Sub-Saharan Africa

The huge potential of this resource-rich region is clear, but it comes with cash and liquidity management challenges, says Maurice Cleaves

Sub-Saharan Africa is regarded as the land of untapped potential for many reasons. This vast part of the African continent is already home to over 900 million people, according to the UN, and its population is predicted to reach nearly two billion by 2050, when it will make up a fifth of the world's inhabitants. Its middle class is expected to surge by 50% in just over a decade from 400 million today to 600 million in 2025, which will drive consumer spending and demand for financial services. And, unlike China, which has been the great growth story of the past 30 years, the population of sub-Saharan Africa – and therefore its workforce – is young. In Botswana, the average age is 22.7.

In addition to its demographic advantages, sub-Saharan countries are also exporters of prized minerals needed by the construction, energy generation and manufacturing industries. South Africa is a major supplier of chromium, manganese and platinum, while Zambia is a significant miner of copper and Namibia is a big producer of uranium. Meanwhile, the discovery of oil and gas fields in the region has sparked the intense interest of developed and emerging nations in what has been described as 'The Second Scramble for Africa'. Major infrastructure investment is taking place and Africa also has 50% of the world's uncultivated arable land, according to the World Bank.

Next year, the International Monetary Fund (IMF) expects the economic growth of sub-Saharan Africa to exceed 6% and many African governments are spending on housing, shopping malls and transport links. So the opportunities for companies that wish to invest in the region are increasing all the time. But sub-Saharan Africa is not necessarily an easy region for outsiders to do business in, not least because it consists of 47 different countries, each with its own customs and legal systems, as well as differing banking practices, exchange controls, taxation regimes and levels of political stability.

Banking in Africa

Sub-Saharan Africa is renowned for being a cash-based economy. In 2010, a survey by Gallup found that over 80% of residents don't have their own personal banking account, with that figure climbing to 99% for those living in the Democratic Republic of Congo or Niger. Nevertheless, the banking system in the region is more sophisticated than many Western treasurers probably realise. Most countries have their own automated clearing house, card clearing and real-time gross settlement systems and, because these have largely been introduced over the past decade or so, authorities have been able to learn from the banking systems of developed nations. There are also initiatives to develop intra-regional clearing systems in the east, west and south of Africa. As an example, the South African Development Community Integrated Regional Electronic Settlement System (SIRESS) will enable electronic cross-border settlement of payments in South African rand in the Common Monetary Area (CMA). The CMA comprises Lesotho, Namibia, South Africa and Swaziland, and the goal of SIRESS is the removal of cross-border payments in paper form.

Mobile phone penetration is high in sub-Saharan Africa. In 2012, a report by Deloitte put it at 54% and ownership levels are particularly high in Ghana, Kenya, South Africa, Tanzania and Uganda. Indeed, Kenya has become the world's leading mobile money transfer market. The potential for other countries to follow Kenya's lead and for mobile payments to become prevalent throughout the sub-Saharan region is substantial, especially as bank branch networks are often limited to major towns and cities.

Choosing the right bank or banks to work with in sub-Saharan Africa can make a real difference to the ease with which treasurers can do business in the region. They should look for a bank that has a strong regional footprint, good domestic branch coverage and relationships

Regional file

Population size in 2012: 910.4 million
Geographical area: 23,587,900 sq km
No of countries: 47
% growth in 2012: 4.7%
GDP in 2012: $1.288 trillion
Urban population (% of total): 37%
Life expectancy: 55
Largest city: Lagos, Nigeria

(Source: World Bank)
http://data.worldbank.org/region/sub-saharan-africa

TOP TIPS FOR DOING BUSINESS IN SUB-SAHARAN AFRICA

1

Work with advisers who have good regional and local knowledge. Choose a banking partner that has good domestic coverage and can provide you with visibility of local accounts and assist you with central bank reporting. Use accountants and tax advisers who are affiliated to local firms.

2

Gain a deep understanding of the local political, economic and business environment of your chosen market by using sources such as UK Trade & Investment and your business partners.

3

Explore the logistics in the region. Review and understand the entire supply chain in your sector and prepare for any likely red tape or bottlenecks.

Nkhensani Nkosi, celebrated fashion designer, entrepreneur, television personality and mother of four, in her Johannesburg studios, South Africa

with other local banks in countries in which they do not have a presence. That way, treasurers can benefit from their banking partner's knowledge of how cash management works both domestically and across the region, manage their counterparty risk effectively and request useful introductions to local contacts.

Challenges and risks

Doing business in a predominantly cash society naturally comes with challenges and risks. These include finding ways to collect payments from customers, making payments to suppliers and employees, and ensuring the physical security of cash when it is moved around. Although there are ways of overcoming these challenges, operating with cash can be expensive and logistically challenging. The good news is that many African countries are starting to move away from heavy reliance on cash as more people have access to financial services. In addition, cheque usage is also declining in favour of electronic transfers.

BARCLAYS AFRICA GROUP

In August 2013, Barclays Africa Group, a consolidated group of Barclays' African subsidiaries, began trading on the Johannesburg Stock Exchange. Africa is the group's largest region after the UK and US, and contributed 11% of Barclays' first-half profit before tax.

Infrastructure is also likely to be a concern for treasurers whose companies have operations in the sub-Saharan region. They want visibility and control of their cash across the different markets, so good communication is vital. But standards of technology and telecommunications vary widely across the region and internet coverage is often very low. Most banks offer internet banking to corporates although there can be restrictions – for example, on cross-border payments – and corporates can end up with a different internet banking product in every African country in which they operate. SWIFT and host-to-host connectivity have become commonly used in South Africa, which is one reason why many multinationals choose to set up regional treasury centres there.

Repatriating cash back to the centre remains an ongoing challenge for multinationals due to the tight exchange controls that exist in many countries, such as Angola, Mozambique and Nigeria. This means that treasurers have to pay acute attention to liquidity management in sub-Saharan Africa and familiarise themselves with local regulations so that subsidiaries are not financed in such a way that cash cannot be taken out of them. For example, when money is removed as an intercompany loan, issues such as transfer pricing or thin capitalisation may arise, so it is important to seek specialist tax advice.

There is only limited opportunity to use cash concentration and notional pooling structures in Africa, therefore treasurers must find other ways to maximise returns on the cash that they hold in the region.

The opportunity

Sub-Saharan Africa is already the fastest-growing region in the world after Asia and the IMF has predicted that seven out of the 10 fastest-growing economies in the world will be African by 2015. These are Angola, Congo, Ethiopia, Ghana, Mozambique, Tanzania and Zambia. So the potential for corporates that decide to do business there is obvious. Nevertheless, it is important to remember that, according to the UN, nearly half of all Africans live below the poverty line, where they have less than $1.25 a day to live on, and another 30% exist on between $1.25 and $2.50 a day. Those statistics alone reveal the gulf that exists between sub-Saharan Africa and the developed world. That's why it is vital that corporates looking to move into the region do their homework properly before setting up operations.

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