EMEA's emerging markets embrace digital transformation

EMEA's emerging markets present considerable challenges, both for companies entering those markets, and for those headquartered there. But as three Citi experts point out, many of these countries are also leading the way with the adoption of digital solutions and innovation.

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Europe, Middle East and Africa's (EMEA) emerging markets include a diverse range of countries, from Russia to Turkey and from Pakistan to Nigeria. From a treasury perspective, these countries present numerous challenges, both for companies that are expanding into those countries, and for countries that are headquartered there. But at the same time, the adoption of digitisation and innovation is particularly high in these markets, with many companies 'leapfrogging' their peers in more developed markets by adoption new technologies at pace.

So how is digital adoption likely to progress in the coming years – and how is Citi's EMEA emerging markets strategy enabling the bank to support clients in these markets more effectively?

Challenges in emerging markets

EMEA's emerging markets are characterised by a number of challenges, some of which are common, and some of which are country specific. "Clients that come to these markets often face some significant challenges around the macroeconomic and geopolitical situation, including trade wars and sanctions environments," says Marek Potoma, Treasury and Trade Solutions (TTS) Head for Turkey, Russia, Ukraine and Kazakhstan (TRUK) at Citi. "Currencies tend to fluctuate more in emerging markets than in developed markets. And interest rates are often high, which may make it more difficult for companies to access financing."

In addition, Potoma notes that regulations in some emerging markets can limit the activities that companies can do in those markets. "In Russia, for example, there are foreign currency restrictions, and measures to limit the repatriation of profits and capital," he says. "These issues might be common to other emerging markets – but each country has a different way of doing things."

As well as economic and regulatory challenges, companies may also face industry-specific challenges in some markets, including issues around access to raw materials, capital markets and labour markets.

Treasury challenges

For treasurers operating in these markets, there are many matters that need to be addressed. For one thing, diverse regulatory environments can make it difficult for treasury teams to achieve a uniform policy across different countries, comments David Aldred, TTS Head for Middle East and North Africa (MENA) at Citi.

"If you look at the MENA region, you have the Gulf Cooperation Council (GCC), which is fairly liberal in terms of allowing sweeping and pooling structures – and you also have markets like North Africa and Pakistan, that are much more restrictive," he notes. "So you can't treat it like a fungible region where it's easy to get liquidity centralised, or adapt a common trade solution across the market."

Over the last year, the COVID-19 pandemic has presented further obstacles. "One thing that is impacting our clients is debt levels and fiscal gaps," says Esther Chibesa, Citi's TTS Head for Sub-Saharan Africa (SSA). "As countries try to deal with COVID-19, governments are under pressure. And for some of the

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> Marek Potoma, TTS Head for TRUK

poorest countries, this is going to lead to the prospect of things like higher corporation tax rates, as well as new forms of taxation." In particular, she cites the growing interest in the taxation of digital goods and services, which is likely to affect companies that have recently recalibrated their own ways of doing business.

Citi's approach

Citi covers 26 emerging markets in EMEA, divided into three sub-regions: Middle East and North Africa (MENA), Sub-Saharan Africa (SSA) and Turkey, Russia, Ukraine and Kazakhstan (TRUK). The bank also has 33 non-presence countries, in which activities are conducted from neighbouring markets. This structure was introduced in September 2019 in order to address common challenges and opportunities across the relevant countries, and identify synergies between them.

"At Citi, our biggest differentiator is our global network. This enables us to help emerging markets businesses go global, and to provide our global clients with connectivity to, and local knowledge of, emerging markets. In this way, our clients can deal with one bank across multiple geographies," says Potoma.

He adds that Citi's five-year investment strategy across EMEA's emerging markets includes a centralised approach to investing in the region. "Even though we already have robust local capabilities in these markets, we are investing in further expanding not only our presence, but also our product capabilities, service and client experience in this market," Potoma notes.

Chibesa comments that one of the best things about the bank's strategy is that it creates an opportunity to share best practices and invest in new skillsets across the region. "It also helps us to attract great talent, because people are drawn to the complexity of having some really diverse markets to solve for," she says.

Digitisation and innovation

Digitisation is an important topic across EMEA's emerging markets, many of which demonstrate strong adoption of solutions such as virtual accounts and instant cross-currency payments. "This particular area is very exciting, because there are a lot of markets that have leapfrogged ahead of developed economies in things like instant payments and digital wallets," says Chibesa. Adoption of these solutions is being enabled by the rise of new faster payment schemes in markets including Bahrain, Jordan, Morocco, Nigeria, Pakistan, Russia and the UAE.

While this trend was already under way before the pandemic began, there's no doubt that COVID-19 has helped to sharpen the focus on digitisation over the last year. "The pandemic is accelerating this shift, which will enable companies to benefit from more efficiency in terms of getting paid quicker, more securely and more efficiently," says Aldred. He notes that as companies adjust their business models in response to the crisis – for example, by moving from distributor to direct-to-consumer models – key enablers include not only faster payment schemes, but also by the ability to digitise trade finance flows.

Co-creation and collaboration

Chibesa agrees that many companies are rethinking what is valuable about their propositions, including a greater focus on the ESG agenda. In addition, she says she is seeing some interesting conversations around the topic of skills. "When we work on a project with a client, such as an API solution, our project manager is working with a project manager on the client's side – so there is a lot of cross-fertilisation. It's no longer just about getting the project done, but also about transferring skills and ideas." The more that companies embrace digitisation, the more willing they are to engage in co-creation, she reflects.

Citi is continuing to enhance the process of collaborating with fintechs – not least through the bank's global venture capital fund Citi Ventures, which engages with fintechs on a global scale. In addition, the bank's fintech challenge programme has led to the development of solutions specific to particular emerging markets, including an instant payments solution in Kenya and a digital receivables solution in Turkey.

"Yes, fintechs are competitors – but they're also our partners and our clients," observes Aldred. "I think that our willingness to work with a select group of fintechs helps us to deploy local relevant solutions very quickly for our clients, improving our overall agility." He adds that clients are not only looking to overcome current market challenges, but are actively focusing on expansion and growth, and the ability to tap into new client segments. "So how can we bring quicker, relevant solutions to them? Fintechs are a way of doing that."

Future developments

Looking forward, Citi's EMEA emerging market experts predict that digital transformation will continue to be accelerated by the repercussions of the COVID-19 pandemic.

"We have seen a lot of progress in TRUK, for example, in the adoption of digital signatures and digital onboarding," says Potoma, adding that this has been facilitated by the use of mobile connectivity tools that allow the bank to be more flexible and allow clients to access the system through API technology. "I don't think this will disappear – it's now about commercialising the things that have been created either as a COVID-19 accelerator, or as business-as-usual work with clients on digital transformation."

Also significant is the continuing shift to real-time payments across emerging markets – a shift that is likely to continue in the coming years, and which offers further opportunities for product development. In addition, says Aldred, companies that have struggled during the pandemic will continue to focus on diversification as they work to return to growth. "They're going to look at the markets they have," he predicts. "Across emerging markets, they have a very savvy client base that is digital and mobile driven, so they will look to leverage that." At the same time, he predicts that the adoption of ecommerce models will continue to accelerate in the coming months. ■