
The corporate scramble for Africa

Received (in revised form): 16th July, 2009

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Abstract The institutional fabric of corporations has changed on a global scale and companies find themselves competing for resources, competitive positioning, brand growth and expansion, capital, comparative advantages and partnerships at local and regional levels. As these companies seek strategic leverage, they are forced to expand into virgin and undeveloped markets such as are found in Africa. Treasurers operating in multiple geographies find themselves coordinating activities across multiple legal entities, currencies and regulatory environments. In order to remain competitive, these treasurers are forced to look for practices that improve efficiencies while providing concomitant cost benefits. This paper assesses the trends and supporting evidence from a practitioner perspective of this expansion into Africa. It contains ontological views using a positivism framework to access the untapped opportunities in Africa. The paper extracts longitudinal themes from past research and evidenced trends. It aims to provide insight into these trends and to highlight the events that have created the impetus for the corporate scramble for Africa. The paper concludes that the scramble will continue as capital has no borders and the potential for returns optimisation and value creation remain largely untapped.

KEYWORDS: trends in Africa, Sub-Sahara, trade flows, banking, economy, investment

INTRODUCTION

Towards the end of the 19th century, a number of events in the Western world, primarily Europe, created an impetus for rapid advancement into Africa. Among these events was the impending end of the slave trade, which in turn caused Europeans in Africa to consider alternative means of exploiting the continent. Further to this, the exploration of Africa by Europeans was no longer out of mere curiosity, but created a means of gathering information on markets, goods and resources for wealthy Westerners. Industrial and medical advances had resulted in the invention of the steam engine and a cure for malaria, which meant that Europeans could now travel to Africa more efficiently and could survive the deadly malaria virus. On the political front, there was no more room for expansion in

Europe and Europeans were forced to look at expanding into other territories. This opened the floodgates for the colonisation of Africa and what is commonly referred to as 'the Scramble for Africa'.

While the days of colonisation and land grabbing are now history, the maturities of Western markets and declining sales have forced Western corporations to expand into new markets such as Asia and Africa. This has changed the institutional fabric of companies globally and they find themselves competing for resources, competitive positioning, brand growth and expansion, capital, comparative advantages and partnerships at local and regional levels. As these companies seek strategic leverage, they are forced to expand into virgin and undeveloped markets such as are found in Africa. This set of dynamics has

caused shifts in economic strategies and epicentres and has created room for unprecedented changes, and despite the associated challenges, they also bring opportunities for enlargement, opening the economic and commercial flood gates for what one might term 'the Corporate Scramble for Africa'.

African leaders have long expressed their confidence in an African renaissance, but in recent times, others have joined in this optimism for what 19th-century Europeans dubbed the 'dark continent'. This paradigm shift, while slow, has been recognised by others, including global leaders who gave unprecedented focus by declaring 2005 'The Year of Africa'. Similarly, in June 2006, Haiko Alfeld, Director, Africa, World Economic Forum, described the African continent as having 'emphatically and irreversibly turned the corner'.¹

This paper assesses the trends and supporting evidence of this expansion into Africa from a practitioner perspective. It is intended to provide insight to these trends and to highlight events that have created the impetus for this corporate scramble for Africa.

IS THE GLASS HALF FULL?

While individual nations in Africa continue to receive the world's attention for varied reasons, ranging from disadvantaged populations to political upheaval, these developing nations are growing in economic importance and are having a sustained impact on global trade and investment flows. Figure 1 shows that Africa has higher population growth than any other region in the world. Further to this, population growth estimates by the United Nations² suggest that Africa's population will be 1.7 billion by 2050, representing 20 per cent of the world's population, and second only to Asia. This bears witness to the fact that the African continent is slowly growing as a consumer base, with African countries doing increasing amounts of business with other nations around the world.

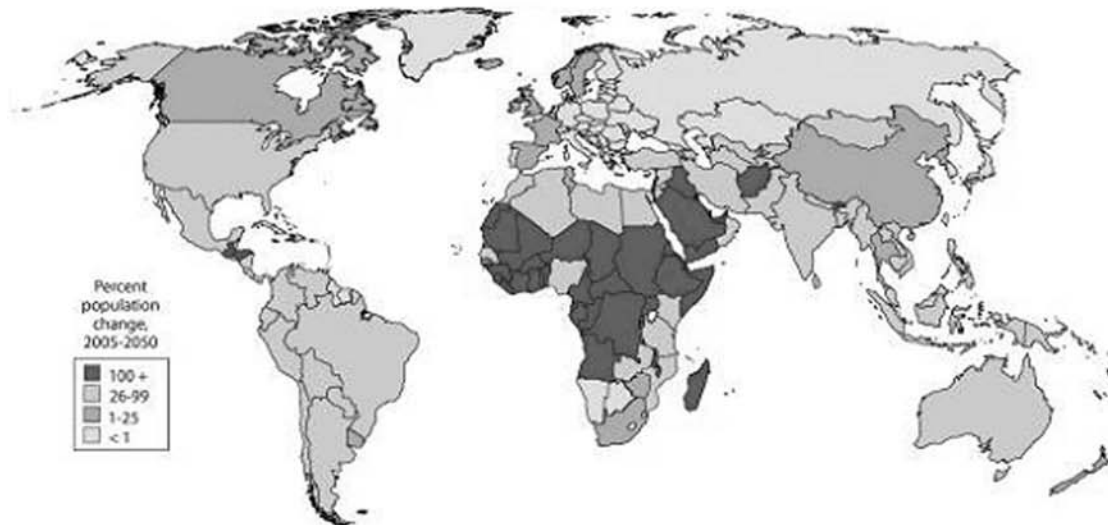
Despite the explosive population growth,

Africa and Asia show the lowest levels of urbanisation, with only 37 per cent of Africa's population being urbanised. It is expected however that Africa's urban population will have grown to 54 per cent by 2030 (Figure 2). Also of note is that Sub-Saharan Africa (SSA) has the lowest working adults to dependents ratio; this is further underlined by the fact that approximately one-third of the population in less-developed countries is under the age of 15. According to C. K. Prahalad,³ the source of market promise lies in the billions of aspiring poor joining the market economy for the first time. This places SSA as the global leader in terms of market promise and opportunity.

One of the main drivers of this global business is that the African continent is overflowing with natural resources. African nations such as Nigeria, Libya and Algeria rank among the top 20 largest oil reserves in the world. Several other countries in Africa are also naturally blessed with oil and gas. Similarly, Africa boasts gold, diamond, platinum and iron ore, among other natural resources.

According to World Bank data, were Africa treated as a single economic entity, it would have US\$978bn⁴ in gross national income, ranking tenth in the world, ahead of other emerging markets such as Brazil, Russia and India. Experts list growth in communication as a lead indicator for successful markets. Statistics show that Africa is the region with the highest economic growth.⁵ This renaissance is demonstrated by the rapid growth of the African telecommunications markets. Data from the International Telecommunications Union⁶ show that Africa has moved from having only 2 per cent of adults with cell phones in 2000 to having 28 per cent of adults with cell phones in 2008.⁷ A 2007 ITU study⁸ found that cell phones were achieving a compounded annual growth rate of 85 per cent or more in 10 of the 17 African countries surveyed. Research indicates that between 1999 and 2004, Africa recorded a staggering 920 per cent growth rate in the number of cell phone users, reflecting an average annual growth of

Percent Population Change, 2005-2050



Percent Population Change, 2005-2050

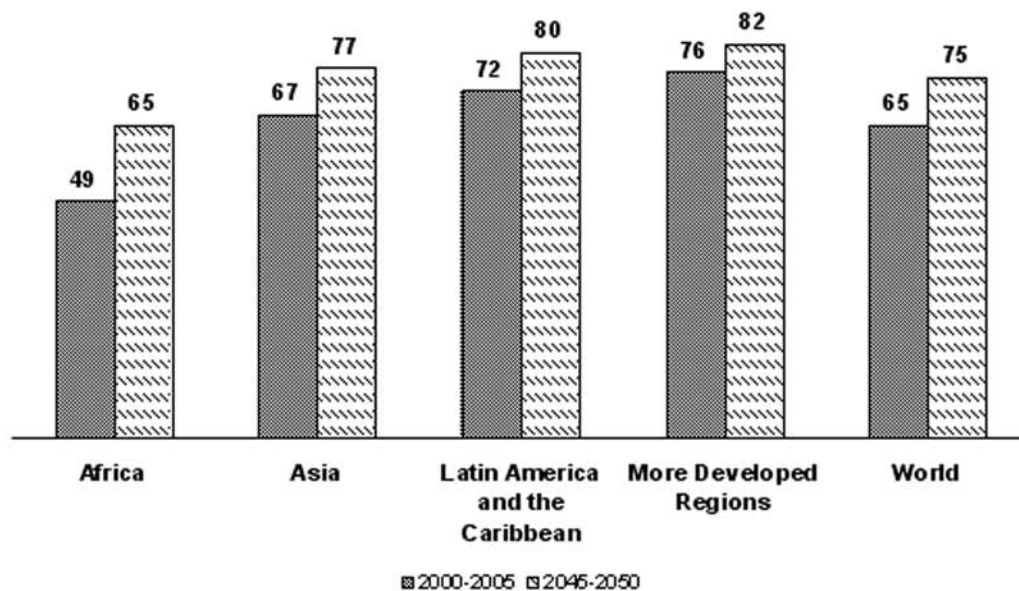


Figure 1: Africa's explosive population growth

58 per cent; further to this, it is estimated that one in 11 Africans has a cell phone subscription.⁹ This growth is further demonstrated by the success of individual companies operating within Africa that have each recorded astounding levels of subscribers. These companies include MTN (> 64 million, December 2008),¹⁰ Orascom (> 80 million,

March 2009)¹¹ and Zain (> 64 million across the Middle East and Africa, March 2009).¹²

Part of the reason that Africa is underestimated is because of the size of its informal economy. Research by Friedrich Schneider indicates that the informal sector accounted for 42 per cent of gross domestic product (GDP) in 1999–2000, with cities such

as Lagos recording up to 80 per cent of the population as working in the informal sector (see Figure 3).¹³ The studies are further supported by Robert Neuwirth, who in 2007 reported that the informal sector accounted for more than two-thirds of the Nigerian GDP,¹⁴ with a wide range of companies relying on the informal sector for services such as distribution. Cell phone companies, for example, often rely on hawkers for the distribution of pre-paid cards.

Although much attention in Africa is given to the underprivileged, Africa is studded with a growing population of individuals with high net worth. A recent study by Capgemini and Merrill Lynch suggests a 12.5 per cent growth rate in the number of such individuals¹⁵ — higher than anywhere else in the world. Such growth is demonstrated by the fact that there are nine Africans on the Forbes 2008 list of billionaires. These billionaires hail from South Africa, Egypt and Nigeria. It is possible and even likely that there are still other African billionaires that are yet to be discovered.

The continent is also home to some of the

most exotic tourist destinations in the world. One such destination is Kenya’s Masai Mara. Kenya’s tourism industry received a boost in 2006 when a panel of experts and a major American television channel declared the annual wildebeest migration one of the seven modern wonders of the world. Several such attractions are scattered across the African continent, including the Egyptian pyramids, the balancing rocks of Zimbabwe, Victoria Falls, the source of the Nile, etc. These tourist attractions are a key source of income in Africa and have in recent times attracted both local and foreign investment through hotel construction, and airline and transport development.

The World Travel and Tourism Council estimates that tourism represents about 10 per cent of GDP in SSA. Iain T. Christie and Doreen Elizabeth Crompton state that although African tourism operates below international competitive standards, there are pockets of excellence scattered throughout the continent. According to their article, 13 hotels in 4 SSA countries have obtained the prestigious label of

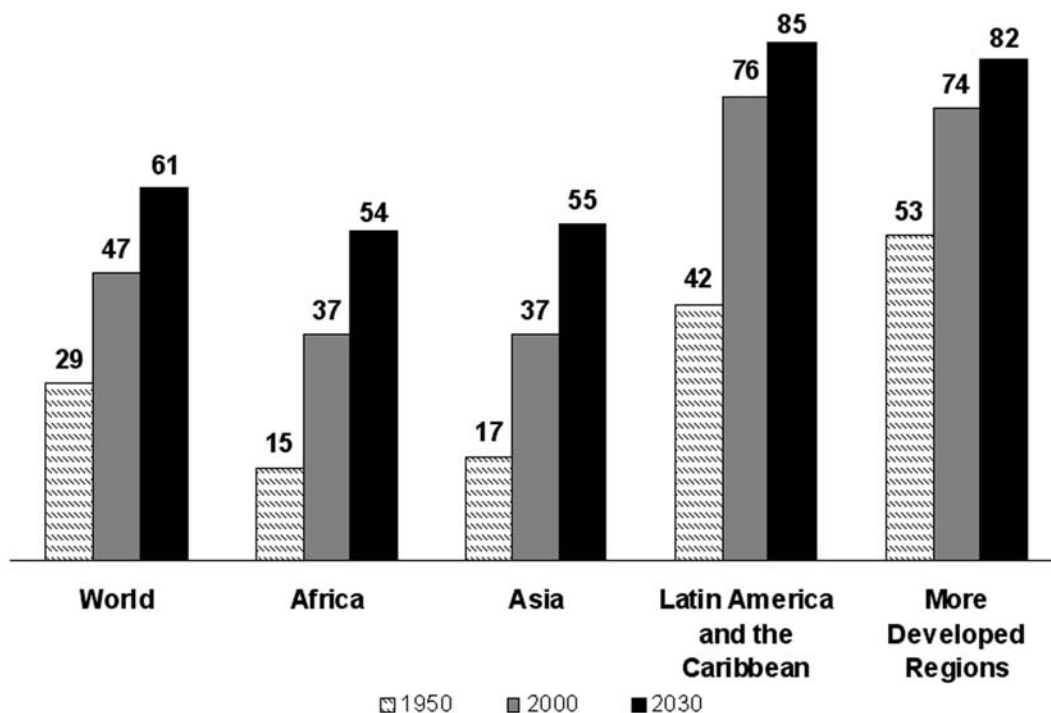


Figure 2: Percentage of urban population

'Leading Hotel of The World'; further to this, South Africa is listed among the top 40 tourism destinations globally.¹⁶ The industry's growth is further stimulated by the perceptions of investors, who generally prefer to invest in tourism than traditional sectors driven by strong real estate appreciation in Africa and higher profitability in Africa than the rest of the world. The World Tourism Organization's 'Tourism: 2020 Vision', forecasts that tourism to Africa will increase to 47 million arrivals by 2010.¹⁷ This represents an average annual growth rate of 5.5 per cent, in contrast to the global forecast rate of 4.1 per cent.¹⁸

Other flows into the continent have also been growing significantly. These flows come in the form of diaspora remittances, development aid, foreign portfolio investment and foreign direct investment (FDI). The World Bank has consistently focused on Africa, and this can be seen by significant cumulative fiscal lending of US\$57bn against US\$3bn for the Middle East and North Africa between 1990 and 2007. In 2007 alone, 49 per cent of International Development Association (IDA) lending went to Africa, with the aid being primarily targeted at human, financial and private sector development.¹⁹ Private flows to SSA have also grown from US\$17.4bn in 1999 to US\$57bn in 2007, while remittances have doubled from US\$5.97bn to

US\$11.68bn between 2003 and 2007.²⁰

Multilateral flows to Africa remain strong, as shown in Table 1.

African stock markets have also received significant attention of late. The South African JSE Exchange is a leading exchange not just in Africa, but in 2005 also ranked 18th in the world by market capitalisation.²¹ The South African securities clearing system STRATE has also been praised for having world-class technology, surveillance and settlement in an emerging market. Further to this, the JSE holds a leadership position in reporting standards, disclosure and corporate governance.

The reality is that Africa, when viewed as a single economic unit, has had outstanding economic growth. This growth has been paralleled by growth in trade in the SSA region, where growth in exports averaged 24 per cent between 2001 and 2006. Two-thirds of SSA's imports are from the EU, Asia and North America, mainly manufactured goods. Just under two-thirds of the region's exports are to North America, the EU and China, mainly fuels and minerals. These are also the fastest-growing import sources and export destinations. In 2006, US\$147bn out of US\$212bn, representing 69 per cent of Africa's total exports, were fuels and minerals, up from 51 per cent in 1996 (US\$35.5bn out of US\$70bn).

Table 1: Africa's multilateral investors

African Development Bank	US\$1.5bn	Emergency liquidity facility
Agence Française de Développement Group	US\$3.1bn	SMEs and infrastructure projects
African Agriculture Fund	€550	Increase and diversify agricultural production
Development Bank of Southern Africa	US\$ 4bn US\$ 5 mn	Development finance Project development and training
European Investment Bank	€2bn	Loans, equity and guarantee
KfW Bankengruppe	US\$ 1.4bn US\$ 1.1bn	Support the financial sector, the private sector and infrastructure Promote initiatives and programs
Islamic Development Bank Group	US\$250mn	Private sector development
International Finance Corporation	US\$1bn	Facilitate trade, strengthen the capital base of banks, improve infrastructure, increase microfinance lending, and promote agribusiness companies

IS IT AN OPPORTUNISTIC OR SYMBIOTIC SCRAMBLE?

For a long time, world trade has been dominated by trade and commerce both among developed countries (the North) and between the North and the developing countries (the South). Much North-South trade has its roots embedded in the colonial era. Although colonised territories gained political independence, they retained economic and trade relations with the colonialists, resulting in North-South trade relations being dominated by the North. In recent times, however, there are increased levels of South-South trade. Currently, just under two-thirds of the SSA's exports are to North America, the EU and China, mainly fuels and minerals, while in terms of imports, two-thirds of imports are from the EU, Asia and North America.

The South-South trade, particularly the interrelationship between Africa and Asia, is of particular interest as both have been experiencing rapid economic growth, paralleled by increases in investment from and trade with the rest of the world — and with each other. Africa is importing finished goods mass produced in Asia, and Asia is importing commodities that Africa possesses in abundance. It is a mutually beneficial state of affairs.

According to UNCTAD, China is Africa's third largest trading partner (after the USA and France). China's exports to SSA have grown from US\$4bn to US\$19bn between 2001 and 2006, representing a compounded annual growth rate of 34 per cent. Similarly, SSA's exports to China have grown from US\$4bn in 2001 to US\$26bn in 2006, representing a compounded annual growth rate of 43 per cent.²² Africa's main imports from China are textiles, machinery and transport equipment, while its main exports to China are oil (mostly from Nigeria), minerals, metals and agricultural products. A similar pattern is repeated between other Asian countries and Africa.

Five trends can be identified that characterise the symbiotic relationship that has emerged between Africa and Asia, and their broader role on the global economic stage.

Trend 1: The commodities and investment boom

African nations including Nigeria, Libya and Algeria, rank among the top 20 largest oil reserves in the world. In June 2008, BP estimated Africa's oil reserves at 117 billion barrels versus Asia's 40 billion barrels.²³ Further to this, Africa boasts numerous other commodities such as gold, diamond, platinum

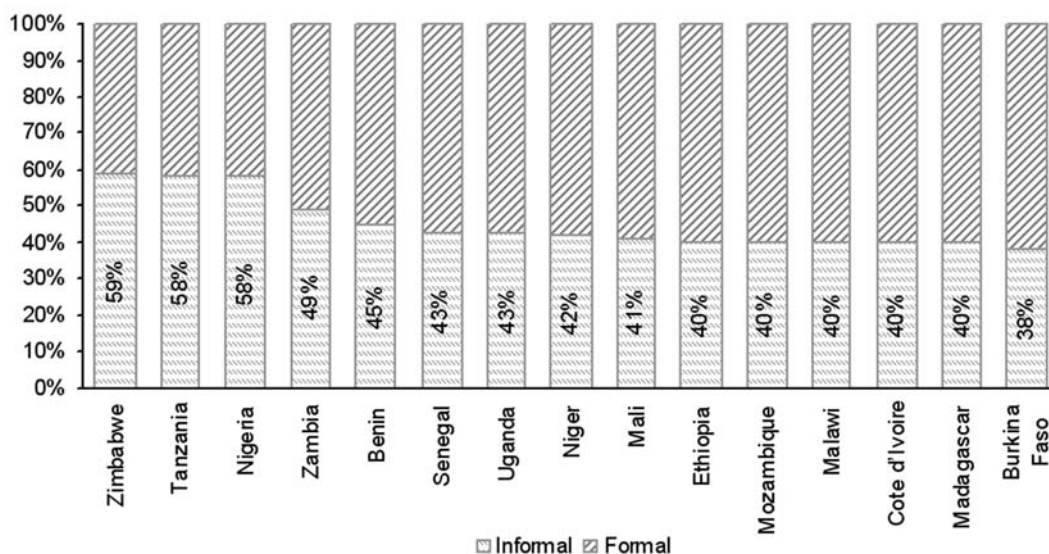


Figure 3: The informal sector as a percentage of the African economy

and iron ore, among other natural resources,²⁴ most or all of which have been in high demand in recent times. The rising demand for natural resources, and the corresponding increase in prices, has stimulated the supply of African commodities.

The demand has concurrently encouraged Asian firms to invest in Africa's extractive industries, as well as in infrastructure and construction projects — power stations, roads and railways. Asian investment is not just in money, but in terms of physical presence too, with several Chinese and Indian firms running projects across SSA. They have advantages over their western competitors, such as experience in developing their own countries' infrastructure, lower material and labour costs, and a greater appetite for risk. While this appetite may have been dampened by the financial crisis, Asian investors are still finding investment opportunities within the African continent.

In addition to corporate investment, Asian governments, particularly the Chinese, are keen to provide grants and interest-free and low-interest loans to African countries to help them develop their industries and social services, mining and infrastructure. This is not purely altruistic, as aid of this nature assists Asian firms when bidding for related business. Examples of these include:

- China Exim Bank
 - sole bank handling Chinese government concession loans;
 - tasked to promote exports and foreign investment;
 - its export credits focus on infrastructure whereas its investment loans target the energy, mining and industrial sectors — the bank's main source of funding is the bond market;
 - unlike export credit agencies in other countries, the government does not guarantee the bank's liabilities.
- China Development Bank
 - its main mission is to build China's infrastructure, vital economic sectors and western provinces;
- gives loans to Chinese businesses as part of the national globalisation strategy;
- launched the China-Africa Development Fund to support Chinese FDI in Africa.
- China Export and Credit Insurance Corporation (SINOSURE)
 - its goal is to support Chinese exports and investment abroad by insuring against buyer and country risks such as foreign exchange restrictions and expropriation, nationalisation and war.

These flows are driven by several factors, not least of which is Africa's significantly improved credit profile. Nigeria made a significant stride with respect to its credit profile when it paid off its Paris Club debt in 2006, becoming the first African nation to settle with its official lenders. This paid off, as Nigeria moved from no rating to a Fitch and Standard & Poor's country risk rating of BB-.²⁵ Besides Nigeria, 13 other SSA countries now have Fitch ratings. Some African governments also provide financial incentives to foreign investors, such as low tax rates for setting up manufacturing facilities in special zones.

In 2001, Goldman Sachs identified Brazil, Russia, India and China as having remarkable growth in their equities markets, GDPs and overall economic growth.²⁶ These countries were highlighted as being likely to dominate the global economic environment, and their combined GDP now comprises 15 per cent of the global economy. In 2007, Goldman Sachs suggested that China was poised to become the third largest economy in the world.²⁷

More recently, Goldman Sachs has identified countries that are changing the global economic landscape and that could potentially have a similar impact. These countries have been dubbed the Next Eleven (N-11) and include Bangladesh, Egypt, Indonesia, Iran, Korea, Mexico, Nigeria, Pakistan, Philippines, Turkey and Vietnam. Nigeria, Africa's largest oil producer, has piqued the interest of investors and has been singled out as an economy with the capacity to be important if it can deliver sustained growth.

Trend 2: Rising demand for low-priced manufactured products

As discussed previously, China's exports to SSA have grown significantly over the last decade. Data obtained from UNCTAD show that at US\$19bn, exports to SSA are nearly ten times what they were a decade ago. Africa's imports from Asia primarily comprise manufactured goods, primarily machinery and transport equipment.²⁸ It is well-known that Asia, particularly China and India, can now produce low-cost manufactured goods and apparel, but is there commensurate demand for these goods in Africa?

Vijay Mahajan,²⁹ a business professor at the University of Texas in Austin, recently coined the phrase 'Africa 2s' to describe people who are neither desperately poor (Africa 3s) nor obnoxiously rich (Africa 1s) — people struggling to survive on modest wages, but who earn enough to buy the occasional DVD player and cell phone. According to Mahajan, this middle group is one of the most important drivers of economic growth in Africa. In 2008, the *Washington Post* carried an article by Stephanie McCrummen, highlighting the growing trend of consumerism in Africa.³⁰ This trend is well reflected by the growth of a leading African western-style superstore chain, Nakumatt, which sells corn flour, aromatherapy bath salts and all manner of other goods. The store, which started its operations in Kenya, has outlets in Kenya (11), Uganda (two), Tanzania (three) and Rwanda (two). Nakumatt's annual sales have grown from US\$100m in 2004 to a projected US\$350m in 2008. McCrummen estimates that 300 million people, representing one-third of the African population, comprise the 'Africa 2s'. These price-conscious Africa 2s are likely to increase in number and to remain a key stimulant in the demand for Asian goods.

Trend 3: Per capita income in Africa and Asia is increasing, driving consumer demand

High rates of economic growth in both continents have raised per capita income,

boosted individual prosperity and increased consumer demand. Per capita GDP is still low in Africa, averaging US\$3,433 across the continent. 2005 data places Equatorial Guinea, Mauritius, Seychelles, South Africa and Libya as the richest African nations, while Malawi, Somalia, Democratic Republic of Congo, Tanzania and Burundi are ranked the poorest in Africa. Despite this, Africans have become bigger consumers than they were five years ago, spending mainly on basic items such as everyday household goods and clothes.³¹

As for Asia, per capita GDP across Asian countries (ie excluding Hong Kong, South Korea, Taiwan, Singapore and Japan) averages US\$13,501, the richest nations being Qatar, Brunei and Kuwait, and the poorest being Afghanistan, Burma and Nepal.³² With higher per capita incomes than most Africans, recent consumer demand in developing Asian countries has focused on more sophisticated and expensive items such as cars and white goods. Although Africa does not produce these manufactured goods, it produces the raw material required and as such the growth of Chinese disposable income drives the demand for African produce.

Trend 4: More trade openness

There is more transparency in trade than five years ago. Many emerging economies have instituted trade reforms and entered into regional agreements to open up their markets to imports, with free-trade zones in East Africa, West Africa, Southern Africa and South-East Asia. It is also easier to access information on tariffs, import duties and trade rules. Possessing such information used to be a source of competitive advantage, but today it is less so. However, African and Asian countries still impose many barriers to trade, information on commercial opportunities is limited, and the multitude of regional agreements, while bringing benefits to signatories, can be confusing. Overall, however, there has been a positive trend with respect to trade openness and transparency.

A key consideration for corporations looking

to play in the African space will be the ease with which they can do business. A 2008 study by the World Bank³³ reveals that although SSA is the least business-friendly region in the world, SSA countries, specifically Ghana and Kenya are among the top reformers. Other notable reformers are Mozambique, Madagascar and Burkina Faso. Also of note is that South Africa ranks 35th in global 'ease of doing business' rankings — ahead of Portugal (37), Spain (38) and Turkey (57).

Trend 5: Emerging markets' multinational corporations

Emerging markets are creating world-class corporations at a rapid rate. There were 18 companies from developing Asian countries in the DataStream and Bloomberg list of Global 1000 Corporations in 2004. This is expected to rise to around 30 by 2010. Similarly, although there were no banks from developing Asian countries among the top ten global banks in 2004, by 2008 there were three — all from China. These mega-companies — such as India's Tata and Suzlon and China's leading banks — have used their market successes at home to springboard onto the world stage, acquiring companies not just in mature markets but in other developing countries as well.

According to Prahalad and Hart, 'The real source of market promise is not the wealthy few in the developing world, or even the emerging middle-income consumers: it is the billions of aspiring poor who are joining the market economy for the first time'.³⁴ Being home to 300 million, or two-thirds, of the world's poorest people, Africa can be said to be at the bottom of the global economic pyramid. This designation by definition accords symbiotic opportunity to corporate entities playing in the African space by allowing them opportunities for growth, profit and exercise of corporate social responsibility. Those African countries looking for modern infrastructure and technology in turn become the beneficiaries of new and efficient products and technologies.

Asian capital markets have been experiencing phenomenal growth and this strengthened capital base has caused them to expand outside their political boundaries into other markets. This expansion is not only limited to Asian and Western companies. African firms are also expanding outside of their local countries. Following recent banking consolidation, several Nigerian banks are now expanding to other countries in Africa and Europe (Figure 4). According to Vetiva research, in 2008, nine

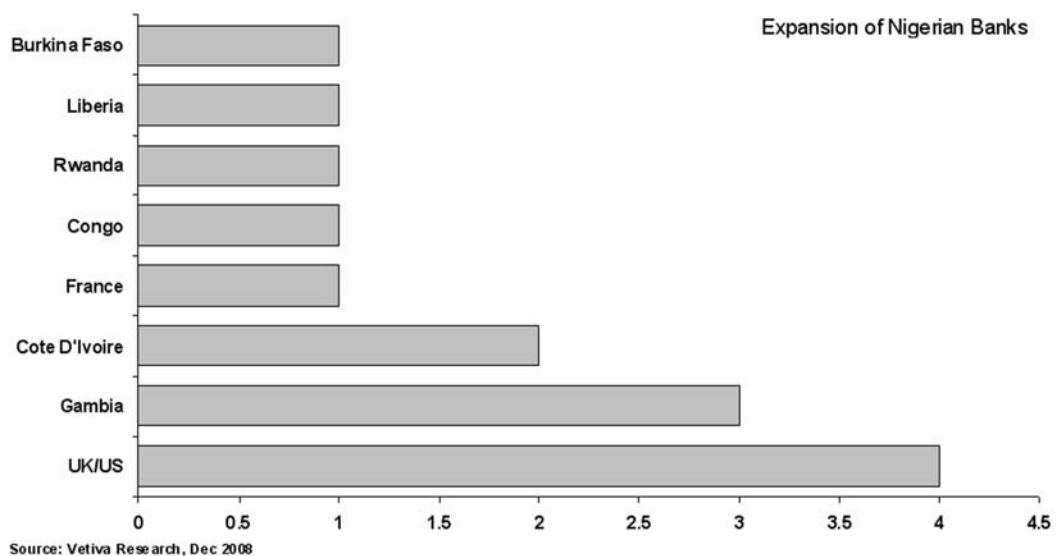


Figure 4: Expansion of Nigerian banks

banks gained a licence to operate off-shore branches, and a total of 16 branches were opened in Africa and one branch in Europe.³⁵ Similarly, other banks in Africa are also expanding across borders. In East Africa, Kenya Commercial Bank demonstrated its confidence in the economic potential of Sudan by opening three new branches, bringing its branch count in Sudan to a total of four. This expansion by financial institutions not only demonstrates their confidence in these economies, but also reflects the underlying growth of commercial activities in the region, in terms of the increasing demand for the services offered by financial institutions.

In the wake of declining sales in their home markets, Western multinational corporations have also expanded into other territories. Vijay Mahajan reports that for 2006, Guinness recorded sales in Africa as growing by 4–5 per cent, while global sales declined by 4 per cent.³⁶ Unilever, Nestlè, Coca-Cola are other examples of Western brands that have become household names all across Africa.

RELATED TRENDS IN BANKING AND TREASURY SERVICES

The last decade has seen rapid transformation in payment, clearing and treasury information systems across African countries with varying degrees of adaptation. While cash remains the predominant means of payment, markets in SSA and especially in East and Southern Africa have developed from cash to cheques to electronic funds transfers (EFTs). The evolution of these payment mechanisms has in turn accelerated the rate of innovation and development of both the technology and regulatory market infrastructures to support these trends.

The rapid expansion of African corporations and Western multinationals across Africa has resulted in a gradual shift in the mindset of the treasurer. Treasurers are now beginning to take a more holistic view of end-to-end cash management targeted at funds optimisation through efficient liquidity and working capital management. These efficiencies include the

elimination of transit delays and the development and enhancement of data-mining abilities to enable the treasurer better to understand customers' payment and collection patterns. The working capital and liquidity management metric — treasurer cockpit — for Africa is therefore demanding a migration in the way treasuries are managed with respect to the competency of treasurers, the cash management toolbox and partnerships with banks and the value chain.

The treasurer operating in multiple geographies faces multiple challenges. The most obvious challenge is coordinating the activities of multiple legal entities governed by diverse foreign exchange regulations, operating with multiple currencies and with diverse levels of sophistication with respect to payment systems and clearing infrastructure. The disparate operating environments result in a wide variety of operating processes and systems.

Further to this, increased competition in Africa and around the globe has forced corporations to find ways of improving operations efficiencies and leveraging their economies of scale and scope. Firms across the globe and in Africa have responded to the changing landscape by implementing shared service centres (SSCs), which not only provide a means for imposing controls and efficiency for common processes across multiple geographies, but have also resulted in significant reduction in operating costs. While cost reduction remains key in the selection of the location and structure of an SSC, other factors, such as regulatory environment, business model and other operational considerations, play a significant role in making this decision. Banks wanting to remain competitive and relevant have implemented products and services targeted at improving the efficiency and effectiveness of SSC operations.

The continent has seen increasing levels of automation and a gradual shift from cash-intensive, manual instruction processing to the use of SWIFT and electronic banking to facilitate straight-through-processing. In addition to traditional EFT, many markets in

Africa now offer real-time gross settlement, thereby facilitating intra-day payment settlements. The mode of instruction is slowly shifting from hard-copy letters delivered to the bank to instructions delivered electronically through various electronic banking platforms. In some cases, clients have established SWIFT connections to facilitate straight-through-processing with their bankers.

From an electronic banking perspective, leading electronic banking platforms now allow for seamless integration with corporate enterprise resource programs, thereby facilitating straight-through-processing. This integration enables corporate clients to effect various transactions including book transfers, domestic and cross-border funds transfers and even cheques. The more advanced platforms also enable users to debit funds from the debtor's account, thereby giving the treasurer more control over accounts receivable. Dynamic changes in the business environment have escalated the need for end-to-end data visibility and optimisation throughout the cash-flow cycle. As such, treasurers have demonstrated a preference for electronic banking platforms which enable them to monitor and track the status of transactions on a real-time basis.

Mobile telecommunication is also playing a significant role in facilitating payments across Africa. In Kenya, Safaricom's M-PESA received recognition in 2008 for its 'Send Money Home' campaign and again for its service in 2009. M-PESA allows users to transfer money safely and affordably using their mobile phone. Through M-PESA, a mobile subscriber can send money to another mobile phone user, withdraw cash, buy airtime for themselves or another prepaid subscriber, pay bills and make loan repayments. Since its launch in 2007, the number of M-PESA subscribers has grown to 5 million, which serves to demonstrate the demand for such products.

In Europe, the importance of harmonised payments as a means of facilitating cross-border trade was acknowledged through the

establishment of the Single European Payments Area (SEPA). SEPA is an industry-led change being driven by the banking sector, in response to political will. It is supported and underpinned by EU legislation. SEPA credit transfer volumes have nearly doubled between the first quarter of 2008 and the first quarter of 2009. With current volumes a little under 300,000, this underscores the relevance and demand for harmonisation. A major challenge in SSA is the fragmented nature of the clearing and settlement systems across the region. Table 2 traces the parallels between pre-SEPA Europe and the Economic Community of West African States (ECOWAS). These parallels show that contingent upon political will and underlying national and regional legislation, it is possible to integrate and streamline payments systems across the ECOWAS community.

The visionary path of the payment systems upgrade in West and Central Africa comprises three phases: regionalisation and payment system reform, implementation of client benefits, and continual review and upgrade. Countries in the West Africa region are currently at the first phase, which is characterised by fragmented clearing systems, but this fragmentation is countered by efforts at unification and collaboration. Such efforts include the formulation of the West African Economic and Monetary Union (WAEMU), the West African Monetary Zone (WAMZ) and the Central African Economic & Monetary Union (CAEMU). However, despite the strong agenda and aggressive deadlines, member countries are yet to meet the stipulated convergence criteria. In the case of the five countries of the WAMZ, for example, Gambia has met all four criteria, Nigeria has met three, Sierra Leone and Guinea have met two of the criteria, while Ghana has not met any of the convergence criteria.

A similar theme runs across other regional economic communities in Africa, where from a regulatory perspective, there would need to be relaxed exchange control regulations, harmonisation of rules, legal framework and policy architecture, and a harmonisation of

Table 2: Parallels between Europe and ECOWAS pre-SEPA

EUROPE	ECOWAS
<input type="checkbox"/> Multiple currencies across 27 states (only 16 use euro)	<input type="checkbox"/> Multiple currencies across 15 countries (only 8 use CFA)
<input type="checkbox"/> European Central Bank + 27 national central banks	<input type="checkbox"/> No regional Central Bank + 15 national central banks
<input type="checkbox"/> National ACH in each market – each with own rules, practices, formats and processes	<input type="checkbox"/> Regional ACH and RTGS in WAEMU (8 countries) and National ACH in each other country
<input type="checkbox"/> Customers require an account in each national market for efficient access to bulk/retail 'ACH' payment systems	<input type="checkbox"/> Customers require an account in each national market for efficient access to bulk/retail 'ACH' payment systems
<input type="checkbox"/> Population: Approx 800 million	<input type="checkbox"/> Population: Approx 300 million

taxes and tariffs, while from an industry perspective there would need to be uniform payment standards, implementation of interoperable payments infrastructure and interlinked clearinghouses.

Another challenge in the SSA region is for a harmonisation of technology and innovation with business culture. Effective use of existing banking technology such as direct debit will require high levels of discipline on the part of the debtor's treasurer to ensure that the account is funded to facilitate seamless accounts receivable collection. With this in place, the treasurer can make accurate cash-flow forecasts, which will facilitate cash-flow optimisation. Multinationals are taking the lead in bringing relationships and know-how from Western economies. In some cases, however, technologies such as notional and real pooling, although widely used in Western economies and available in Africa, cannot be used effectively due to regulatory reasons and infrastructure challenges.

Finally, in order to safeguard the quality of their partnerships, firms in Africa will need to move towards a systematic request for proposal (RFP) process. A meticulous RFP process ensures that client expectations are well articulated and banks are better able to embed

their capabilities to meet client expectations and requirements. As a result, both bankers and firms can choose the right partners and agree on treasury solutions that ensure that a win-win for both parties.

CAN THE HURDLES BE OVERCOME?

With the faltering of the global economy and escalating maturity of the African economies, Africa finds itself at a strategic crossroads. While the synergic relationship between Africa and Asia remains, the relationship is asymmetrical, with Asia accounting for up to one-quarter of Africa's exports while Africa accounts for only 1.6 per cent of Asia's exports.³⁷ This imbalance has been acknowledged by African leaders who believe the continent needs to develop a strategy to deal with the overwhelming wave of trade and investment from China and further assert that the continent should not be left worse off once the boom ends. Deals must be made more sustainable through, for example, downstream linkages and local partnerships.³⁸

Another consideration would be for SSA countries to look for more trade opportunities within the greater SSA region. Intra-SSA trade currently accounts for only 13 per cent of

SSA's total trade, yet many of the most successful economies around the world conduct most of their business within regional trading blocks, with the EU being the biggest example. Most of SSA's countries fall into four major regional economic communities (RECs): the South African Development Commission (SADC), the Common Market for Eastern and Southern Africa (COMESA), the Economic Community of Central African States (ECCAS) and the Economic Community of West African States (ECOWAS). As shown in Figure 5, African RECs generally trade more within themselves than with each other. The reasons for this are vast and varied, they include proximity, pre-colonial trade ties, tax treaties, language barriers, convertibility of currencies, over-dependence on the West (and lately the East as well), and ignorance of the opportunities.

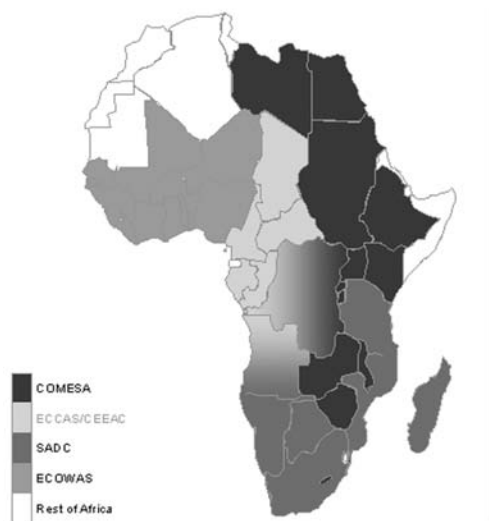
Factors influencing intra-regional trade include:

- Promoters
 - increasing demand for imports;
 - accelerating growth;
 - expanded trade capacity due to FDI;
 - shipping and air-links improvement;

- external trade payment reforms;
- reduced tariff and non-tariff barriers to intra-Africa trade;
- competitiveness;
- better information flow;
- better trade infrastructure.

- Inhibitors:
 - trade policy — tariff and non-tariff barriers;
 - poor infrastructure and customs administration;
 - non-convertibility of currencies;
 - ethnic, cultural and linguistic diversity;
 - high political instability;
 - low financial integration.

Another trade-related concern is with respect to system efficiency. While there is much focus on tax treaties and ensuring friendly tariffs, African countries will also need to introduce greater efficiency to the import and export processes. A World Bank study³⁹ shows that SSA (35 days) and South Asia (33 days) have the longest export delays globally. Improvements in the process are often met with some resistance, as demonstrated by the Kenya Revenues Authority's introduction of a web-based clearing system designed to reduce



Source	Destination				
	COMESA	ECCAS	SADC	ECOWAS	Rest of Africa
COMESA	48%	1.2%	60%	0.2%	8.9%
ECCAS	0.6%	0.6%	1.4%	0.5%	2.4%
SADC	5.4%	1.8%	10.8%	1.1%	13.1%
ECOWAS	0.2%	1.6%	5.3%	9.2%	16.1%
Rest of Africa	3.7%	1.7%	7.6%	3.6%	13.1%

○ Intra-REC Exports

Note: Compiled from 2008 UNCTAD Handbook of Trade Statistics (2001 and 2006 data).
 (1) All Asia Pacific Excluding China, India and Middle East.

Figure 5: Trade between regional economic communities

congestion at the port. At the initial introduction, the congestion worsened as freight forwarders faced some operational challenges; however, these were eventually overcome, resulting in a more efficient trade system.

A closer look reveals that intra-SSA exports are made up of manufactured goods. This means that an increase in intra-SSA exports would create more economic prosperity in the region than an increase in global exports, as a strong manufacturing sector has a stronger contribution towards sustainable long-term economic growth than a strong commodities sector. Although Asia currently dominates the manufacturing sector, Africa is poised to challenge this dominance due to two key factors. First, several of the demanded commodities are found in abundance in Africa. Secondly, Africa's workforce is growing, while that in Asia is declining. Figure 6 shows UN projected population growth rates for major areas of the world between 1999 and 2150. Africa leads at a staggering 201 per cent, while Asia's growth will have slowed to 53 per cent. For

Africa, the remaining challenge is to train this growing workforce to produce manufactured goods that either match or exceed the standards of those produced by Asia.

That said, Africa continues to grapple with the highest infection rates for HIV/AIDS. According to UNAIDS, SSA is the most heavily affected by HIV, accounting for 67 per cent of all people living with HIV and 75 per cent of AIDS deaths in 2007. Further to this, young people aged 15–24 account for an estimated 45 per cent of new HIV infections worldwide. These statistics, although alarmingly high, are not the whole story; recent data indicate that in 14 of 17 African countries with adequate survey data, the percentage of young pregnant women (aged 15–24) who are living with HIV has declined since 2000–01. In seven countries, the drop in infections has equalled or exceeded the 25 per cent target decline for 2010 set out in the Declaration of Commitment, which implies that the pandemic is no longer out of control in the continent.

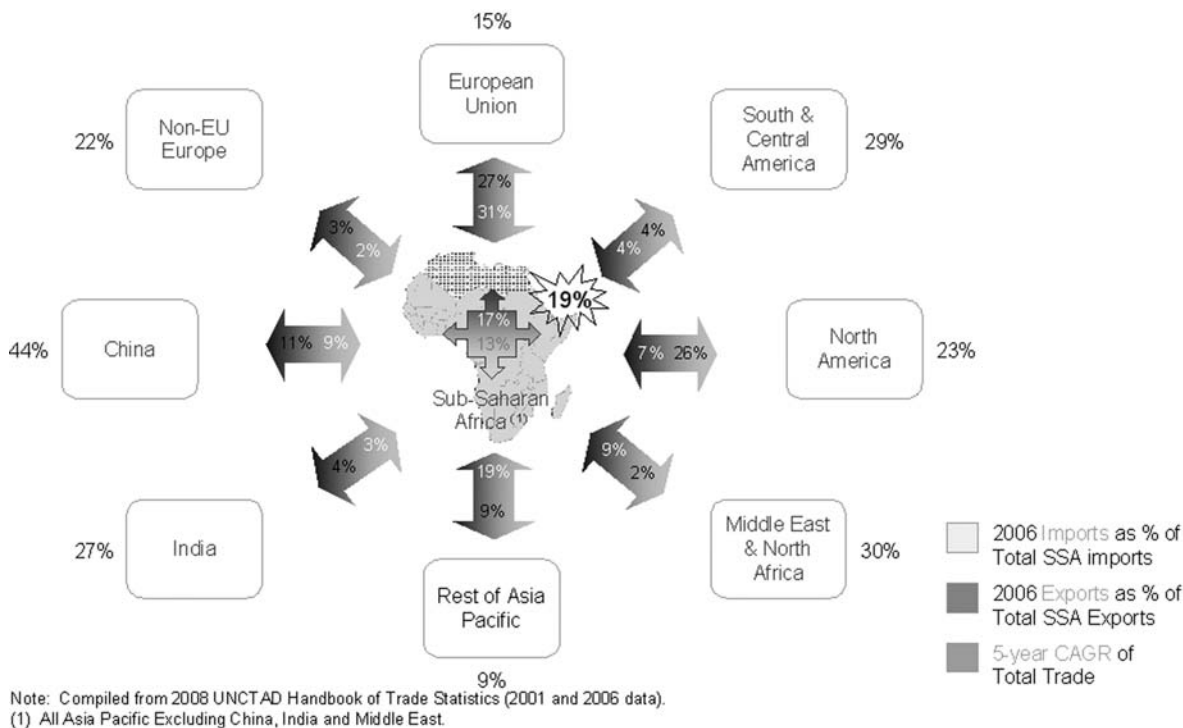


Figure 6: SSA trade with the world

Political stability remains a key concern in Africa. Many countries in the region are young democracies with unresolved issues from the previous era. Instability in one country often affects commercial activity not only in the country, but also in neighbouring countries. The post-election violence in Kenya, for example, affected activities at the Kenya Ports Authority, which in turn affected the import process for surrounding countries such as Uganda, Rwanda and Burundi. Similarly, in the build-up to the election period in Zimbabwe, there was a high influx of refugees seeking political asylum in South Africa, which in turn created some instability in South Africa.

Figure 7 shows the percentage of adults who have bank borrowings in select countries. According to the World Bank, several African countries have less than 0.02 per cent of adults with available credit information and bank borrowings.⁴⁰ There is obviously room for improvement. Growth in finance and communication are listed as an important stimulus for economic growth. South Africa is well known for its strong financial services sector. The recent consolidation of Nigerian banks also created stronger, better capitalised

financial institutions. These are the makings for the beginning for a banking boom in Africa. Several local banks are looking to expand their services to the rest of Africa. This expansion is not limited to African banks; several international banks have also stepped up their presence in African countries — an indication of their confidence and commitment to the continent. Further development of this sector is necessary as it will facilitate intra and inter-regional commercial activity.

CONCLUSION

African nations are diverse in language, culture and ethnicity, yet many share the same economic and developmental challenges. There is some controversy as to whether the strategic spotlight should focus on a long- or short-term view. Tom Fairless⁴¹ describes the declines in trade and investment flows to Africa as being driven largely by the withdrawal of funds by European and US investors and falling demand from their main trade partners, both of which can be tied to the global financial crisis. The short-term outlook is at best uncertain due to the effects of the global financial crisis; however, many believe that the fundamentals

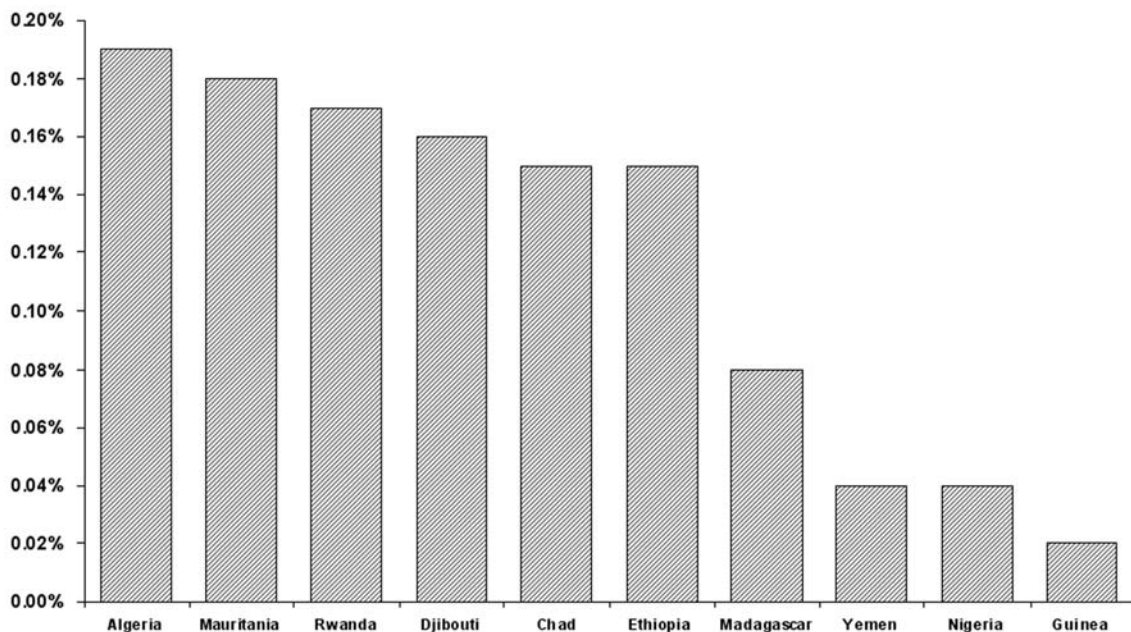


Figure 7: Access to credit

that drove Africa's economic growth will remain in the mid to long term. This too is acknowledged by Fairless in his article which lists, among other things, uncorrelated markets, less dependence on commodities and thriving domestic demand as reasons for continued optimism about Africa.

In October 2008, a significant mark of progress was made in Africa, with leaders from COMESA, SADC and the East African Community agreeing to create a free-trade zone of 26 countries with a collective GDP of US\$624bn, which is 58 per cent of the African Union's total output. This political goodwill will need to be backed by action to address infrastructure deficiencies, improvement in businesses competitiveness, financial integration of economies, currency convertibility and other enabling regulations. African leaders already have an enabling mindset, as they believe that more intra-SSA trade is the key to sustainable growth and are taking steps to stimulate that trade. The challenge remains in the unified execution to ensure that SSA trade realises its full potential.

With the shift in the global economic epicentre, Africa should continue to exploit the opportunities offered through continued focus on South-South opportunities as these offer the greatest economic benefit to Africa. Commercial opportunities with Asia offer opportunities for access to capital, low-cost credit and the sharing of knowledge and skills necessary to further develop the continent. Further to this, the focus of Asian firms on infrastructure development, while according Asian businessmen an opportunity for business, concurrently offers the African markets much-needed infrastructural development — a key foundation for a successful economy.

As the informal economy develops, it will in time be formalised by improved efficiencies. These and other developments are expected to result in job creation, thereby boosting the efforts at poverty eradication and from an economic perspective, providing more buying power to existing Africa 2s while facilitating the transition of many from Africa 3 to Africa

2. This growth will result in even greater demand for banking and communication-related services, and as these services become more available, more affordable and more competitive, the informal economy will become increasingly formal and the true size of the African economy will be revealed.

While there is not likely to be a global conference to divide the continent, a corporate scramble for Africa has begun, propelled by numerous global events and market forces. The sustenance of the scramble will hinge on several factors, such as the prospects of wealth creation at the bottom of the pyramid; the untapped natural resources; the closing of the infrastructure gap, which will in turn ease communication and facilitate the movement of business traffic and overall trade; the continued growth of South-South trade, especially in the wake of recession in the Western markets; and the improvement of the political climate, which will in turn cause an improvement in Africa's credit profile and investment potential. This time, the Africans have a heightened consciousness to ensure that they gain as much or more benefit than they give. As local, regional and international corporations scramble for a piece of the pie, they will need to have a pulse on Africa's history, a sense of its current struggles and a cognisance of the aspirations that drive the continent. This has been well captured by Liberian President Ellen Johnson-Sirleaf who said, 'We want strategic partnership based on mutual interest, recognising the complexities that come out of a period of decline, destruction and violence'.⁴²

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