liberia, Burkina Faso, Sierra Leone, Madagascar, Guinée, Côte d'Ivoire, Mauritania, Algeria.
- Firms' revenues: $0 (currently a start-up), $25M, 30M, $150 M; $1B to $20 Billion.

104 Detailed questions

In 7 broad categories:

1. Company profile and history	(4)
2. Risk assessment issues	(27)
3. Governance issues	(18)
4. Partnering issues	(7)
5. Costs of doing business	(15)
6. Project financing and returns	(27)
7. General issues about Africa	(6)

Country selection and risk assessment

- Go where there are good business prospects.
- Do your homework (WB data, Trade Commissioners Service, business websites).
- Work where you can develop solid relations (with clients, partners, local authorities and support services).
- Stay away from corruption situations. Better to just walk away.
- Conclusion: overall, firms go first with their own judgement and experience on where to operate.

Governance

- Business practices are improving in many African countries; anti-private sector bias is decreasing.
- More competent public officials
- More competent political people
- Increasing number of local entrepreneurs
- Courts/legal procedures are improving
- Registration time is shortening
- Tax systems are clearer
- Public opinion on role of private sector and business people in society is slowly improving.

Economic issues

- In countries with weak currencies, hedging is used to smooth out devaluations and swinging interest and exchange rates.
- Profit repatriation in dollars is a major issue. Easier in some countries. Overall in Africa it is better now than in previous decades.
- Less need to buy currency on the black market as there are fewer currency controls now.
- Low salaries are attractive, but are an illusion, since low wages means higher costs elsewhere.

Economic Issues (2)

- Corruption payments: fewer are now demanded and are constantly diminishing, due to: better national governance and controls, and very high penalties in home countries and IFIs.
- Tax holidays and incentives: nice to get, but should not be a driving force in deciding on carrying out business. Other revenue factors are much more important (local inputs, land, wages)
- Project financing: nearly always from off-shore. Still not possible to raise money locally. Difficult to raise money in Canada for Africa projects.

Partnering and linkages

- Canadian firms do not want to be minority partners in African projects
- Foster sweat equity in local partners to get buy-in; overall, though, success depends on people
- Develop strong links with local stakeholders: suppliers, consultants, sub-contractors, clients, public officials, local populations
- Be prepared to bend to local culture and attitudes. Procure locally as much as possible.

Local infrastructure

- Firms still need to be self-sufficient, especially with generators for back-up power.
- Sporadic electric supply is a key bottleneck for job creation and industrialization.
- Africa could be the next “low-cost assembly” place (replacing China), but only with steady supply of power, improved infrastructure and a minimum of social peace and political will and support
- Water supply and sewers: not a major issue for these firms. It’s a serious problem for local populations.
- Health services: firms must often provide their own (insurance, in-house clinics, evacuations).

Corporate Social Responsibility

- Most firms consulted used the old meaning of CSR (i.e., near-to-project social activities), not the larger ethics and standards policies that are now increasingly in use (labour code, taxes).
- The more a firm has a physical plant (factory or mine) the more (traditional) CSR it does, to benefit its own local workers first and sometimes other populations in the project area.
- The benefits of CSR far outweigh the costs.
- Sectors: agriculture, schooling, health care, child care, libraries, community development, sports.

Personnel issues

- Nearly all local employees need significant training (basic and technical education is weak).
- Local competent managers are hard to find (and hard to keep, they are in big demand).
- Having local mid- and senior management replace expat staff is a goal, but difficult to achieve (fear of loss of control is one issue).
- Low salaries may seem attractive in deciding on an investment in Africa but other factors are more important and wage levels are rising anyway.

Summary: doing business in Africa

- It’s challenging to work in Africa, but also very satisfying (all seven firms said this).
- It’s actually easier than in India or China. African countries are getting better at attracting foreign business people and investment.
- These firms expressed view that more Canadian firms should become active in Africa.
- Returns are higher in African projects than elsewhere (less market competition).

Summary (continued)

- There is a lack of vision in the Canadian private sector to consider Africa as a business destination. Canada is losing "market share" in Africa, to new entrants from Asia and Brazil.
- EDC and Canadian banks need to play a more proactive financing role in Africa than they do now. Their lack of involvement is a major hurdle to a larger Canadian presence in Africa. Maybe the new EDC/DFI will help...
- Final word from the firms: Africa is a great place to do business and these firms are happy to be there.
- This statement is tempered by the fact that we did not interview, in this first round, firms that were not successful in their African ventures.

Final analysis

- Canadian “Africanist” firms are happy. But they are not numerous (it is difficult to find firms for this survey).
- The ongoing low Canadian engagement rate is due in part to real and perceived slow economic and political progress in Africa.
- Yet, crunch the numbers and Africa holds incredible potential for a broader Canadian presence, but only for the patient and the persistent. For most firms, though, Africa is for tomorrow, maybe, but not now.
- Canadian firms which have not been to the continent recently may wish to look at certain African markets again. Maybe with new impetus and support, perceptions and actions will change (though Africa is not mentioned in the Aid and Trade ministers’ Mandate Letters).

end of presentation