Charting the Path for Digital Transformation: *Centralizing treasury operations in Africa*

The centralization of treasury operations is a significant focus for treasurers across Africa, aimed at enhancing efficiencies in cash and liquidity management through advanced technologies. However, the necessity for localized treasury operations to support in-country business entities, local suppliers, and banking relationships remains crucial.

Speaking at the 2024 Effective Treasury & Finance forum in Africa, Esther Chibesa, Managing Director, Treasury and Trade Solutions for Sub-Saharan Africa at Citi, and Jyoti Jiwani, Treasury Transformation Consultant for global multinational clients including Anglo American, explored strategic approaches while weighing the benefits of centralized services against the needs for local operational support.

Impact of economic challenges on treasury

The economic landscape in Africa, characterized by significant local currency devaluations and escalating balances of payments deficits, presents unique challenges for treasury operations in the region. These economic shifts, influenced by fluctuating commodity prices, political instability, and diverse economic policies across the continent, have led to increased volatility in foreign exchange (FX) rates. This volatility poses substantial risks to the asset and liability values on corporate balance sheets, directly impacting financial performance. Profits reported in local currencies may be significantly eroded when converted to more stable currencies for consolidation, thereby prompting the need for sophisticated currency risk management strategies to mitigate the adverse financial impacts and help ensure the stability of treasury operations.

Chibesa elaborated on the diverse regulatory environments that further complicate these economic challenges. For instance, in countries like Nigeria, stringent FX controls and repatriation laws govern the flow of currency, creating a complex operational environment for treasury management. She contrasted this with other regions such as Zambia and Congo, where regulations

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might be less stringent but still require careful navigation to optimize treasury operations.

In response to these challenges, multinational corporations (MNCs) operating in Africa have had to adapt their treasury strategies extensively. Chibesa explains the importance of understanding local regulations deeply, which cannot only vary from one country to another, but also change frequently within the same country. Effective treasury management in such environments involves staying abreast of local financial and regulatory updates, maintaining flexibility in treasury operations, and being prepared to adjust strategies swiftly in response to new economic conditions.

Moreover, the balance of payments' deficits observed across several African markets affect how companies manage their liquidity and capital. Companies are increasingly required to stage their investments, delay certain expenditures, or even reconsider the scale and timing of their financial commitments in the region. This strategic recalibration is crucial to maintaining financial stability and ensuring sustained operations despite economic adversities.

"These deficits lead to notable currency risk exposure, which significantly affects financial performance. While companies may report high profitability in local currency, these gains are often completely erased when converted to home currencies for multinational consolidation," Chibesa told delegates at the conference.

Centralization: A strategic imperative

The advancement of centralization in treasury operations has emerged as a strategic response to the increasing complexity within MNCs operating across African markets. This move toward centralization is primarily driven by the need to enhance control over financial resources, optimize liquidity management, and improve operational efficiencies.

Jiwani detailed her involvement in a comprehensive treasury transformation project that extended beyond mere process and system improvements to include organizational structure and cultural changes. This project was initiated to harness the benefits of standardization and automation, which free up valuable human resources from repetitive tasks, allowing the treasury team to engage in more value-added activities.

Jiwani emphasized the transition from a regional to a global virtual treasury operation. This shift was not just about process optimization but also about building a resilient global treasury team capable of cross-regional support and collaboration. The implementation of a global virtual structure allowed for activities to be shared across regions, leveraging different time zones and capabilities, which enhanced the efficiency and effectiveness of the treasury operations.

This approach also facilitated talent development within the company, with team members from various regions participating in global projects, thereby enhancing their skills and motivation.

Meanwhile, Chibesa, drawing on her extensive experience at Citi, discussed the centralization of treasury operations for numerous organizations across Sub-Saharan Africa. She emphasized that the degree of centralization is often customized to meet specific client needs, with options ranging from complete centralization to hybrid models. These hybrid models effectively merge centralized policymaking with decentralized execution, ensuring that strategic decisions are made centrally while operational activities are tailored locally. This approach not only optimizes control and efficiency, but also maintains responsiveness to local market conditions and regulatory environments, allowing organizations to adapt to diverse and dynamic financial landscapes.

Furthermore, in addressing the strategic imperatives for centralizing treasury operations, both panelists highlighted several key factors that organizations must consider to optimize their treasury functions effectively. Centralization often revolves around enhancing efficiency and control, which necessitates a deep understanding of both internal organizational structures and external market conditions. Another strategic approach involves streamlining processes through the use of advanced technology platforms, such as application programming interfaces (APIs) and host-to-host systems. These technologies not only simplify operations but also seek to enhance capabilities for cash forecasting and scenario analysis.

Compliance and regulation remain paramount

Moreover, compliance remains a critical component, as navigating the regulatory landscapes of diverse markets requires a robust framework to ensure adherence to local and international laws, which can significantly impact operational flexibility. Understanding the intricacies of tax implications and regulatory requirements is crucial in deciding whether to centralize treasury operations. For example, decisions on where to locate treasury functions can hinge on factors such as the quality of banking relationships, the depth of financial markets, and the availability of skilled treasury professionals.

In essence, while the strategic drive toward centralization aims to consolidate treasury activities for better oversight and risk management, it also calls for a balanced approach that respects the nuances of local markets, ensuring that centralized policies can be effectively implemented with sufficient flexibility for decentralized execution. This hybrid model appears to be particularly effective in regions like Sub-Saharan Africa, where economic and regulatory diversity requires a more nuanced approach to treasury management.

Predictions for future treasury management

Looking ahead, Chibesa and Jiwani predicted increasing sophistication in treasury operations across Africa, driven by advancements in technology and financial market infrastructures. Chibesa highlighted the growing interest in API integrations and real-time data analytics, which are set to transform traditional treasury functions into more dynamic and strategic operations.

“As more organizations look at strategically transforming their finance functions, African treasury teams could be uniquely positioned to compete with other shared service locations to further expand their scope and bring new opportunities into the region,” Jiwani further said.

They also emphasized the importance of nurturing local talent and leveraging regulatory knowledge to enhance treasury management’s effectiveness within the region. The adoption of sustainable finance practices and the integration of environmental, social, and governance (ESG) criteria into treasury operations were identified as critical elements for future development. ■

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