Keeping up with Africa in 2014

From Adapting to Change to Seizing the Opportunity: How Corporate Cash and Treasury Management is Changing in Africa

Not even 15 years ago, multinational corporations looking to enter Africa treaded cautiously, fearful of the known corruption and fraud in traditionally cash-based markets and difficulty working in a region whose banking and infrastructure was not nearly as sophisticated as the West’s. But as significant urbanisation, electronification and innovative leap-frogging continue, the requirements, strategies and expectations of regional corporate cash and treasury management are forced to evolve as well.

By now the opportunities in Africa that corporations like to see have been heavily reported – from significant economic and GDP growth to mobile money exploding across the continent to substantial regulatory reforms. Indeed more financial institutions are welcoming the opportunity to introduce corporations to the “new Africa” and the related, but varied, banking and economic transformation of its core markets. A recent survey conducted by The Economist Group of 217 global companies based in 45 countries reveals that expansion in Africa is a priority for two-thirds of such organisations within the next decade.

Today, half of the African population is under 20 years of age, and these people are rapidly moving to cities. In fact, more than 40% of the population is now living in urban areas. As corporations look to concentrate their expansion strategies into and across Africa, the evolving urban populations in geographically strategic cities are clearly tactical areas of growth. However, as the focus and concentration shifts towards the key cities of Cairo, Kinshasa, Lagos and Nairobi, increasing guidance, direction and trust is sought to understand how to maximise these economic and financial trends and what advice can be provided from the banking and financial sectors.

Here are the top five cash and treasury management must-dos that will emerge in 2014 in Africa.

Keep current with regulatory and central bank changes
As fast as the economic and digital evolution is pushing Africa to new directions, so are several new domestic regulatory and central bank modifications across a number of countries. Keeping abreast of these changes is not only critical to maintaining an understanding of new domestic treasury requirements, but could potentially change the way corporations need to look at their local working capital strategies. Some recent examples include the following.

Nigeria’s new payment system reform
As part of Nigeria’s “Payment System Vision (PSV) 2020 strategy,” the recently introduced “Faster Payments” system will significantly improve payment efficiencies for corporations (and other sectors) and ensure greater levels of straight-through processing. The government has also introduced new limits for cash and cheque payments and deposits to begin the process of reducing such reliance on paper-based transactions throughout the cash-intensive economy.

Gabon’s new domestic funds transfer policy
To help fight against money laundering and terrorist financing, Gabon has implemented new procedures to align required documentation with domestic payments of certain values. This new step to the domestic payment process will help ensure greater control of national funds transfers, but corporations must be aware of the new processes or risk failure to facilitate local payments.

Zambia’s balance of payment monitoring
Also enhancing anti-money-laundering compliance and corporate governance, this change implements additional documentation and approval efforts affecting outgoing and incoming foreign currency transfers and local letters of credit. While this additional security measure will assist with overall visibility and monitoring of transfers, corporations must be aware of the changes required and how their banks will handle the new processes within their systems.

General financial sector changes
Across the 54 countries on the continent, there is a massive amount of change that the financial sector undergoes almost on a daily basis. To keep current with these is not an easy task, and corporations should be regularly briefed from financial institutions with an on-the-ground presence and with local market knowledge of African markets to ensure mutual operational transparency.

Understand trapped cash and how to manage excess liquidity
Aside from forecasting and formulating accurate models to manage excess domestic, regional and global liquidity, a common ask for treasurers in 2013 was to unlock trapped cash in the more regulated markets and seek better and more strategic depositories to maximise global positions. Unfortunately, this is easier said than done in Africa.

Corporations should have real-time visibility over their accounts in Africa in the majority of countries, but the issue still remains of how to get excess funds out in good time. While there are options, albeit complex, in the larger Nigeria and South Africa markets for releasing excess funds back into a regional or global concentration centre, the majority of African markets have yet to use a simple, straightforward and automated way of sending excess liquidity cross-border.

Before expanding or implementing a refocused strategy for Africa, it is important for corporate treasurers to understand what each market can offer and, more specifically, any specifics required while establishing accounts or presence that could hinder any type of cross-border movements. Today Kenya, Botswana and Mauritius have implemented more relaxed exchange-control rules, and, while the processes are not fully automated, it is easier to release funds cross-border from these countries and the larger banks will assist with the appropriate reporting and documentation as required. Other current key markets such as Angola have massive...
multinational interest and opportunity but have yet to establish a clear, defined process of releasing excess liquidity, which can be a headache for regional treasury operations.

There is certainly a drive for this type of liberalisation of cross-border regulation to continue into the larger markets. But for now most treasurers are faced with managing their funding as and when needed so as to not flood the country with excess and trapped liquidity. With limited and sometimes no domestic tools to concentrate excess funds and with pan-Africa pooling in its infancy, it is not an easy “in and out” scenario for regional treasurers across most African nations. Therefore, it is imperative that corporations understand and look to regional financial institutions to advise and recommend what is possible before establishing a concrete expansion or strategic plan.

Recognise the importance and relevance of the mobile phone
Mobile money and mobile payments have been the buzz words in Africa over the past few years. As the ubiquitous mobile phone becomes cheaper and more accessible, the usage will inevitably continue to rise and further become the primary gateway to financial inclusion and empowerment. And it is also certain that as the mobile payment and collection flows transition away from just person to person (P2P), the business-to-consumer (B2C) and consumer-to-business (C2B) transactions will become more integrated into the many corporations’ business models.

For example, the mobile channel is now an ideal form of transaction security and visibility enhancement, assisting the farming and agricultural demand in Kenya specifically for suppliers who need to collect from vendors or distributors in remote areas. This type of adoption is also helping the media and technology companies that need to collect radio and advertiser fees, and even ticket sales for airlines, significantly improving payment and collection reconciliation as a result.

If Safaricom’s M-Pesa technological revolution in Kenya is an example of where Africa is heading – with now more than two-thirds of the adult population using it and 25% of the country’s gross national product flowing through it – corporations will have an opportunity to review their more remote payment requirements and improve working capital cycle times and visibility by beginning to eradicate cash. With mobile payments and collections becoming more integrated into electronic banking channels and overall bank strategies, understanding the benefits of mobile migration is critical and will become more central to cash and treasury management in Africa in the coming years.

Re-evaluate any reliance on traditional branch banking
Even among the recent “electronification” efforts and evolution in Africa, bank branches are not going away anytime soon. The need for corporations or their clients to use branches in Africa will significantly vary depending on the type of business. However, what remains consistent is that handling paper-based transactions is fraud-prone and expensive.

For organisations at the stage of entering, expanding or re-strategising in Africa, there is an opportunity to leverage recent country and product developments and decide how best to implement a risk-adverse strategy when it comes to rural banking needs. Mobile and forms of card-related services are creative ways to begin to eradicate cash reliance, but these channels are not yet available in every country. However, basic electronic banking is now offered

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**British American Tobacco (BAT) Case Study**

**Challenge**
Centrally managing disbursements and related reporting across Africa is not easy. But that’s what BAT needed to do; evolve its cash and treasury management strategy to streamline its payment and reconciliation process across an area with varying levels of central banking and clearing sophistication. Local market insight and awareness would be critical – and so would scale. And that meant a solution provider who could both support a centralised banking solution to support BAT’s finance shared service centre (FSSC) in Stellenbosch (SA) and understand the nuances of the different countries in BAT’s operational scope.

**Solution**
Initially Citi provided BAT with basic e-banking services. With STP still in its infancy, payments would be loaded separately. But over the next 5 years, Citi would help transform BAT’s banking into a fully integrated solution including ERP-based payment approval, host-to-host file-based connectivity (via CitiConnect™ for Files, Citi’s file-exchange and messaging portal) and automated payments and reporting reconciliation. Given Citi’s vast network and presence, BAT could proceed to expanding into new countries with the support of Citi’s channel connectivity and local market guidance.

**Result**
Today BAT facilitates payments across 17 countries in Africa via Citi’s channels, including countries where Citi does not have a physical banking presence. BAT’s FSSC has transformed into one of the leading examples of efficient centralised banking operations and continues to become secure operationally efficient and cost-effective. As BAT’s business grows and payment infrastructure develop across Africa, BAT is well prepared to ensure its SSC can evolve as well, maximising its business opportunities via a world-class banking partnership.

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**British American Tobacco plc is a leading tobacco group headquartered in London, United Kingdom, with brands sold in around 180 markets.**

*Helping a leading tobacco group streamline payments and reconciliation across Africa.*
by most banks across Africa and assists with domestic and cross-border electronic payments. The 2013 year saw many corporations seeking ways to use developing electronic banking platforms to implement cash- and cheque-reduction strategies. And as for vendors or partners who demand to pay or to be paid in cash, per cent-based invoice incentives are also conducive to becoming more electronic.

Although it is difficult to have a single pan-African bank regardless of the corporate sector, it is possible and indeed recommended to try to consolidate and centralise your electronic payments through a single bank where possible. The drive to standardise file formats on SWIFT, specifically for shared service centre-based corporations looking to expand, is becoming more adopted. Banks and security transport companies continue to provide secure and experienced methods to help transport cash, and this is critical to the consumer and retail sectors, which require this the most. However, as more treasurers look to find cost-efficiencies and leverage developing clearing and payment systems like in Nigeria, unlike 15 years ago, higher straight-through processing payment levels can now realistically be achieved.

Utilise common currency zone efficiencies
Exploring the benefits of working across countries in West and Central Africa that have the same currency was a popular theme in 2013, and it helped corporations realise cost and payment security benefits in sometimes volatile markets. While both regions offer a variety of commodity and oil-based opportunities, due to a number of political and socioeconomic factors, organisations are oftentimes stuck using a variety of banks in the region with limited centralised control.

However, eight countries in West Africa – Benin, Burkina Faso, Cote d’Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo across the Union Économique et Monétaire Ouest Africaine – all share the same XOF currency, Central bank and clearing network and electronic payments across these countries are considered domestic (not cross-border). Therefore corporations can use the borderless-banking efficiencies and centralised electronic payment control and visibility from a single country that can then act as a type of mini-shared service centre. This same concept also applies to the six countries in Central Africa – Cameroon, Central Africa Republic, Chad, Congo Brazzaville, Equatorial Guinea, and Gabon across the Communauté Économique et Monétaire de l’Afrique Centrale – that also share the same XAF currency, central bank and clearing network.

Understanding how these zones work can provide a relatively easy way to enhance fund security, centralise e-payment control and aggregate balances and visibility in higher-risk and unstable markets. While local, in-country banks will still be required for paper-based transactions and certain tax payments, a single bank with a presence in any of the XAF or XOF countries and with comprehensive e-banking capabilities, can help to provide a single regional electronic payment portal.

The growing continent
While finalising 2014 strategies of working capital improvements, efficiency gains and cost-analysis, it is inevitable that Corporate Emerging Market strategies are placing Africa at the top of the list. However, today there is still no doubt that corruption, fraud and political strife is abundant and careful consideration and local understanding of best business-practice is nowhere more important than in Africa. But as the continent shifts its ability to receive foreign investment efficiently, and new governance models and payment channels develop to meet international standards, Africa will remain at the top of that list for years to come.

More information
If you enjoyed this article and would like to know more about how you can put our treasury and trade solutions to work for you organisation, please contact your Citi representative today.

About the author
Geoffrey Gursel has been at Citi for 9 years and he is currently based in Nairobi, Kenya, and is responsible for streamlining cash management solutions for corporate, public and development sector organisations looking to enter, expand and re-strategise in Africa.

Geoffrey’s focus is to help showcase relevant regulatory, government, banking and technological changes and themes across the continent that affect the treasury and banking relationship framework for Citi’s clients. Prior to his current role, Geoffrey worked with Citi in Johannesburg, London and New York in various sales and marketing roles within Citi’s transactional banking division.

Born in New York, Geoffrey, who speaks French, also served 2.5 years in the US Peace Corps in Gabon, Central Africa, teaching English.