Insights

Regional treasury centres: the key to unlocking efficient cash management operations in Africa

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Africa is a continent brimming with possibility. With a host of varied and untapped resources – including vast supplies of renewable energy – combined with what is the youngest population in the world (70 per cent of sub-Saharan Africa is under the age of 30[1], for example), the region is poised for significant growth and innovation.

Realising that potential is not without its challenges, however. Africa has a complex and varied economic landscape, and navigating the risks, local nuances and regulatory requirements remains far from straightforward. Financial inclusion is an issue that also persists. Only around 50 per cent of people have a bank account, and 90 per cent of financial transactions still involve cash[2] – trends driven by the fact that over half of Africans reside in rural locations[3].

But with a young, urban, middle-class society on the rise, digital payments are accelerating. And against this backdrop, there are strong ambitions to create a regional banking system to support the Africa of tomorrow – one that enables enhanced, streamlined transactions, including the facilitation of cross-border payments and financial integration.

[1] United Nations – Young people's potential, the key to Africa's sustainable development
[2] African Business – African banks progress towards digitalisation
[3] The Global Economy – Rural population, per cent – country rankings

Laying the foundations for Africa's future

Notable progress has been made to improve transactions and access to banking services in recent years. The introduction of mobile and digital banking has been revolutionary, creating finance opportunities for those where traditional banking networks do not reach. Today, Africa continues to be the leader in mobile banking, with the highest number of services, account holders and transactions in the world[4]. And, with further innovation in e-payments underway, driven by increasing customer demand, Africa's mobile banking sector is predicted to grow by 152 per cent between 2020 and 2025[5].

Beyond the payments themselves, the digital nature of these transactions is helping to create a data-driven financial infrastructure. This is extremely valuable from a reporting perspective, and also provides insights into trends that can shape industry developments and innovations, thereby ensuring offerings focus on addressing common issues and providing relevant solutions for customer needs.

Payment infrastructure initiatives are also being implemented, with 29 domestic real-time payments systems active in 2023 and another 17 planned or underway[6]. Three new systems were introduced in the past year alone: Virement Instantané in Morocco, Ethiopia's EthSwitch and PayShap in South Africa. Cross-border payments are also progressing, with initiatives such as the East African Payment System (EAPS), the Southern African Development Community Real-Time Gross Settlement system (SADC-RTGS) and the Pan-African Payment and Settlement System (PAPSS) enhancing intra-African transactions for a number of countries in the region.

While significant strides have undeniably been made, far more needs to be done to help streamline transactions and cash management. And this will need to be addressed if Africa's untapped potential is to be realised.

Barriers to business

Indeed, for multinational corporates (MNCs) operating in Africa, the lack of financial market integration brings ongoing challenges. With a network of over 50 countries and approximately 40 currencies to navigate, managing cash and initiating payments remain key pain points for many treasurers.

A number of factors contribute to the challenging cash environment, and they vary to different degrees from country to country. One longstanding, fundamental issue surrounds foreign exchange (FX) and local currency controls, which continue to create unfavourable conditions for the movement of money.

Further exacerbating this is that FX reserves, dependent on inward flows, have dwindled across much of the region due to global headwinds such as the pandemic and the war in Ukraine. This shortage is putting added pressure on the ability for currency conversions to be carried out at all. As a result, corporates are increasingly being forced to open multiple accounts with multiple banks in order to be able to source what FX opportunities they can. Managing multiple accounts with different banking partners is far from ideal and serves to create additional challenges around effective cash management, including increased costs and inefficiencies.

Understanding the different legal and regulatory requirements of individual countries can also be particularly difficult. For instance, getting approvals for a host of different underlying documents can be complex and time consuming, causing costly delays and making straight-through processing far from optimal.

Ultimately, the constraints and complexities of moving money in Africa have led to the perennial problem of trapped cash and working capital, with many companies unable to move funds – which can total hundreds of millions of dollars – out of a particular market to another location. This in turn has a detrimental effect on global working capital optimisation.

[4] World Economic Forum – Here's why Africa is the world leader in digital and mobile banking

[5] McKinsey & Company – The future of payments in Africa

[6] https://www.ecofinagency.com/finance/1011-45034-instant-payment-transactions-in-africa-up-39-annually-over-the-past-five-years-report

Although there are undoubtedly obstacles to doing business in Africa, the opportunities and less competitive landscape, combined with the rate of growth and high margins possible, make the region an attractive location for many companies.

Best of both worlds: optimising cash through a regional approach

While efforts are underway across the region to improve financial systems, the creation of an effective, functioning, united regional financial market that enables cross-border payments remains some way off. Corporates are increasingly exploring ways to maximise cash efficiencies in Africa from an internal treasury perspective.

Given the restrictions and the level of local knowledge required, the traditional approach has been for MNCs to have a centralised, global cash management hub that is supported by a number of local treasury operations for specific countries in the region. But the extent of the issues surrounding trapped cash and liquidity – particularly in a global environment when there are liquidity challenges more broadly – has created concerns around the need to have greater oversight of the liquidity that is sitting somewhat idly across multiple markets. Many businesses are therefore reassessing their treasury models.

As a result, a vibrant trend that is emerging is the development of regional treasury centres (RTCs). Rather than having siloed local operations for each African market, RTCs take a regional view, thereby positioning corporates with effective local insights of the breadth of Africa's markets, but with benefit of centralised approach to regional risk and liquidity management, enabling greater visibility of cash positions. This "one treasury, many countries" approach enables corporates to have their finger on the pulse when it comes to planning for economic, political and regulatory shifts in the region that can impact their cash management and operations – such as currency devaluation – and react as quickly and effectively as possible to optimise their cash position.

In particular, South Africa, Mauritius and, interestingly, Dubai are becoming established RTC hubs for the region. Dubai's location serves as mid-point between Africa and Europe, and acts as an attractive base for an international workforce. Moreover, a lack of intra-Africa flights means that many African countries are in fact more accessible via direct flights from Dubai, further affirming the city's importance for the African continent.

Partnering to optimise success in Africa

Financial institutions (FIs) have a critical role to play in supporting corporates' capital optimisation as the region continues to evolve. In Africa, having a strong, trusted, strategic banking partner is fundamental in helping corporates to complement and optimise their own internal capabilities, and also mitigate risk. Through collaboration with a global partner, MNCs can access a suite of effective payment and cash management solutions – from providing a network of support from an international perspective, to providing innovative, cutting-edge solutions, and robust advisory services. Indeed, MNCs are increasingly seeking guidance from banks when choosing a treasury management system, including ERPs, for example, and banks are actively investing in working with clients and providing specialist expertise on how they can improve operational efficiencies in their entirety.

Furthermore, to help address the issue of having accounts with multiple banks and the associated costs and inconveniences, it is becoming increasingly important for corporates to find a bank with a matching geographical footprint that can support the breadth of their operations.

With trapped cash a frequent issue, employing effective strategies to leverage that cash is crucial. Banks are ideally positioned to support clients with interest optimisation and liquidity management solutions, including the consolidation of cash to help yield higher returns, as well as the recycling of cash in the market.

Supply chain finance (SCF) solutions are also especially valuable, with corporates able to support more effective working capital and cash conversion cycles for businesses across their supply chains by using their own credit rating as the basis for bank lending. This can be a welcome solution for suppliers, many of which are facing high costs of debt associated with exceptionally high interest loans. Indeed, in 2022, the regional lending rate stood at almost 20 per cent[7].

Elsewhere, FIs can support corporates in leveraging data, which provides valuable insight into customer behaviour, to help them make informed decisions about cash flows, investments and the ability to manage resources over time. For instance, MNCs are increasingly seeking the support of FIs with API data collection to understand developments in neighbouring markets, connect with Swift, and to create an effective API debt service enabling fast and secure transactions of cross-border funds within virtual accounts.

And of course, the rise of alternative transactions has led to discussions regarding enhanced account verification to ensure secure payments and transactions and prevent fraud. It is a growing topic within various African markets, and many FIs can advise corporates on integrating secure payment systems to facilitate transactions.

Overall, RTCs will play an increasing role in supporting Africa's growing business opportunities. Equipped with an effective treasury model and support from a specialist banking partner, doing business in Africa can be streamlined and reap rewards.

[7] The global economy – interest rate – country ranking